Fourth Annual Common Wealth for the Common Good Address

The Common Good and Industrial Relations:

The challenge of distributing wealth fairly in Australia

Delivered by

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INTRODUCTION

The development of open economies presents challenges to employment, wage levels, social equity and national cohesion. In responding to these challenges it must be remembered that the justification for open economies and for Australia entering into free trade agreements is the increased national wealth and productivity gains that come from increased trade. As a matter of fairness and justice, part of this wealth must be made available to support the workers (both present and future) whose jobs and standard of living are affected by the changes.

The public policy response should involve, among other matters, a careful examination of the interaction between wages policy (especially minimum wage rates), taxation rates and family support benefits.

The focus of this presentation this evening is to consider the proposals of the Federal Government for the reform of Australia's workplace relations system in that context. In particular, I am going to concentrate upon the setting of the minimum wage and its implications for the needs of the low paid worker and his or her family in modern society.

I will do this in the light of Catholic Social Teaching and its and what should be our concern with the Common Good, which I suggest is about more than just the fair distribution of wealth. The first and second parts of the presentation are sections about Catholic Social Teaching and the Living Wage respectively, while the third has some thoughts we have been developing about the tax debate and the wages system.

PART 1: CATHOLIC SOCIAL TEACHING

There are six principal areas of Catholic Social Teaching that inform our analysis of the Government's proposed changes. Additionally, many of you will be aware that the Catholic Church is collectively a large employer across health and aged care, welfare and community services, education and parish activities; we estimate that Church employers, who range from small to medium to large employers, engage approximately 100,000 employees between them. So, the Church has some practical expertise and knowledge about being an employer, and especially operating under tight financial pressures.

The nature of work

Work is one of the principal means by which we seek personal fulfilment and make our contribution to the common good. Thus there is a natural priority of labour over capital. Simply expressed, work exists for the person, not the person for work. It follows that human work cannot be treated as a resource or as an economic commodity to be traded in like any other commodity.

Every family has the right to sufficient income through work. Workers have the right to just minimum wages and to safe working conditions.

The right to work

Governments and political parties have an onerous responsibility to give effect to this right to work by providing *suitable* employment for all who are capable of it. The provision of more work opportunities does not, however, by itself justify reducing below a just level, the wages of those already in jobs.

The right to rest

Economic considerations, whether by the employer for increased production or by the employee for increased wages, cannot set aside the need to provide for adequate rest. Adequate rest brings with it considerations of the reasonable time which may be worked in any one day or in any one week. Respect for human dignity requires that working conditions protect the health and well being of workers and recognise their obligations to their family and the wider community.

Freedom of association

In Australia, employers and employees have organised themselves into associations and unions over many years. This is a proper and legitimate exercise of the right of freedom of association. It is a fundamental freedom of a just society. Trade unions and employer organisations have a right to exist and to represent those who are their members in a collective way.

Compulsion, either to join organisations or not to join them, is a breach of the right of individuals to choose whether and how they will exercise their right of freedom of association.

The organisations themselves must act in the interests of their members and be subject to law. It is a misuse of the power of organisations for them to be used for purposes other than those for which they were created, and for which members freely joined them.

The right to withdraw one's labour

The right to strike or to withdraw one's labour is a basic right of every worker. This right to strike, or to conduct work stoppages, is recognised by Catholic Social Teaching as legitimate in proper conditions and within just limits.

In this connection, workers should be assured the right to strike without being subjected to personal sanctions in the criminal jurisdiction for taking part in a strike.
In the case of industrial disputes, the right to strike must only be used as a last resort and in proportion to the issue. It is an "extreme means".

The influence of bodies external to the direct employment relationship

A direct employer of labour must exercise morality and social justice in dealings with employees; equally, employees must carry out their duties to the employer fairly and justly. This is best explained by the popular saying 'a fair day's work for a fair day's pay'. Importantly, the Church sees employers and employees as developing a partnership in the workplace, with mutual respect for each other's objectives and needs.

Employees and employers should be able to choose freely to be represented in their dealings one with the other by employer organisations or trade unions or other representatives of their choice.

Apart from governments, significant influence on the employment relationship can come from courts, tribunals and other institutions which shape the legal framework and the manner in which the employer/employee relationship is regulated. They must also act justly and must recognise freedom of association.

These authorities and institutions have an obligation to protect the community in general and the weak in particular. Where there are disputes between employers and employees, there should be mechanisms for reaching just solutions which protect the rights of both employers and employees.

PART 2: THE APPLICATION OF CATHOLIC SOCIAL TEACHING TO THE FEDERAL GOVERNMENT'S PROPOSALS FOR WAGE FIXING

What does this mean for the Commonwealth Government's proposals for the future setting of the minimum wage?

You may have heard that a new body called the Australian Fair Pay Commission ("the Fair Pay Commission") will be established to set minimum wage rates. The Fair Pay Commission will set and periodically adjust a single adult minimum wage, non-adult minimum wages such as the training wage, minimum wages for award classification levels and casual loadings. The Fair Pay Commission would also set wage rates contained within awards. The Fair Pay Commission will replace the Australian Industrial Relations Commission (AIRC) in regard to wage fixing. This was first announced on 26 May 2005 by the Government.

Now, we at first were not sure about what was meant by a "single adult" minimum wage. Did this mean "one" adult minimum wage or is it a minimum wage set on the basis of the "single person"? Following discussion with the Federal Minister and others it was confirmed that it was the latter view, which coincided with our experience and impressions gained during recent minimum wage cases. We were told that the single adult worker was the basis for the wage to be set and that the system of wage fixing has been heading, if not already arrived at, this outcome for some years.

In effect Harvester and the Living Wage were dead or terminal at best. But the "single adult person test" is not the basis upon which wages have been fixed for much of our industrial history. (An explanation of the history, and present inadequacy, of the family wage is found in *Briefing Paper No 1*, published by the Australian Catholic Commission for Employment Relations.)

Last Sunday week the Government spelled out further detail about the criteria under which this body would consider wages:

> "In giving effect to its primary objective of promoting the economic prosperity of the people of Australia the Fair Pay Commission will, in accordance with its legislative parameters, consider:
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> - the capacity for the unemployed and low paid to obtain and remain in employment;
> - employment and competitiveness across the economy;
> - providing a safety net for the low paid;
> - providing minimum wages for junior employees, and employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market."

Interestingly, the Government last Thursday announced the appointment of the Chairperson of the Fair Pay Commission. It mentioned also in its press release that the Fair Pay Commission will also take into account the effect of the interaction of minimum wages with the tax and welfare systems. To the best of our knowledge, this aspect of the Fair Pay Commission's mandate had not been previously cited or spoken about by the Government.

We are uncertain at this stage as to what and where this might lead to in the setting of the minimum wage into the future. Will it consider the interaction with taxation and welfare only in the context of the single adult worker – that is, one without dependants? Or will it consider this interaction in the context of the needs of workers with families? We await further detail.

In any event, in the current public debate about workplace reform, the proposals regarding the minimum wage have received very little attention, as most concern has focused on the unfair dismissal, minimum conditions and bargaining proposals. These are much more immediate and tangible for people to try and come to terms with. However, the proposed changes to the setting of the minimum wage may well be the most far –reaching of the proposals in the long term, as the minimum wage sets the foundation for the wages and the conditions of all workers in the workplace and can act as the ceiling or a factor in the level of government support payments. The minimum wage is the intersection between wages, employment, and taxation and welfare policies.

As summarised earlier, Catholic Social Teaching calls for the fixing of a wage that is based on the needs of a family, not the needs of the single person. It requires workers be paid an amount that is sufficient to provide the benefits of survival, security and modest comfort and to allow the worker to provide for the future and acquire the personal property for the support of a family. In Australia we have called this at different times the Living Wage. It is a family wage which can be achieved through the combination of the employer wage and the provision of adequate social support measures.

The Living Wage

The concept of a *living wage* has been an integral part of the Australian industrial relations system since the inception of the basic wage in the 1907 *Harvester Case*. This case established the minimum wage of an unskilled worker at a level that was sufficient to ensure food, shelter, clothing, and frugal comfort. This was considered to be a wage that was both *fair* and *reasonable*.

Subsequent debate has surrounded what should be included in determining the needs of an average employee, and the way in which the *living* wage should be determined, if at all.

Today, but not for much longer, the *Workplace Relations Act (Cth) 1996* (the Act) provides the framework for the maintenance of an effective award safety net of fair and enforceable minimum wages and conditions of employment. Consistent with this principle the Act requires the AIRC to ensure that a safety net of fair minimum wages is established and maintained. Furthermore, the AIRC must have regard to the needs of the low paid when adjusting the award safety net. However, the AIRC must also give regard to the need to provide fair and minimum standards in the context of living standards generally prevailing in the Australian community and economic factors.

To give effect to this requirement, the AIRC in its April 1997 decision established a Federal Minimum Wage, which is the minimum wage for full time adult employees covered by federal awards.

Debate has surrounded the application of the Federal Minimum Wage and whether adjustments made to it actually assist the low paid.

Furthermore, adjustments made to the Federal Minimum Wage have been criticised for providing consequential wage increases to high income families, an outcome that is not considered to be aligned with the intention of providing assistance to the low paid. This criticism is based on the assumption that highly paid workers are usually a part of dual income families.

This may be an accurate assessment in some circumstances. However, it does not take into account the uniqueness of individual families and their earning capacity, or the number of single income families or people within the community who rely on a low wage as their only means of income.

Therefore, while the award system may not be perfectly targeted to meeting the needs of the low paid, it does assist in meeting the needs of the low paid and it does provide protection for those employees who may be unwilling or unable to bargain for apparently better terms and conditions of employment.

While a lack of clarity exists about the definition of the *low paid* and the level at which this must be set, it is recognised that certain groups within the community consistently fall at the lower end of market rates of pay, and hence often constitute the low paid.

People with little or no bargaining power within the labour market are often these employees being paid a low amount of wages. Such people do not have the ability or skills to bargain for higher wages directly with their employers, and rely on the award system to determine their rate of pay. However, even the award rate of pay for a tradesperson is lower than the national average rate of pay.

Furthermore, economic conditions and the labour market may result in changes in the demand for different skills from employees. Such changes would have a greater negative impact on those employees who are paid a minimal amount, as their skill level is generally low and retraining and reskilling is not generally available to them.

An alternative definition of low paid may be a worker who is unable to earn enough income to obtain as a minimum a “decent standard of living.”

Social justice requires that all people within a society should achieve a “reasonable” or “decent” standard of living. The standard of living of the poor should not stagnate or fall behind that of the rest of society.

However, within the concept of a “decent standard of living” is found the complex problem relating to the diversity of worker responsibilities to their dependents. This recognises that a uniform minimum wage does not confer a uniform standard of living for all workers. For example, an individual person on the minimum wage will have a greater standard of living than a sole income earner of a family of four, who is also earning the minimum wage.

Pertinently, the provision for the needs of workers - and their dependents - may not necessarily then be a function of the wages system only. Government payments and social welfare provisions may also be included in a family’s income.

Furthermore, the achievement of a decent standard of living these days is not necessarily dependent upon or achievable through the sole income of one family member. Changes in society have resulted in a greater number of dual income families. However, this does not necessarily mean that people are living at a significantly higher level of comfort or ease. Some dual income families may be in fact combining income to achieve one adequate or decent wage. This is particularly critical for families where one or more wage earners may be part-time or casually employed.

Measurement of the Minimum Wage

But at what level should the Minimum Wage be set? And how?

Since its inception in 1996, issues relating to the measurement of the Federal Minimum Wage have not been resolved. Generally, it has been avoided by subordinating the needs of workers and their families to macro-economic reality.

That is, the Federal Minimum Wage has been linked to changes and potential changes in the macroeconomic situation, inflation or stagnation of wages or other macroeconomic indicators, rather than the ability of an individual and their family to participate within the community.

In its Safety Net decision of 1999 the AIRC stated:

> *"Considering the needs of the low paid requires the exercise of judgment as to varying income levels and the resultant living standards attained in the Australia community."*[1]

The ACCER has argued that an indicative benchmark, based on the identification of "a basket of goods" necessary for maintaining a decent living standard, should be established to assist the AIRC in developing the appropriate level for the minimum wage. Others have also suggested benchmarks based on cost of living indexes, poverty lines and relative wage indicators. There has been great contention and no general agreement about the use of these or other types of indicators.

The AIRC rejected in 1999, as in previous decisions, the establishment of any benchmark for the setting of minimum wages based on the *needs* of the low paid.

Instead, the Federal Minimum Wage is currently linked to the C14 classification rate – the lowest rate - in the Metal Industry Award, so as to provide *industrial realism* in the setting of the minimum wage. This rate of pay is currently $484.40 per week.

However, it is morally questionable whether *industrial realism* should be the primary concern in setting a national minimum rate of pay, especially where the needs of low paid families are being considered. In this context I would agree with the Government that a more rigorous approach is needed to establishing the minimum wage. However, pure economic criteria based on a market driven pricing of job opportunities will disadvantage the unemployed and the employed. There has been no credible evidence produced in the wage cases over the last 8 years to support a contention that high minimum wages destroy jobs or prevent jobs being created.

Finally, there appears to be little or no analysis of whether adjustments made to the minimum wage assist the low paid. For many years the ACTU has included in their Living Wage Case submissions personalised stories from low income earners. Most of these stories relate to economic hardship felt by those people and their families. They are jolting to listen to in a plush courtroom. I have heard stories also from welfare agencies of children not telling their parents about school excursions because they know the family cannot afford it. Additionally, most of the witnesses have stated that they received previous award adjustments; however, all claim that the increases were not enough.

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[1] Australian Industrial Relations Commission, *Safety Net Review – Wages, April 1999* Print R1999, (1999) page 213

Yet, there is little if no evidence other than this from any of the parties to the cases about the micro-economic impact of previous decisions. In general, the respective parties pitch their respective submissions at a macro-economic level, contending either side of the inflation and the employment/unemployment equations. The impact upon the real needs of the low paid has not been demonstrated beyond the allegedly "self-evident" assertion that any increase is better than no increase or that any increase is a threat to the job security of the low paid.

The test of the Fair Pay Commission, then, will be whether or not it is able and is prepared to set a *family* wage, by taking into account the needs of families to live with dignity in modern Australia. The needs of families to live with dignity in society should be the starting point for any examination of the necessary level of the minimum wage. This should critically examine - not simply take into account - the interaction with the taxation and welfare support systems. It should be prepared to make recommendations to government about those matters. The impacts with the labour market and the economy need to be considered also.

Until a proper analysis is undertaken of the needs and the various interactions and impacts of all of these matters upon the minimum wage, the true extent of the real issues will not be known and we will remain subject to unsubstantiated assertions that wage rises cost jobs or that there are other ways of assisting the low paid.

In its absence, we may not be tackling the real needs of these workers. It may be that monetary adjustments, tax and welfare support arrangements can provide a great deal of assistance to break the cycle of low wages but not all of it. For instance, more comprehensive measures to improve the skill attributes of such workers are needed to redress the nexus of low skills and low wages.

This research is something that any wages tribunal, including the Fair Pay Commission, should undertake. However, one wonders whether this is something that only Government can really resolve, as it controls those many matters critical to helping the low paid, which are outside the decision-making powers of the Fair Pay Commission.

PART 3: THE TAX DEBATE AND WAGES POLICY

I will now turn to the third part of my presentation. There are two notable features of the current taxation debate and various "reform" proposals. First, there is a disconnection between taxation policy and wages policy. Yet the two are inextricably linked. Second, the interests of the low paid have barely rated a mention in a debate dominated by proposals for a reduction in the top rate of taxation. This feature is consistent with the unequal treatment of high and low-income earners in recent years and over the longer term.

Wages Policy

As indicated earlier, the Government has proposed changes to the setting of wages. It wants wages to be fixed by reference to the single employee. It may well mean that the families of low paid employees will need to be wholly supported by the public purse, and not partly supported, as is currently the case. It is not clear at the moment as to its impact into the future. And it is only at some point in the future that we will see the impact, as I do not believe that the minimum wage will significantly decrease overnight or in the short term.

Presumably, the Government has undertaken a financial impact assessment of its single person proposal. Such an assessment should include the further cost to the taxpayer of supporting the second parent and their children. Under present arrangements substantial transfer payments are made to many families in order to supplement the wages of low paid employees. They are presently insufficient for many working families. But they may need a major boost in the future if the breadwinner is to be paid without regard to the needs of his or her dependents.

A proper financial impact assessment would also include an estimate of the cost of supporting the dependents of low paid single parents, especially the high cost of childcare. Taxation, welfare and wages policies have to be integrated when the government seeks to encourage single parents to undertake work that is remunerated on the basis of the needs of the single person. Many single parents are unable to secure the kind of jobs that provide an income sufficient for themselves *and* their children.

The relationship between wages policy and the Government's budgetary policy has not recently emerged with this proposed change to wage-fixation. For some years there has been a debate about the respective merits of tax cuts and wage increases. Employers have regularly told the AIRC that tax cuts are a better way of meeting the needs of low paid employees. The proper target of this argument is the Government, but to date it has not engaged in the development of co-coordinated and adequate wages and welfare policies for working families.

And it is not clear that the Fair Pay Commission will be able to tackle these matters other than by at best making recommendations to Government. In spite of the mention of these matters in last week's appointment of the Chairperson and the reference to these matters, it will most likely be reacting to the public policy reality rather than decisively developing the policy reality.

For its part, the Commonwealth Government claimed in the AIRC's 2005 Safety Net Review Case that safety net wage increases "are a poor means of addressing the needs of the low paid". The only alternatives to these wage increases are in the Commonwealth's own hands: i.e. taxes and transfer payments. It has not responded to the implications of its own position. The 2005 Budget delivered across the board tax cuts of $6.00 per week, not enough to cover the *bracket creep* of recent years.

The Government should address wages, tax cuts and transfer payments in the course of the tax debate. The taxation debate should consider the capacity of tax relief and improved transfer payments to provide an alternative to wage increases. The other political parties, employers and the union movement should state also their position on this aspect.

Another budgetary matter calling for reform is the high effective marginal rates of taxation that apply to low-income earners. The provision of various kinds of income support to low income earners must involve means testing, with the benefits being progressively withdrawn as their wages increase.

The combination of the underlying tax rates and the progressive withdrawal of those benefits produce the effective marginal tax rate. The marginal rate of taxation for a full time worker on the Federal Minimum Wage of $484.40 per week is 30%. Because the low income tax offset is means-tested, the effective rate is 34%. This is a very high burden when compared to the position of those who are paying the highest rate of 47%. Effective marginal rates of taxation are also affected by welfare to work policies that withdraw benefits as workers undertake more employment. Poverty traps, where workers get little or no effective benefit from increased employment and are unable to move out of poverty, need to be addressed through the expenditure side of the Budget.

An example of these dysfunctional policies is the *Parenting Payment (Partnered)*. This is income support for a parent who has a partner, unlike the single parent. The income of the partner is taken into account, as one would expect, in calculating the benefit to be paid. However, the breadwinner's wage increases have an excessive effect on the parenting payment. The combination of the working partner's effective taxation rate of 34% (if low paid) and the withdrawal of the income support from the recipient produce an effective marginal tax rate of 104%. A wage increase for the breadwinner actually leads to a loss of household income. This loss occurs where the wage increase comes from, for example, an arbitrated safety net decision, a workplace agreement, a promotion or the working of overtime. The impact on household income is reduced by indexed adjustments to the amount of the income support payment and the range over which it is phased-out, but there is a time lag and the effective marginal rate of taxation remains at 104% for earnings in excess of these adjustments.

The necessary reform of effective marginal tax rates will come at a cost to the Budget. However, the income range over which welfare is needed for various groups of workers and the rates at which benefits are phased-out need to be addressed. The proper balance may not be easy to find. But the search needs to be undertaken in a proper review of budgetary policies. It must be part of the taxation debate.

Finally on this aspect, a critical requirement for informed and appropriate wages and budgetary policies to support low paid working families is sound research on the financial needs of those families. Better information on this aspect will facilitate discussion on the balance between the respective contributions of the wage packet and the public purse. The imposition of taxation on low paid employees without a proper consideration of their needs runs the risk of taxing them into hardship and disadvantage.

Taxes on the Low Paid

The tax debate should scrutinise the competing claims of various income earners to tax relief. To date the debate has not turned on the respective capacities of groups of income earners to pay the current levels of taxation, let alone has it turned on any notion of fairness.

In dealing with economic arguments, it must be borne in mind that the wages of the low paid - the cost to employers of their labour - include a substantial amount of income tax. In the Federal Minimum Wage of $484.40 per week the proportion of income tax is 13.27%. It amounts to $64.29 per week. This substantial figure has implications for the standard of living of low paid employees and the cost to employers of engaging them.

The relationship between wage levels and employment prospects is a vexed question amongst economists. To the extent that there is a negative relationship between prescribed minimum wages and employment prospects, the Commonwealth's taxation of low paid employees is a factor detrimental to their employment prospects. Governments must avoid taxing people into disadvantage and must avoid imposing additional costs to employment.

The progressive reduction of this tax burden would tend to reduce the costs of employment, stimulate employment and assist Australia in maintaining its international competitiveness. This point is not a novel one: it is the basis of the claims made by employers in the past that tax reductions are to be preferred to wage increases. There is an economic case for increasing the amount of government transfers to low-income working families so as to reduce their reliance on wages. There is also an economic case for moving towards zero taxation for minimum wage employees. In saying this, careful consideration needs to be given to what is the most appropriate way of providing assistance to low paid workers: for example, is it by direct payments, tax offsets for low income earners, earned income tax credits or a combination of these or other measures?

The integration of wages and budgetary policies provides the opportunity to address the needs of the low paid and the costs of employing them. There is a need for the tax debate to address the balance between the respective contributions of the public purse and the wage packet in meeting the needs of low paid working families.

What is the balance between the wage packet and the public purse that provides economic and moral sense? What is the necessary balance so that workers can be employed but still have dignity by not being long term dependents on welfare services.

Taxation levels should also take into account the capacity of various groups to pay tax. Progressive taxation seeks to do that. The progressiveness of the Australian taxation system has been reduced and further reductions are proposed. This is demonstrated by reference to changes that have occurred over the past forty years and, in particular, the last five years. It is illustrated in a comparison between the taxation payable by the Federal Minimum Wage employee (and the earlier Basic Wage employee) and by an employee who is paid five times that minimum wage.

Taxation changes over 40 years

Put plainly, the changes in taxation rates over the last forty years have advantaged high-income earners and disadvantaged low-income earners relative to each other (see Attachment 1).

In the past 40 years the tax paid by minimum wage employees has increased from 8.71% to 13.27% of their wage packet, an increase of over 52.4%. Furthermore, their marginal tax rate has almost doubled, rising from 17.6% to 34%. This is especially relevant to considerations of work incentives and rewards. For example, in 1965 17.6% of the pay for the first hour of overtime was lost in tax, now 34% is lost in tax.

Employees who are paid five times the minimum wage rate have seen their tax rise from 29.77% to 33.98%, an increase of 14.14%. From July 2006 their tax will fall to 32.13% of their income as a result of announced budgetary changes. Importantly, their marginal tax rate has actually decreased: from 48.7% to 47% over the 40 years. Taxpayers receiving higher incomes than this group have received significant benefits because the marginal tax rates on higher incomes (which were as high as 66.7% in 1965) have been reduced to 47%.

Changes in the marginal tax rates over the past 40 years have had a greater negative impact on low-income earners. Under the 1965 tax scales the employee on the Basic Wage could earn a further 12% before moving into the next tax bracket, which was then 19.3%. At double the Basic Wage the marginal tax rate was only 29.6%. By contrast, the 30% marginal rate under the current scales (which equates to 34% for those in receipt of the low income tax offset) commences at $21,600, a wage substantially less than the Federal Minimum Wage for a full time employee.

The increasing burden of income tax on low paid employees has negative effects: it can reduce their standard of living and/or it can make their labour more expensive than it would otherwise have been. The relative impact of the tax increases over the past 40 years on each of these aspects is uncertain and will be contentious. Whether one or both, the impact of increased taxation has been substantial.

Taxation changes since July 2000

The trend identified over the past 40 years has also been evident over the past five years (see Attachment 2). The changes that were introduced by the *New Tax System* (GST etc) on 1 July 2000 followed an extensive public debate and are an appropriate reference point for identifying and considering changes in relative tax burdens. This is not to suggest that changes should not be made to relative tax burdens. However, the onus is on those who advocate changes in these relativities.

Federal Minimum Wage employees are paying more tax than they were five years ago. If they were paying the same percentage as they were on 1 July 2000, they would now be paying $3,031 per year in tax, not $3,355 as they do. This loss amounts to $324 per year or $6.21 per week.

By contrast, employees on five times the Federal Minimum Wage have seen their tax decline from 34.92% to 33.98% of their income, with a further reduction to 32.13% from 1 July 2006. By reference to the earlier percentage, the changes amount to an effective reduction in tax of $1,184 per year or $22.69 per week during 2005/06. From 1 July 2006, the effective reduction will be $3,523 or $67.52 per week.

These figures demonstrate that the taxation changes since 1 July 2000 have widened the after tax earnings gap between the employees on the Federal Minimum Wage and those who earn five times more. Taking into account the respective changes the gap now amounts to $28.90 per week. From 1 July 2006 it will be $73.73 per week.

Various proposals and models have been put advanced in recent months. A particularly detailed one was set out in a September 2005 report commissioned by the Victorian Government. The Government has noted that the report represents the views of its authors and does not purport to be a statement of Victorian Government policy.

In effect, the Victorian report proposes substantial benefits to high-income earners, with limited gains to low paid employees. The Victorian report's proposals mean that Federal Minimum Wage employees would pay receive a tax cut of $512 per year, or $9.81 per week, on the current scales. However, this amounts to a benefit of only $3.61 per week when compared with the position five years ago. Compare this with the proposals for high-income earners. The Victorian report's proposals mean that those on five times the Federal Minimum Wage would receive a further tax cut on top of those commencing 1 July 2006. The report proposes that they receive a tax reduction of $6,080 per year, or $116.52 per week, when compared with the tax rate at 1 July 2000. The differential treatment of these low and high-income employees is not consistent with equity and fairness or any proper economic analysis.

Trends in Pre-Tax earnings

The taxation changes for low-income earners have occurred over a period in which the pay of many of them has changed relative to other employees. Many low-income earners are dependent upon the pay and conditions prescribed in awards arbitrated by the AIRC and various State tribunals. About 20% of employees are "award only" workers who do not have the capacity to bargain for better terms of employment.

We can compare the Federal Minimum Wage with average weekly ordinary time earnings for full time adult employees ("AWOTE"). AWOTE includes the earnings of those under workplace agreements. In the period 1983 to 2004 the Federal Minimum Wage (and its predecessors) fell from 61% to 49% of AWOTE. In the period 1996 to 2004 the Federal Minimum Wage increased by 33.8% and AWOTE by 41.2%. The discrepancy is more marked for those who are in more skilled jobs, but who do not have the power to bargain for increased pay. Over those eight years the tradesperson's award rate increased by only 27.2%. (These aspects are considered in a paper presented by the President of the Australian Industrial Relations Commission, Justice Giudice, on 2 September 2005. It is found at www.airc.gov.au/research/speeches.

CONCLUSION

The low paid have been the losers in the tax changes over the past 40 years and the trend has been reinforced since the introduction of the *New Tax System* on 1 July 2000. The trend may continue unless there is a reorientation of the current taxation debate. We are also confronted with proposals to change Australia's wage-fixing procedures in a way that may exacerbate the burden on low-paid working families.

These developments call for a broad and informed debate and eventual public policy that integrates wage, employment, taxation and welfare policies in a way that will promote economic growth and social justice. The low paid are just as entitled to rewards for working and are just as much entitled to incentives for working as the high paid

It is currently being argued by some in our community that a job is a way out of welfare and disadvantage and the avoidance of poverty.

A failure to appreciate the common interests of the unemployed, the under-employed and those in full time employment may result in simplistic and unjust proposals for the fixing of minimum wages, creating jobs and providing rewards and incentives to work. In particular, one must guard against solutions that seek to set in opposition the interests of low paid workers against the interests of the unemployed. In particular, driving down the wages of the low paid in the pursuit of creating more employment opportunities raises both moral and economic questions.

If, as some have claimed, there is a relationship between wage and employment levels, then the appropriate policy response would include addressing the taxation rates and welfare traps applying to low income earners. In our view, there is insufficient attention on the tax burden that falls on low paid workers.

The burden of providing work for all should not fall on the low paid, but on society as a whole. The unemployed and the under-employed must be confident that the employment they seek will provide a fair and just wage and allow them live in dignity. The fair treatment of low paid workers and those seeking employment should not be compromised.

ATTACHMENT 1

Taxation changes over 40 years

September 1965	September 2005
Basic Wage**:**	Federal Minimum Wage (FMW)**:**
$30.80 per week	$484.40 per week
Tax on Basic Wage: $2.68 per week	Tax on FMW: $64.29 per week.
Tax as proportion of wage: 8.71%	Tax as proportion of wage: 13.27%
Marginal tax rate: 17.6%	Marginal tax rate: 34%
Five times Basic Wage**:**	Five times FMW**:**
$154 per week	$2,422 per week
Tax payable: $45.85 per week	Tax payable: $823.07
Tax as proportion of wage: 29.77%	Tax as proportion of wage: 33.98%
Marginal tax rate: 48.7%	Marginal Tax rate: 47%

Footnotes

1. The September 1965 rates have been converted to decimal currency. Decimal currency was introduced on 14 February 1966.
2. Taxation calculations for 2005 do not include the Medicare Levy, but include, where applicable, the low income tax offset.
3. Annual calculations are based on 52.18 weeks.
4. In 1965 there were six further marginal tax rates beyond 48.7%. The top marginal tax rate was 66.7%, a rate payable on income in excess of $612 per week, i.e. 19.8 times the Basic Wage.
5. The taxation payable by the higher wage earners will be reduced from 1 July 2006. From that date the tax payable at an income five times the FMW will be $778.23 per week, 33.13% of the gross wage. From that date the highest marginal tax rate of 47% will be payable on income in excess of $125,000 per year or $2,395.55 per week, i.e. 4.9 times the current FMW.
6. The rate of 34% for FMW employees in 2005 includes the progressive withdrawal of the low income tax offset, which equates to 4%.
7. The 1965-66 tax scales are found in the **Income Tax Act** No. 104 of 1965.

ATTACHMENT 2

Taxation changes since 1 July 2000 and the Victorian proposals

1 July 2000

Federal Minimum Wage: $400.40 per week and $20,893 per year
Tax payable: $2,505.58, or 11.99%

Five times Federal Minimum Wage: $104,464
Tax payable: $36, 478, or 34.92%

1 July 2005

Federal Minimum Wage: $484.40 per week and $25,276 per
Tax payable: $3,355, or 13.27 %

Five times Federal Minimum Wage: $126,380
Tax payable: $42,948, or 33.98%

Rates to commence 1 July 2006 applied to current wage levels

Federal Minimum Wage: $484.40 per week and $25,276 per year
Tax payable: $3,355, or 13.27%

Five times Federal Minimum Wage: $126,380
Tax payable: $40,609, or 32.13%

Rates proposed by the Victorian report applied to current wage levels

Federal Minimum Wage: $484.40 per week and $25,276 per year
Tax payable: $7,583 (30%) less rebate of $4,740 = $2,843, or 11.25%

Five times Federal Minimum Wage: $126,380
Tax payable: 30% up to 125,000 and 40% on the balance = $38,052, or 30.11%

Footnotes

1. Taxation calculations do not include the Medicare Levy, but include, where applicable, the low income tax offset.
2. Annual calculations are based on 52.18 weeks.
3. The Victorian report is a report commissioned by the Victorian Government and published in September 2005.