How capital and the state have redefined the value of labour since 1975: case studies of rationales for minimum incomes in Australia.

A thesis submitted in fulfilment of the requirement for the award of the degree of

Master of Arts (Research)

from

Faculty of Arts and Social Sciences
University of Sydney

by

Janet Burstall
Declaration of originality

This is to certify that to the best of my knowledge, the content of this thesis is my own work. This thesis has not been submitted for any degree or other purposes.

I certify that the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged.

Janet Burstall
Abstract

Minimum incomes legitimate a boundary between capital and labour, profits and needs, in the contest over value. This thesis asks how minimum income setting has changed since the 1970s. It finds answers in the documentation of rationales by state agencies in national wage cases, policy and inquiries into income support, financial regulation and the Financial Services Royal Commission. The minimum wage as a family wage was overturned, on the basis of two partly linked factors, employer pursuit of reduced labour costs, and the growing proportion of mothers in paid work at non-standard hours. A previously strong union movement in response to unemployment crises, laid down its power to defend the minimum wage. The minimum wage safety net from 1996 became a minimum wage for a single person, requiring the state through income support to underwrite the cost of raising children in low waged households, but without compromising current labour supply. The household rather than the wage earner became the object of both public policy and financial capital’s search for value. Finance’s invention of income surplus assessment for contracting home loan repayments placed new pressures on household time and consumption, reinforcing the labour supply imperative. It also posed a novel threat to financial system stability, and placed the setting of minimum living standards as a boundary not just between labour as employee and employer capital, but also between labour as household and financial capital. The state’s position on meeting needs through minimum incomes requires trade-offs that historically were dominated by social and industrial order, and which have more recently been refined as economic policy for labour supply and particularly financial stability. Minimum incomes are linked to labour’s dual position as a cost of production and a critical source of financial flows. This new terrain for valuing labour sharpens the contradictions to be managed by public policy that accepts profitability as the underlying imperative, seeking stability of flows in both labour markets and money markets. It also poses challenges for labour to reshape itself as a conscious agent able to assert its needs over profitability, and to challenge the hold of capital over livelihoods.
Acknowledgements

I most want to thank my supervisors Mike Beggs and Dick Bryan, for their insights, suggestions, encouragement and the time they spent reading so many drafts.
Table of Contents

Abstract 3
Acknowledgements 4

Chapter one. Introduction 7
1.1 The period 11
1.2 Concepts 13
1.3 Methodology 24
1.4 Chapter outlines 26

Chapter two. Redefining the minimum wage 31
2.1 Rationales for the minimum wage 31
2.2 End of the centralised industrial system 37
2.3 Capacity to pay versus needs 41
2.4 Women and the end of the family wage 54
2.5 Conclusion 59

Chapter three. The social safety net: state responsibility for meeting needs 62
3.1 Introduction 62
3.2 From social wage to social safety net 64
3.3 The labour supply imperative 66
3.4 Women and households: labour supply and reproductive labour 68
3.5 Setting the level of income support 72
3.6 Contesting regulated inadequacy 76
3.7 Conclusions 79

Chapter four. Finance and income surplus 81
4.1 Introduction 81
4.2 The financial importance of households 83
4.3 Household ability to pay 88
4.4 Regulators and the state – sharing risk management 93
4.5 Households and home finance as subsistence 105
4.6 Conclusions 109

Chapter five. Conclusions 112
5.1 Public policy and the state 112
5.2 The three domains and what finance changes 113
5.4 Value in households
5.5 A labour response

Appendix 1: The Commission and its predecessors

Figures
Abbreviations
References
Chapter one. Introduction

Rationales for minimum income setting in Australia over the four decades since the end of the post war boom have redefined the value of labour in three domains: wages, income support, and finance. Together these domains reflect changes in the ways that capital and the state subordinate needs to profitability, and present challenges for the livelihoods of labour.

This thesis argues that changes in labour and finance markets embody changes in the terms on which capital values labour, and on which labour contests that valuation. Actions of the state are consistent with the role of manager of order in favour of capital within that contest, rather than of neutral or potentially neutral economic policy maker. Living standards are fundamentally a relational rather than a distributional question. That is to say that rankings of income and wealth are insufficient to explain poverty, inequality, precarity and financial stress. These conditions are the product of structured social relationships between capital and labour. These relationships are mutually dependent (Lucal 1994 p140) and embodied in markets, particularly labour and finance markets, which are defined and supervised by the state in laws, regulations and policy.

The labour market, wages and labour organisation have been regulated sites of contest over value since around the turn of the twentieth century (Kay & Mott 1982 p117). The minimum wage in Australia in 1907 was an element of that regulated contest, and remains a focus of organised labour’s effort to secure living standards. Commonwealth unemployment benefits were introduced only in 1945. Government policy attends to minimum incomes available through income support as a system to underpin the supply of labour. The adequacy of income support for working age people had at least until the 1980s received far less attention from both policy and organised labour than had the adequacy of wages, largely because the minimum wage had been sufficient for personal savings and home ownership (Castles 1994 pp13-14).
State agencies have been drawn slowly into paying attention to how finance sets and applies minimum income standards, after the late 20\textsuperscript{th} century process of financialisation was well underway, and especially since the Global Financial Crisis. Finance had developed its own measures of minimum living standards in order to maximise the value it could capture through the household sector, before the risks this posed for financial stability came to the attention of regulators, especially the Reserve Bank of Australia (RBA 2004), and then the 2017-2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (FSRC).

These three domains, wages, income support and finance, are sites for the competing claims on value of capital and labour, and for action by state agencies to avert instability. Capital’s claims on value as employer and as finance are in competition with one another. The flow points from which they capture value, as labour and as finance, generate competitive tensions for household reproduction and viability, and thus novel threats to economic stability that challenge state agencies to develop policy responses. This thesis explores how the nature and loci of minimum income settings have been reconfigured over the last four decades, and argues that it is neither straightforward nor relevant for labour to challenge the inadequacy of minimum incomes solely in terms of wages, or of public policy that is designed around profitability.

The rationales that the state applies through public policy in each of the three domains of setting minimum incomes have changed since the 1970s. The terms have changed, on which trade-offs are made between meeting needs and maintaining conditions for profitability. I examine the initiatives of capital, reactions of labour and changes in public policy through which the new rationales for valuing labour came into effect, and are in conflict with one another.

The initiatives of capital, both as employer and finance in pursuing new sources of accumulation have posed challenges that have set the agenda for the state. The emergence of finance as a domain of minimum income setting adds a new layer to understanding the valuing of labour power as setting the needs of wage-earning
households after earning income, in contractual home loan repayments. It is capital’s direct leverage over livelihoods, via the labour market and finance that enables capital to deny needs. This denial cannot be accounted for, or overcome by reliance on redistributive public policy within the parameters of economic management. The prevailing political neo-liberal ideology, lack of a redistributive economic policy, or the weight of wealth in purchasing influence in the political system are insufficient explanations.

*Why the reasons for setting minimum incomes matter*

The setting of a minimum income sets more than income levels. It embodies the trade-offs that policy makes between the interests of capital and labour in labour, financial and housing markets, in order to maintain stability. Kay & Mott’s concept of the wider law of labour argues that the administration of unemployment including the level of unemployment income “did not emancipate the working class from wage labour, but simply served notice of poverty upon the whole class” (1982 p110). I apply the concept of the wider law of labour as the imperative to supply labour. In the 21st century Australian context, the wider law of labour applies through the proximity of minimum incomes to poverty lines, and so extends the disciplinary force of minimum incomes beyond only those households living on them in the present, to any household at risk of being unable to pay its bills.

The purpose, as well as the level of the original minimum income to be set in Australia, the minimum wage itself, is contested, and can be seen as meeting needs, or as managing labour supply for profitability. From an organised labour perspective the minimum wage is or should be protection against unlimited competition in living standards and working conditions. Where unions have won increases in minimum regular incomes this has lifted living standards. From a state perspective, minimum incomes in both wages and income support are an ill-defined “safety net” that has labour supply as their primary rationale.
Prior to the mid-1970s minimum incomes were conceived of in terms of the minimum wage, without reference to income support. The minimum wage itself was sufficient to save for longer-term needs including home ownership, in what Castles has called the wage-earners welfare state (Castles 1994), except in times of unemployment crisis. The end of the post-war boom initiated conflict between capital and labour which ended the social contract embodied in the state’s post World War II acceptance of a nexus between citizenship and labour, and therefore of social inclusion through rising living standards and full-employment.

The minimum wage no longer defines the officially recognised needs of low-waged households raising children, which now receive a far greater proportion of their incomes from the state than they did four decades ago. Even households earning well-above the minimum wage can find themselves living on disposable incomes that place them at the level of the Henderson Poverty Line (HPL), when their home mortgage repayments contract them to part with all income above that level, as shown in chapter four.

Estimates of poverty in Australia in 2004 ranged between 1 and 4 million people, 5% and 22.6% of the population, with the Henderson Poverty Line producing the highest estimate (Australia. Senate. Community Affairs Reference Committee 2004 p35). In 2018 the Australian Council of Social Service (ACOSS) (2018b p12) reported 3.05 million people living in households with income below 50% of median household disposable income, including 6% of households with a full-time wage earner.

The significance of poverty and how to measure it are contentious. Absolute measures of living standards are based on the costs of a basket of goods, and set a budget standard, which rises with inflation (Bittman 1997). The family minimum wage was set in this way by reference to the cost of living index. Relative living standards and poverty lines are set as a percentage of a benchmark of an average or median income (Johnson 1987 p45). More recent US research identifies income volatility as a dimension of poverty that is not accounted for in standard statistics but relates to spread of risks over time (Morduch & Schneider 2017 pp159-161).
There are broadly two camps of public policy advocacy regarding adequacy of living standards, identified in the report of the Community Affairs Reference Committee’s inquiry into inequality (Australia. Senate. Community Affairs References Committee 2014 pp1-6). On the one side are economists such as Nobel Prize-winner Robert Lucas and a Professor of Economics at Harvard University Martin Feldstein, who see redistributive policies as a threat to the economic growth essential to overcome poverty. On the other side inequality itself is a critical impediment to well being, as reported in the influential meta-analysis of international research by Wilkinson & Picket (2009). This is consistent with a perspective that deprivation is relative to social context and to the living standards of others around us, and is in that sense a distributional issue¹.

Opponents of redistribution emphasise economic growth. Arguably public policy attempts to reconcile economic growth and stability, with a publicly accepted basis for meeting needs through minimum incomes. My thesis argues that rationales for minimum income setting show the incompatibility of these two goals, and attributes the denial of need not just to policy on income distribution, but to the integration of the management of labour and finance markets in public policy, in support of stable conditions for profitability.

1.1 The period

The origin of the present rationales for minimum income setting can be dated to around 1975, in the developments following the end of the post war boom.

The regulating role of the state since 1945 was disrupted when the global economic boom ended in the early 70s. Jones (1989) argues that in Australia, the exceptional post-war period was the product of the needs of capital investment and development at the

¹ Between 1974 and 2016 wages share has fallen from around 62.5% to around 55%, whilst profit share has risen from around 17% to nearly 25% (van Onselen 2018).
time, rather than a result of any policy intentions to subordinate markets to the state, and guarantee full employment. Whether or not disparate advocacy of a reduced labour share after the boom attained any deliberate coherence in public policy, the tangible results of actions of the combination of employer advocacy against labour, and of economic policy since the boom, has been a reversal of the exceptionally high labour share of GDP in the advanced capitalist economies (Piketty 2014), including Australia as shown in Figure 1.

**Figure 1: The labour income share 1960-2012**

Economic developments associated with the end of the boom that had an impact on minimum income setting include the break down of the fixed exchange rate system, the emergence of financial innovation, the outbreak of stagflation and the development of economic policy with a counter-inflationary consensus at its heart (Beggs 2015 pp1-3). While Friedmanite free market theory counter-posing itself to the errors of supposed Keynesian full-employment policy was initially influential, by the 1980s scholarly work on macroeconomics had reached a new consensus based on the primacy of monetary
policy, using interest rates to target inflation (Arestis 2009 p8) and therefore the unemployment rate.

This period encompassed a series of downturns in the advanced capitalist countries, these occurring in 1975, 1982, 1991 and 2009. The downturns have been the context in which standards of living have been challenged, including the end of full-employment (unemployment had generally been 2-5%), structural changes in industries and employment, privatisations, uneven transformation of the sexual division of labour, financialisation, and the curtailment of union rights.

The rationales for setting minimum incomes show the various responsible state agencies being guided by economic policy and concern for flows in finance and labour markets. There are tendencies to both coherence and contradiction in the state’s approaches to minimum incomes and living standards. State policy coheres around a broad goal of economic stability, but that stability is fragile as a result of the tension household living standards and capital’s constant innovations in capturing value, particularly through financialisation. While markets are dependent on the state as a stabilising force, the state has lagged in responding to the innovations of capital.

1.2 Concepts

The concepts that I use are: needs; value; surplus population and minimum needs; labour time; reproduction of labour power and the wage earning household; and the value of labour and its housing as an asset. I outline my approach to the agency of the state and labour.
Needs

The correspondence of needs and deprivation with income arises from the conditions of wage labour and the dominance of commodity consumption, two phenomena that typify capitalist relations. Indicators and thresholds of material conditions for individual human well-being extend beyond those that can be met by consumption of commodified goods and services, to conditions such as public services and infrastructure, the living conditions of neighbours, clean air and water (Rao & Min 2018). These are outside the scope of my investigations. Here I seek to identify changes in rationales applied by the state, capital and labour for setting minimum incomes to match needs.

A condition for profitability is that there is a pool of labour ready to work. Meeting the needs of this pool of labour, including the needs of their household members who are not currently earning an income, can be termed the cost of reproduction of labour power, or the value of labour power (Giussani & Vale 1992).

Rowthorn identified a thread that is common within variations in Marx’s meaning of the value of labour power: “if the minimum (however defined) is not met, then there ‘are very serious consequences: either the supply of good quality labour-power declines, as workers fail to maintain or reproduce themselves properly, or leave the capitalist sector altogether; or else there is conflict and disruption as workers fight for what they consider is their just reward’” (1980 p210). Harvey summarises this thread as “the threat posed to the further accumulation of capital” (2006 p50).

The minimum needs for the reproduction of labour were first recognised in Australia in the form of the minimum wage in 1907, then in 1913 linked to a cost of living index (ABS 2005 p59).

I do not produce any new benchmarks for minimum living standards, or calculate the adequacy of the measures that are applied in decision-making. In each of the domains that assess minimum incomes, I identify indices and benchmarks used to assess the
adequacy of incomes and their assumptions and make links with the contextual rationales for minimum income setting.

The Henderson Poverty Line (HPL) has been a consistent reference point for matching incomes to minimum needs since it was released in 1975. State agencies across many policy areas, including wages and income support, use it as one of many benchmarks, as do social researchers and even financial firms. However the use of alternative poverty lines has increased, according to The Melbourne Institute (n.d.) which maintains the poverty line, because of "issues such as the move away from the traditional male breadwinner model, the end of full-employment and problems updating the poverty line".

In looking for evidence of incomes being set to meet needs, I look for transparency and application of criteria for the adequacy of incomes, absolute and relative benchmarks, and predictable and timely incomes.

**Value**

Minimum incomes set a minimum value on labour, both on the labour power of individual wage earners, and the living standards of wage earning households in which labour power is reproduced. A stylised fact of Marxist economics is that wages are the cost of reproduction of labour power, or the value of labour (Bryan, Martin & Rafferty 2008 p461).

The gap between the cost of reproduction of labour power, as measured in wages, and the exchange value that labour produces is at the root of capitalist exploitation and so of inequality. The circuit of capital M-C-M' is Marx's "general formula of capital as it appears prima facie within the sphere of circulation" (Marx 1867b). In its simplest form, in

\[ M \rightarrow C \rightarrow M' \]

---

2 For an example of considering a Marxist concept as a ‘stylised fact’ see Fleetwood, S. (2001) p61.
relation to labour, this formula shows capital as $M$ purchasing the commodity $C$, labour
to labour, through the application of which capital is then increased in value by an
increment to become $M'$. The increment can also be called profit, or return on investment.
Money advanced, or invested, to obtain the increment is capital. For labour, earning a
wage, money is not capital or investment, but must be spent on maintaining livelihoods,
or its own reproduction. The $M-C-M'$ circuit of capital is a reference point of this paper,
for relations between labour and capital, and flows of value.

This stylised fact accounts only for the cost of reproduction of employed labour. The
wage appears to be for the value of the time of the employee only. However the
minimum wage concept required the employer to meet the money cost of reproduction
of the entire family of an employed worker. This requirement on employers was only set
after the intervention of the state, in Australia with the 1907 Harvester judgment, and
not until the 1930s in the USA (De Brunhoff p10).

The minimum wage functions as a floor price on labour, i.e. it sets a bare minimum
standard of living for the employed, based on a standard working week. It is the
rationales for the setting of this floor that concern this paper, and not “instances of
minimum wage evasion” (Healy 2016 p319).

*Surplus population and minimum needs*

The minimum wage assumes a standard full-time working week, so does not meet the
needs of the unemployed or those working fewer hours than they would like. People in
these positions are in a sense excess labour supply, available to work more hours, and
motivated to do so by the fact that their needs are unmet, that is to say they need more
income. In Marxist terms, this constitutes surplus population.

Historically a central concern of the state has been to maintain order against the
tendency for social and political disorder generated by surplus population, when
people’s livelihoods and the reproduction of labour power are in doubt. State provision
for the needs of the surplus population is curtailed by the capital’s need for the incentive to the surplus population to be available for employment, and to maintain the work discipline of those in employment (Kay & Mott 1982). State intervention manages “the ‘stock’ of labour-power needed by capitalists, but which they themselves cannot secure directly” (de Brunhoff 1978 p10). The public institutions which manage labour-power, especially surplus population, “serve to minimise, or relocate the ‘specifically proletarian risk’, constituted by the uncertain conditions of the commodity labour-power; they are unable to eliminate it” (de Brunhoff 1978 p19). “The right to work [at least for a minimum living wage] is incompatible with capitalist command, since its existence would imply the elimination of the specifically proletarian risk which is unemployment” (de Brunhoff 1978 p 24).

Surplus population is relevant to minimum incomes because it survives at the lowest living standard that can be imposed by the state, and because it offers competition in the labour market for employment. The state consistently sets unemployment benefits lower than any minimum wage, as an even lower floor, or basement, living standard. If the minimum wage is a bare minimum, the unemployment benefit forces a struggle for more income. This exerts downward pressure on the price of labour, wages, or the cost of reproduction of labour power, particularly when unemployment rates are high.

This connection binds together considerations of minimum wages and income support that will be apparent in reasons for decisions in both domains. Evidence for this will be identified in the relevant chapters.

**Labour time, reproduction of labour power and the wage earning household**

The contest over the value of labour power is a contest over both money and time. While I focus on the setting of the minimum wage as a decision about money the length of the working week is implicated. A total minimum wage income depends not only on the hourly rate of pay, but also on the length of labour time. Employers, labour and especially
women have conflicting interests in division of labour time between waged and unpaid reproductive labour.

In Marxist-feminist theory, “social reproduction” encompasses “birthing and raising children, caring for friends and family members, maintaining households and broader communities, and sustaining connections more generally” (Fraser 2016 p99). Where this labour is unwaged and not exchanged on the labour market, it does not appear in the accounts of capital yet capital could not function without it, as there would be no labour supply. Employers have increased their demand for women's labour time, and found ways to take advantage of women's needs, especially the needs of working mothers, for working fewer hours than the standard working week.

The increased workforce participation of married women, and the consequent increase in household hours of waged labour for a large number of households, increases the tension for time allocation (Pocock, Skinner & Williams 2012). This makes it impossible to establish an equivalence between a single wage and the minimum needs of a typical family or household. The erosion of the standard working week, the growth in underemployment, and increased financial stress, mean that many wage earning households seek to increase their incomes by increasing paid work.

In response to these changes, both the state and finance replaced the normative concept of the male breadwinner family when calculating incomes. Banks were ahead of the state in shifting to a household income measure in the late 1960s (Bryan & Rafferty 2018 p148). In 1973 the government commissioned Henderson Poverty Line (HPL) provided equivalence scales, describing the relationships between the living costs of a standard family income unit and other types of family income unit (Johnson 1987 p48) in part to act as a standard of adequacy for social security payments (p50).

Despite the formally gender equal basis for setting minimum incomes and for households to make choices about allocation of time between waged and reproductive labour, responsibility for reproductive labour continues to fall unduly on women (Fraser
This reinforces and combines with women being over-represented in minimum wage jobs, meaning that women on average, and over their lifespan, have lower incomes than men.

The dimension of labour time, gender and reproductive labour plays out indirectly in the revaluing of labour in all three domains.

**The value of labour and housing assets**

"From the perspective of the class of capital (industrial, commercial and financial) [recent developments mean that] a surplus can be appropriated from labour not just via the wage relationship, but via financial relationships also - be it interest on loans to workers, commissions on their investment portfolios, or even in contractual arrangements for essential services." (Bryan 2008 p218)

The most significant financial relationship implicated in minimum incomes lies in home mortgages. Home ownership rates rose from 53% in 1947, to sit above 70% between 1967 and 1986, and have been falling slightly ever since (Hall 2017 p2). The value of residential real estate equated to 60 percent of wealth in Australia at $6.7 trillion in 2016 (Bryan and Rafferty 2018 p145).

Housing is both a use value, providing an essential element of livelihoods, and a store of value, an asset, wealth. Capital has innovated to more systematically unlock the value of housing as a source of surplus value and liquidity, basing this directly on finance’s calculations of household minimum needs.

The concept of the cost of reproduction of labour power enables us to make sense of finance’s interest in minimum incomes, as well as to explore possible limits in the profitability of this interest. Finance’s interest in homebuyers, specifically households contracted to make mortgage repayments, also poses challenges for conceptualising asset-purchasing households as labour subjects exploited by capital.
This paradox could be seen as capital’s interest in household incomes and expenditure is an interest in constituting “labour as a form of capital” (Bryan et al 2009 p462).

I also examine and qualify Bryan’s claims that “the twenty-first century context now pertains not to public policy about working class minimum standards, but to financial institution calculations about credit risk in relation to working-class borrowers” (Bryan 2008 p219). I make a case that an essential element of financial institutions’ calculations is the wage income of their working class borrowers. Public policy continues a concern with minimum incomes in wages and income support, if not transparent standards for them, as an essential element of labour supply management. The management of financial stability now requires public policy to be concerned with minimum incomes in relation to finance.

**Roles of the state**

While the value of labour power expresses a direct relation between labour and capital, the state has a hand in every domain. The state develops to counteract economic, political and social instability or disorder (Kay & Mott 1982 pp130-137). This mediation by the state is not neutral. The state’s role as capitalist is, broadly speaking, “to secure the economic and extra-economic conditions for accumulation in the conjuncture” (Jessop 2014 p 419).

The state, in setting a minimum wage to be paid by capital to labour, mediates the capital – labour relationship. Income support as the cost of reproduction of unwaged labour, or insufficiently waged households, is set by the state. Financial capital’s calculations of household incomes and expenses is a recent innovation in calculating the cost of reproduction of labour power, in which the state has also developed an interest because of the risk it poses to financial system stability.
Specialist state agencies make decisions in each domain, with some cross-referencing, most notably with the Reserve Bank of Australia. Government, ministers and the parliament make laws and decisions that set the purpose and terms of reference for the decision-making bodies. This configuration produces a tendency to consistency, but with contradictions, which Beggs (2015 p13) describes as “relative coherence of modern economic policy, across multiple branches.” This policy coherence is a response to market relations.

This is consistent with concept of strategic selectivity, which Jessop elaborates on from Poulantzas. “The state is not a subject that acquires power for itself by depriving various classes of power; nor is it an instrumental depository of the power held by a dominant class subject located beyond it. Instead it is a strategic site of organisation of the dominant class in its relationship to the dominated classes” (Jessop 1999).

In a similar vein, de Brunhoff asserts this is apparent with regards to economic policy, which “acquires a disaggregated mode of operation, related to the number and variety of flows upon which state action is expected to have some effect” (1978 p83). De Brunhoff challenges the conception of “economic policy” as an integrated, enduring and independent agent in circuits of capital (pp64-65). Her challenge would discount the prospect that the state could develop and implement a coherent plan for an incomes policy, which manages all the economic variables, without disruption to stability or disadvantage to either capital or labour.

She rather identifies market-based constraints as “the real processes creating unity”, which are obscured “if the unity of the state is presupposed” such that it “is always to be found behind the scenes, manipulating and adjusting flows” (p84).

Accordingly, I do not claim that the pressure on minimum living standards since the end of the boom began “with a coherent project resulting from a global objective, towards which the various complementary measures [of monetary, fiscal and social policy] would be combined.” This would “presuppose the existence of the state as subject.” Rather I
seek to show that in the circumstances of the end of the post-war boom, the state has in effect been “called upon to function as a subject’ of economic policy” even though the policy in question, of more effectively subordinating working class living standards to profitability, did “not in any sense have a coherently defined totality of objectives or the mechanisms able to attain them” (de Brunhoff 1978 p83). The mechanisms in effect emerged in the process of the state solving problems for capital accumulation as they arose.

The specific state functions relevant to minimum income setting in which disorder could arise relate to the management of the ‘peculiar commodities’, which are labour power and money (de Brunhoff p 4). Because the contest over living standards does not originate in the state, the state cannot resolve the tensions between meeting needs (which in some senses equates to the reproduction of labour power) and ensuring conditions for profitability. Capital’s need for cheap labour supply, and financial flows mean that economic policy cannot resolve the contradictions of labour and finance markets in favour of living standards, all the more so because the demands made by these problems “may pull in different directions” (Beggs 2015 p17).

The state further functions to avert threats to the legitimacy of minimum income setting decisions, institutions and processes. Legitimation of new imperatives, and risks to subsistence, and corresponding strategic efforts by the state, can be understood as “discursive selectivity” (Jessop 2008 p48).

Through the aggregation of agencies, specific decisions with an overall consistency come to prevail, and ultimately are backed up by state sanctions. These decisions do not and cannot direct capital investment decisions. I do not presuppose the unity of the state as an agent or see the state as subject. I focus on the rationales for decisions by state bodies about minimum incomes because they reveal the considerations and intentions of the decision-makers. Rationales take into account what the decision makers want to achieve, and how they view the context, including the conflicting interests of capital and labour.
The Strategic Relational Approach to the state elaborated by Jessop is the best fit for this purpose, as it combines rather than counter-poses structure and agency in a way that can account for multiple state actors with variant strategic intentions in relation to labour, capital and one another.

Potential reorientation of state policy on minimum incomes is considered on the basis of possible political struggle:

“to transform the structurally-inscribed selectivities of the state, struggles over state policies within these limits, and struggles at a distance from the state to modify the balance of forces within the state and among those with privileged access to it with the result that more or less excluded interests enter into the political calculation of those with more direct access to state capacities and resources” (Jessop 2006).

This framework suggest that a public policy goal of switching the priority in minimum income setting from conditions for profitability to meeting human need, holds implications for an elected government seeking to make the switch.

In comparing the rationales used in the three domains of minimum incomes, I discover “different (and potentially contradictory) institutional logics and modes of calculation in state and economy” (Jessop 2014 p 416). Strategic dilemmas drive changes in minimum income setting in the form of conscious trade-offs made by actors from all three categories, including labour as capable of agency.

**Labour**

I use labour as a category to encompass the majority of the population that depends on spending time under the direction of others, to earn income to meet needs. Predominantly this is wage labour.
Labour is discussed here as an agent in two senses.

The labour movement is made up of bodies of organised labour, primarily trade unions, as well as other advocates for low-income households. They speak on behalf of, and occasionally mobilise, employees in industrial and political spheres.

The other form of labour agency lies in wage-earning households, seen as “units of production, ownership and consumption” (ABS 1995) that have an impact on value flows through their aggregate decisions about work, consumption and savings. “The labourer’s instincts of self-preservation and of propagation” motivate wage-earning households and the individuals within them, to work, consume and save, in the prevailing social and economic conditions (Marx 1867a).

1.3 Methodology

State agencies document their income setting decisions, and policy responses to threats to stability arising from contests for value share between capital and labour. These documents are my primary sources for monitoring changes in rationales for minimum income setting.

Applying Jessop’s strategic-relational approach I analyse decisions of state agencies about the adequacy of minimum incomes, looking for “structurally oriented strategic calculation” based on recognition of the trade-offs available to each agency. The state agencies must emphasise or introduce legitimating rationales exhibiting Jessop’s “discursive selectivity”, as the terms of the trade-offs change over the four decades. I assess whether or not a tendency to structural coherence emerges from the agencies’ concerns with minimum income setting in the three domains of wages, income support and finance. Areas of lack of coherence are likely indicators of areas of instability and further change, assuming that state agencies tend towards coherence (Jessop 2001).
Predominantly I examine decisions and policies of the state for which evidence is readily available. I find evidence of the intentions of capital and labour, where state bodies consider submissions from representatives of their interests. I construct the position of capital in relation to minimum household needs mainly from industry advocacy and evidence published by state agencies, including the needs and interests that decision makers and advocates impute to capital. Some information can be gleaned from corporate publications and public commentary from industry insiders.

Rationales for setting minimum incomes have strategic relevance on the basis of the scope of information and analysis on which they are based.

The state and capital are by definition both organised assemblages of personnel, expertise and aggregated resources. Information gathering and analysis is what the state and capital both do. The state collects statistics in order to administer the commodity labour power and the category of population in which labour power is embedded (Kay & Mott 1982). Capital amasses its own statistics in the form of balance sheets, as well as research and data collection.

It is harder for labour to take a similarly strategic approach as it lacks command of aggregates, other than as amassed and organised labour power. Organised labour has more limited instruments, and limited scope of knowledge, and a limited range of people sharing specialised knowledge.

As far as possible, I select considered statements and policy positions in preference to statements made in political debate or campaigning. The aim is to understand the actual reasoning used by implicated state agencies and advocates for capital and labour within the logic of capitalist class relations, rather than to engage in discourse analysis of legitimating statements. Consistent with this paper’s rejection of statism, I avoid taking at face value statements that appear to be designed to sell, legitimate or mystify the purpose of policy and decisions (Jessop 2008 p75).
1.4 Chapter outlines

This introductory chapter has outlined my topic, scope, research questions and the theoretical approach I use to interpret the evidence gathered by the research.

Chapter two traces the rationales for national minimum wage and safety net decisions since 1975.

Until the 1980s, the minimum wage was set with reference to a cost of living index, as a family wage, to meet the needs of a single earner family of two adults and two children, and was subject to industrial bargaining. When the Henderson Poverty Line was set in the 1970s, it was just below the minimum wage. Since the mid 1990s, the minimum wage was renamed the wage safety net, and industrial bargaining over the minimum wage became illegal. The Fair Work Commission (FWC) sets it to meet the needs only of a single person and not a multi-person household, and applies no specific index of adequacy. A primary concern of the commission prior to the 1990s was to avoid industrial action. The primary concern since the 1990s, and of the current FWC, is to trade-off raising the minimum wage sufficiently to meet the needs of minimum wage earners against the possibility of undermining demand for labour.

From the late 1970s, employers called for the state to detach the minimum wage from the cost of living index and industrial bargaining. Employers and the state identified wage restraint as a solution for the inflationary and unemployment crises of the 1970s. In the crises of the 80s and 90s the trade unions also endorsed wage restraint. The Australian Conciliation and Arbitration Commission (ACAC) and governments proceeded cautiously to make decisions and reforms that changed the terms of minimum wage setting in order to avoid broadening the industrial action that some unions took against wage restraint. It took well over a decade, and two spikes in unemployment for organised labour to fully accede to the end of the centralised wage system.
Relations between capital as employer and labour are at the centre of this redefinition of the value of wage labour. The contradictions of setting a minimum wage to meet the costs of reproduction of labour power, as a family wage, were amplified by women's greater participation in the workforce, and the challenge for mothers and their households of trading time for waged and reproductive labour. Capital initiated industrial change, and took advantage of changes in women's role. Capital's leverage over employment and livelihoods persuaded both state agencies and trade unions that concessions on wage-setting and working time were necessary.

The resulting drop in labour income share of GDP from over 58% in 1975 to 47.1% in 2018 indicates that capital has succeeded, with the assistance of state policies and union misconceptions, in increasing profitability as intended from the end of the post-war boom (Stanford 2018).

The decisions of industrial and labour courts and commissions from 1975 to 2018, along with commission research papers and statements, are the primary source of expression of the rationales for minimum wages, or the minimum cost of reproduction of labour power. I analyse the (mostly) annual national wage case 'Reasons for decision', the arguments and terminology used in the body of documents. Where my references are not specific to one named body, I refer to them as "the Commission." (See Appendix 1 for the time line of the variously named commissions and industrial courts).

In Chapter three I examine changes in the state's criteria for the payment of income support for subsistence to the working age population.

The drop in the real value of the minimum wage between 1985 and 1995 saw the state step in to pay for the costs of raising children, even in some wage earning households, via the tax and transfer system. These costs were previously met by the family wage paid by the employer. Between 1995 and 2015 the majority of increase in household income for the previously normative one income family of four came from tax concessions and transfers, which make up over 30% of its income in 2017, up from under 3% in 1973.
The large increases in family support between 1996 and 2004 interrupted the trend in women’s workforce participation by discouraging mothers of young children from earning. Since 2004 these terms have been modified to encourage part-time work by mothers with wage-earning partners. The state trades off incentives to women to earn wage income as current labour supply, against incentives to be primary carers for children, the future labour supply, by providing income support.

The state cross-references income support for the unemployed with the minimum wage. It sets income support lower as an incentive to supply labour, even though the needs of minimum wage earners have already been discounted to avoid reducing demand for labour. The work incentive is currently applied most intensely to single adults receiving NewStart Allowance (NSA). As of 2017 the NSA provided recipients an income almost 35% below the poverty line. Assurance of cheap labour supply, via pressure to take up even low paid employment, is an underlying reason for the state withholding income support.

The state takes responsibility through the income support system, for ensuring current and future labour supply, by targeting income support to varieties of household composition. Labour supply is the most essential condition for profitability, and a role which capital cannot take on.

Eligibility for income support and the amount payable is set through commonwealth budgets, and in part based on advice from the departments involved in administering the payments. There is no regular process of adjudication through which advocates for recipients can make a case for their needs. The primary source materials are ministerial statements, government and parliamentary inquiries, and public policy advisors.

Chapter four will look at the interest of finance in calculating a non-housing subsistence level for households.
When issuing home mortgages prior to around 2000, the major banks generally limited repayments to a maximum of 30% of household income. In the early 2000s financial institutions began using a Household Expenditure Measure (HEM), based on the HPL, for all borrowers, regardless of their income or expenses. Lenders priced loans on their own calculations of default risk. Lenders and brokers have a direct material interest in assessing household income and expenditure against as low as possible estimates of non-housing costs of living. Finance exploited the willingness of households to trade-off their non-housing subsistence needs against their most expensive subsistence need, i.e. housing.

This relatively recent interest of finance in the cost of living is in fact an interest in the cost of reproduction of labour power. It suggests that capital captures surplus value not only in the production process, but also afterwards, in consumption via housing credit that combines subsistence consumption with asset acquisition.

The state responded to the proliferation of financial institutions in the 1970s and 1980s by deregulating the major banks, which had been losing share to the less regulated new entrants to finance markets. The resulting increase in loan volumes and profitability also increased the risk of systemic financial instability, mortgage stress and the cost of housing relative to incomes.

Light touch regulation focused on system stability rather than compliance by financial institutions or the interests of bank customers. When exposure of banks’ mistreatment of their customers became a scandal that threatened the legitimacy of the financial system, the government set up the FSRC for the purpose of restoring trust, and lenders began to assess loan applications using more carefully calculated actual household expenses.

The state is again reactive, managing the potential for political and financial disorder where capital has disrupted livelihoods and maximised the value it can capture from households by discounting their needs, as well as shifting risk onto them.
The state supervises lending standards via the Australian Prudential Regulatory Authority, enforces legal requirements to a greater or lesser extent via the Australian Securities and Investment Commission, and monitors financial stability via the Reserve Bank of Australia. The RCFS acquired evidence from lending institutions about their otherwise largely confidential practices. These four bodies are the major source of primary material to identify the rationales of finance in calculating or estimating the subsistence needs of households. Other primary sources are RFiAnalytics, the company that manages subscriptions to the Household Expenditure Measure used by lenders, and public comments by industry insiders.

Chapter five concludes the thesis, comparing the significance of the findings about the three domains in which minimum living costs are assessed. Taking account of the context in which these minimum cost of living assessments are made, and the implications for relations between capital, labour and the state, this thesis explores the implications for labour in asserting minimum living standards.
Chapter two. Redefining the minimum wage

2.1 Rationales for the minimum wage

Could an industrial tribunal set a minimum wage that is a living wage for all those dependent on wages, within the prevailing relationships between employers, labour and the state? Or are there contradictions between the concept of a socially minimum standard of living, and the demands of capital accumulation, that an agency of the state cannot resolve via a wage mechanism? These contradictions are to do with reconciling profitability (the reproduction of capital) and subsistence consumption (the reproduction of labour) via a system of wage fixation that cannot, on a nation-wide scale, guarantee both.

This chapter explores how the commission (with different names under various legislation) sought to reconfigure ways to link wages to minimum standards of living. I link three aspects of Marx's concept of the “socially necessary cost of the reproduction of labour power” to the “minimum wage”. Firstly, the socially necessary cost applies not to the livelihood of the individual wage earner, but to the household that depends on its wage-earning member(s). Secondly, what is socially necessary is contestable, and in the labour contract this means the amount of the wage, as well as the time of labour and intensity of labour. The contest over the wage reflects the employers’ preference to minimise labour costs, at the expense of labour’s standard of living and share of output. The wage is not defined by the value of what labour produces while earning the wage. Thirdly, state agencies, particularly the commission, in this contest over the cost of the reproduction of labour power, operate to maintain order including the legitimacy of order, and manage the contest between capital and labour within parameters that support capital accumulation.

The Consumer Price Index (CPI) prevailed for decades as the benchmark for wage setting. It is an absolute measure of the cost of a basket of goods. The wage safety net that
eventually superceded cost of living increases uses no single standard or benchmark for defining minimum needs. Unions and advocates for low income households have made submissions for minimum wage increases that define needs as socially relative and so propose a relative benchmark for the minimum wage, such as a percentage of average earnings. This transition from centralised wage fixation and a ‘basic wage’ indexed for increases in the cost of living, to enterprise bargaining combined with a wage ‘safety net’ since 1997, is posed as the shifting terms of the wage contradiction.

The changing conditions of profitability in Australia that came with globalisation and a culture of international competitiveness brought an apparent need to have wage levels and working conditions consistent with profitability of capital (and not just for importing and exporting sectors). This has served to steadily break the connection between wage levels and living standards.

This dilemma has been consistently represented in the Commission’s thinking by the theme of the trade-off between on one hand the needs of minimum wage earners, and on the other hand the impact on aggregate levels of investment, employment, and profitability. The Commission’s reasons for decisions reflect the re-shaping of the wage contradiction in industrial and economic terms. This chapter draws out the changing counter-positions and trade-offs that confronted the Commission, particularly in relation to wages and employment.

The Commission makes decisions within the constraints of the government legislation and policy that sets its terms, and on the basis of assessments by its own research, as well as other economic and labour market policy arms of the state, and in response to the direct leverage exercised by employers and unions in backing up their submissions on the minimum wage, and industrial relations. The leverage of capital and labour, in relation to wage setting, has also changed, and is discussed in this chapter as a shift in the terms of legitimacy that resulted in the abandonment of the application of a benchmark of need.
I draw out contextual factors that bear on adequacy benchmarks for the minimum wage, that may not be directly acknowledged in the Commission’s decisions, specifically changes related to women’s role in the labour market and in the cost of, and household labour required for, the reproduction of labour power.

Concurrently with the intensification and reshaping of the terms of trade off through the 1980s and 1990s, the assumed basis of setting the minimum wage for a standard working week as the cost of reproduction of labour power in the form of two adults and their children was dramatically undermined by women’s increased participation in waged labour, and their demands for better and easier terms for that participation, that allowed for dual roles in unpaid caring or reproductive work and waged work. In developing this proposition, this chapter also looks at the social presumptions that were attached to the minimum wage, in terms of who that wage was supposed to reproduce. It traces the (re)emergence of women into the workforce as a critical catalyst for part-time and non-standard work, and the rupture that development put into the connection between the wage and living standards.

The chapter derives most of its evidence from the stated reasons for commission decisions setting the minimum wage, in order to understand how the parties to wage determination – employers, trade unions and the state – played out shifts in the wage contradiction.

**The family wage up to the 1970s**

This boundary or tipping point between “starvation or pauperism” on the one hand, and “frugal comfort [and] provision for evil day” on the other, is the open rationale for the basic wage, the original form of the minimum wage, from inception in the Harvester judgment of 1907 (McKay 1907 p4). In practice it was qualified on other bases.

The basic wage for women was discounted because a woman was assumed to have no dependents. The wage was to meet the needs of the employed man and his family; hence
it was a family wage. All award wages increased together, with reference to a cost of living index (ABS 2005), but these increases were contested. Unions defended the minimum wage by industrial bargaining (ACAC 1977b, p8; Moore 1982 p79). Employers challenged cost of living increase on the grounds of capacity to pay, and sometimes increases were withheld.

At the commencement of the industrial system, capacity to pay was understood at the firm level, and the basic wage was to apply, specifically excluding “the profits of the particular employer” (McKay 1907 p1). This implied that an employer who was unable to pay the minimum wage was not expected to continue in business. But capacity to pay came to apply at the national level, when in 1920 it was grounds for discounting needs as estimated by the Royal Commission into the Basic Wage, and again in the Depression by the Basic Wage Inquiry of 1931 (Fair Work Commission 2015b). The development of macroeconomics as a guide to post war policy enabled a further broadening of capacity to pay at an aggregate level. After the wool price collapse of 1953 a government inquiry asserted “the only proper interpretation of capacity to pay is capacity to pay wages without increased price inflation” (Vernon et al 1965 p143).

Minimum wage contests came to centre on tensions between full employment and price stability (Vernon et al 1965 p46). Despite disagreement about whether the cause of inflation in the 1970s was primarily imports or wages, policy makers agreed that wage restraint was a necessary response (Beggs 2105 p154). The number one policy target shifted from the exchange rate to inflation, and targeting inflation meant restraining wages (Beggs 2015 p170). The approach of the state to the connection between wages, inflation and unemployment is discussed further in relation to capacity to pay arguments later in this chapter.

When the Henderson Poverty Line (HPL) was established in 1975, it was set just below the minimum wage plus child endowment (Johnson 1987 p52; Bray 2013 p7). The minimum wage was no more than a bare minimum standard, and barely qualified as a living wage (Healy & Pekarek 2017).
The wage safety net

The current wage safety net was established in 1996 by the Howard Government. The wage safety net can be interpreted narrowly as covering only the 1.9% of employees paid at the National Minimum Wage (NMW) rate, or more broadly as all award reliant employees which the FWC estimates “to be 2.3 million or 22.7 per cent of all employees” as well as some other categories (2018 p5). Although awards retain some basis in historical rates that incorporate gender bias, history of union bargaining, relativities, skills and other factors that differentiated wages prior to the safety net (Broadway & Wilkins 2017 p26), I take this broader view of the minimum wage since 1996, in that the FWC adjusts awards and the NMW together on the basis of a common set of rationales.

The minimum wages objective, under which the NMW is set, calls on the FWC to satisfy three conflicting factors that include capacity to pay. “Relative living standards and needs of the low-paid” are traded off against both a broader capacity to pay, expressed as “the performance and competitiveness of the national economy, including...inflation”, and against a presumed effect of decreasing demand for labour, and therefore “workforce participation” (Fair Work Act 2009 s.284).

There is further tension between the latter two objectives with the RBA being “called upon to make implicit trade-offs between inflation and employment” (Fraser 1995). These trade-offs are discussed in more detail in the upcoming section on capacity to pay.

The “relative living standards and needs of the low paid” are qualified and unclearly defined. Benchmarks were not needed for setting the level of the safety net, according to the Joint Governments 1997 submission “Reference to the needs of the low paid ...does not presume either an identification of those needs or any judgment that they are not at present met adequately” (AIRC 1997b p45).
The section in this chapter on women’s independence and the loss of the family wage draws out broader implications, including the inadequacy of the minimum wage as a guarantee of a living income for women.

The FWC’s framework for identifying the needs of minimum wage earner households has limitations in terms of benchmarks, diversity of household composition and earnings, a confused role in relationship to poverty amongst wage earners, and inability to respond to financial stress. These limitations compound the trade-offs made on grounds of capacity to pay that constrain the meeting of needs. The FWC observed in 2018 “despite the increase of 3.3 per cent awarded in last year’s Review, the relative position of many NMW and award-dependent household types with children vis-a-vis the relative poverty line actually deteriorated” (FWC 2018 p20).

**The trade-offs**

The original benefits of the family wage were that it met the needs of two adults and two children, not just the one adult earning it. It was set according to a transparent, even if contestable, index of adequacy. It maintained relativity to wages generally, including some share of productivity, through industrial bargaining and the centralised wage fixing system. The replacement of the family wage, and the advent of equal pay, could be seen as being of benefit to women, being considered as economically independent of husbands. Yet the value of the minimum wage has declined and the gender pay gap persists. At least some of the reasons for this can be found in an understanding of the trade-offs and tensions that led to the family wage being replaced by the wage safety net (See Figure 2), and the need for it to be supplemented by income support.
The demise of the centralised industrial system manifested renewed terms for the trade-off of needs in response to the intensification of the profitability imperative after the end of the postwar boom. A persistent yet also evolving trade-off in the labour market is capacity to pay versus needs, most sharply represented in the needs of minimum income earners vs the level of employer demand for cheap labour supply. The reconfiguration of women’s labour time and the reproduction of labour power are both caused by and contributors to the revaluation of wage labour in relation to household needs.

These three themes, the industrial system, capacity to pay, and women’s labour, explain the constraints on the minimum wage meeting needs, discussed in the next sections.

2.2 End of the centralised industrial system

The centralised wage system, and the basic wage that it maintained, was the foundation on which Australian labour accepted the wage relationship for most of the 20th century.
When wage restraint became an employer demand and a centerpiece of economic policy during the employment and inflation crises of the late 1970s and early 1980s, employers began to question the benefits of the centralised system. Unions did not initially accept wage restraint, and many responded with industrial action. The Australian Conciliation and Arbitration Commission (ACAC) played a vital role in suppressing and mediating the wage conflict between capital and labour, much of which played out under the Accord from 1983-1996, and resulted in the replacement of the family wage by the wage safety net. This was achieved because the unions were persuaded to accept the end of essential features of the centralised industrial system, including that the minimum wage was the bargained foundation of all wage rates, tied to a cost of living measure of adequacy. The pressures through which this reshaping of the labour market was accepted by organised labour centred on capacity to pay, discussed later in this chapter.

Centralised wage fixation had been accepted earlier in the 20th century by all parties including employers as a means of control of the labour market (Vernon et al p132). The President of the ACAC observed at a conference of the industrial parties in 1977-1987 the consensus “that national wage cases should continue to be at the core of a methodical system of wage fixation” (Moore 1982 p72).

When Labor was elected to government in 1983, the ACAC (1983b p16) stated that the Accord “constitute[d] a profound change in the context” and that the centralised “system based on prima facie full indexation...would provide the basis for a more rapid economic recovery than would occur in any alternative system.”

In the same period a New Right coalition of employer groups and think tanks contested not only CPI increases, as employers had done from time to time in previous decades. They also agitated against centralised wage fixing in principle (ACAC 1986a p5; ACAC 1988 pp33-35) in line with ideas that markets should not be regulated by the state (Bowden 2011 p69; Cahill 2010).

Other employer groups disagreed. The Business Council of Australia (BCA) assessed
“that to move now to a more decentralised system would "threaten a major breakout with adverse macroeconomic effects, [which] the Australian business community and the community at large ‘cannot afford to risk’” (ACAC 1986a p8).

Centralised wage fixing with default cost of living increases still fettered wages at this point, because the ACTU had committed not to pursue additional claims, despite the capacity and appetite of some unions to pursue wage claims backed by industrial action. A series of individual unions did defy the ban on extra claims. The ACAC crystallised a choice for unions stating "that the trade unions, either jointly or individually, cannot have it both ways: they cannot seek the benefits of a centralised and stable system of industrial relations and at the same time destabilise such a system by pursuing sectional claims and taking industrial action" (ACAC 1988 p3).

The BCA commissioned report into Avoiding industrial action (Hilmer et al. 1991) was the basis of the solution. The minimum wage and national awards as a safety net were separated from enterprise level productivity bargaining, supervised by the Commission to contain industrial action. This resolved the pressure from those ACTU constituents who believed they had the industrial leverage to win wage “increases based on profitability/ productivity/market adjustments” (AIRC 1991b p2). The two-tier wages system was legislated in Labor’s Industrial Relations Reform Act 1993. The conditions for “protected action” specified bargaining and agreements at enterprise level, with awards to “act as a safety net of minimum wages and conditions of employment underpinning direct bargaining” (s.88A(b)) severing the minimum wage from both bargaining and economy wide productivity growth.

The convergence between unions and employers wanting to move away from centralised wage fixing provided the precondition of legitimacy for the new enterprise bargaining system. The state both mediated progress towards, and formalised this move once employers and unions had come to accept it.
The end of the centralised system allowed employers to contest capacity to pay, particularly based on productivity, directly at industry level, rather than across the economy as a whole in national wage cases. It also left minimum wage earners without any collective leverage to assert their needs against policy maker and employer arguments based on capacity to pay. The consequence was a decline in the real and relative values of the minimum wage (See Figure 3).

Figure 3: Minimum, average and median full time weekly earnings

Figure 1: Minimum, Average and Median Weekly Earnings, 1983 to 2017, Constant Dollars (1983 = 100)

Sources: ACTU (2017 a), average full-time earnings - AWOTE from ABS 6302. Median ABS 6333, most recent. NMW from Bray (2013) and FWC. All series deflated by the CPI (ABS 6401).

(Source: McKenzie 2018 p55)
2.3 Capacity to pay versus needs

Employers had a history of contesting union asserted needs on the basis of capacity to pay. We have seen that the terms of that contest were changed in the 1980s and 1990s.

I look at the wages vs employment trade-off arguments from three perspectives, as related to the decisions on minimum wages, and to aspects of excess labour supply (Figure 4). The first is an organised labour perspective, in which the unemployment rate influenced the positions that unions took at the ACAC, and more recently on the wage safety net. The second is a state perspective, via broader macroeconomic policy and a presumed natural rate of unemployment. The third is also a state perspective, of the commission’s framework under the safety net, of mediating labour market supply and demand by trading off wage incomes for low paid workers, against potential increases in employment.

**Impact of unemployment on union positions**

Union cases to wage setting commissions came to accept a trade-off of minimum incomes against employment.

When unemployment and inflation both began to rise from the mid-1970s, the first response of the unions before the Commission was to continue with applications for quarterly cost of living increases, to compensate for inflation, and maintain living standards. The three-decade period of effective full-employment when unemployment was around 2-3% had ended, but the unions didn’t know that then.
From 1976, the Metalworkers union leadership initiated work on an alternative economic strategy, aiming to protect and save manufacturing jobs and to develop the Australian economy and employment (Brown 2002 pp109 – 112). This matured to become the Prices and Incomes Accord between the ACTU and the ALP government elected in March 1983 as unemployment approached 10%.

The Accord, and the unions’ self-imposed wage restraint produced different results than its progenitors had intended. I contend that this was not only because it was based on ACTU imposed discipline on affiliates to enforce wage restraint, combined with a misconceived possibility of a partnership between unions and supposedly more progressive capital, as some left critics emphasise (Bramble 2000, Humphrys 2014).

When in the early 1980s the material experience of unemployment and the threat of unemployment were undermining living standards (Brown 2003 p113), union leaders accepted the condition of workers’ dependence on capital investment for their livelihoods, for jobs and wages. The Accord was a ready-made framework through which
union leaders expressed and implemented this acceptance during a series of economic crises. Opposition voices were silenced, but neither did anyone of influence advocate a clear alternative approach to sustaining working class livelihoods.

The ACTU in seeking to assist economic recovery via the Accord from 1983, when unemployment peaked at 10.5% (RBA 2018c), agreed not claim increases beyond the CPI. The ACAC declared it would award CPI increases except “on rare occasions because...of exceptional and compelling circumstances [my emphasis]” (ACAC 1983 p19). The Labor government linked economic recovery to international competitiveness and restraining inflation, to achieving “a lasting reduction in unemployment” (ACAC 1984 p9), a position implicitly accepted by the ACTU.

In June 1986 ACAC (1986a p25) had affirmed that it would “not lightly depart from full indexation. The economic material in favour of such a departure must in our view be strong and persuasive.” Between October 1985 and June 1986 unemployment had hovered below 8%. By December 1986, unemployment had climbed above 8% again, where it stayed for over a year. Rising unemployment turned out to be strong and persuasive, to both the ACAC and the ACTU.

At the December 1986 wage case the ACTU offered to accept partial indexation to be applied to the minimum wage, and "in advance of the current system self-destructing, we have sought as a fallback or secondary position a modified approach" (ACAC 1986b p5) for a second tier of wage increases that could be negotiated to a ceiling outside the minimum wage. This was an attempt to save centralised wage fixing from defiance by unions with more leverage, by allowing for increased capacity to pay in some sectors of the economy, whilst accepting capacity to pay as an argument against maintaining the minimum wage.

As unemployment bumped down during 1988 to just below 6% for the last quarter of 1989, a number of unions took industrial action for wage increases. While employers were concerned to stop industrial action, and the ACAC was concerned to assert its
authority and maintain wage restraint, some unions felt in a position to reject the previously cited capacity to pay arguments accepted by the ACAC and the ACTU.

Unemployment began to rise again, from around 6% in 1990 and peaking around 11% from June 1992 to Dec 1993. The union movement intensified its willingness to partner with employers, to foster conditions under which they would increase employment. A new basis for negotiating capacity to pay was introduced, in the Structural Efficiency Principles of 1991 (AIRC 1991a), which were a form of productivity bargaining, and excluded the minimum wage.

*Putting jobs first* was the subtitle of the Accord Mark 7 of 1994, and its opening words reiterated and affirmed a “shared commitment to promoting sustainable job growth and substantially reducing unemployment... a comprehensive approach to economic and social policy, based on co-operation not conflict” with its first objective to increase employment by half a million jobs in 3 years (Department of Industrial Relations 1995 p111). This goal was attached to the Working Nation package and to "low inflation".

The Commission noted apparent agreement between the government, the Metal Trades Industry Association of Australia (MTIA), and unions that “if our national growth and employment objectives are to be achieved and if our standard of living is to grow, we simply have to improve the efficiency of our economy. We have to expose our industries to international competition, strengthen our engagement with the world economy and shift the focus of decision making to the enterprise” (AIRC 1994 p8).

The level of unemployment was particularly persuasive of the unions to accept capacity to pay as a reason for limiting national wage increases. This is what led the ACTU to concede two-tiered wage increases, opening a split in the centralised wages system that became the legislated enterprise bargaining system with the wage safety net.

The “strong and persuasive” “economic material” was expressed as the wages versus employment trade-off, which the AIRC noted that the unions accepted.
“As we understand the Accord, the trade union movement accepted a degree of wage restraint. One of its purposes was to facilitate the reduction of unemployment. No economic commentaries which have been brought to our notice suggest that the strategy was based on a mistaken conception of the relation between aggregate real wages and employment. Against this background we consider that an overall level of real wages higher than might otherwise have existed, brought about by both agreements and awards, militates against the expansion of employment and the reduction of unemployment” (AIRC 1997b).

The spikes in unemployment in the 1980s and 1990s were closely associated with union concessions that abandoned the application of any measure of need to the minimum wage.

Under the wage safety net, the unions no longer have any legal industrial leverage to pursue minimum wage claims. The ACTU tailors its argument for increases to the wage safety net according to unemployment trends under a broader economic outlook. It makes the case that restrained or modest wage rises will not harm employment levels. For example an ACTU submission noted “full-time employment continued to grow strongly in March 2011 and stated that this supported the assertion that the Annual Wage Review 2009–10 decision did not have a negative impact on employment” (FWA 2010 p21). When unemployment is rising, claims are restrained, and when unemployment is falling or closer to the natural rate, its more ambitious claims are in its own terms “moderate” (A living wage 2001). ACTU submissions for higher increases cite research showing that low wage earners spend a greater proportion of their income and therefore increases in minimum and award wages will have a stimulatory rather than contractionary effect on employment (AIRC 2001).

The grounds the ACTU has cited in its living wage claims, have not only failed to persuade the commissions. They implicitly accept an unemployment-wages trade-off that is an aspect of the capacity to pay argument. ACTU claims take a relatively modest
view of minimum needs of wage earners, and the qualifiers make their claims for improvement to minimum wage standards vulnerable to both rising unemployment and policy concerns about unemployment.

**Macro economic policy: a natural rate of unemployment**

Inflation became the primary target of macroeconomic policy with the end of the post-war boom, and the first appearance in 1973 of stagflation, rising inflation and unemployment. Economists and policy makers had linked inflation, wages and employment for many decades, and in the post war context applied this link both to a goal and actual periods of full employment.

The Labor government in 1975 grappled with a “wage explosion” (coincidental with equal pay for women), and CPI inflation of over 16%. The Minister for Labour and Immigration considered that “a substantial proportion of the wage increases obtained by most workers during 1974 was in excess of the amount necessary to compensate for productivity improvement and the maintenance of real wages in terms of prices. This undoubtedly was one of the major factors leading to the squeeze on profits which in itself was a significant factor in the increase in the level of unemployment.” (Australia. Cabinet Minute 1975 p2). The increase in wages above productivity produced what was referred to as a “real wage overhang” (Cowgill 2013 p6).

Treasury prioritised fighting inflation first, holding “that a sustained period of unemployment was probably necessary to hold real wage growth below productivity growth long enough to restore the traditional distributional share between labour and capital” (Beggs p211). Emerging monetarism in Britain and the USA bolstered this position. The monetarist view took up Friedman’s criticism of alleged Keynesian macroeconomic policy in the post-war boom. Prioritising full employment had produced a dangerous inflationary spiral, in which labour had excessive bargaining power. Yet full employment in Australia for the three decades prior had not accompanied accelerating inflation. Nonetheless, inflation had accelerated, and growing monetarist policy influence
coinciding with employer opposition to cost of living wage rises, fostered the political conditions for decisions by governments and the ACAC to retard wages growth, and the RBA to set interest rates with a view to preventing unemployment from falling below a so-called natural rate.

Since the early 1980s economic policy assumed that unemployment at a “natural rate” was functional to the achievement of low inflation and high productivity. This natural rate was estimated to have risen from around 2% prior to the 1970s up to around 5% after the end of the long boom (Gruen, Pagan & Thompson 1999). The corollary was that unemployment, as labour over-supply, placed downward pressure on the price of labour, and is a primary variable for managing the rate of inflation.

The position that wage inflation was at the root of the general rate of inflation did not at first dominate the Commission’s thinking. In 1980 the ACAC (1980 p33) asserted that “wages have lagged behind prices” since indexation was introduced, and that to hold wage increases below the CPI “would be to impose upon wage and salary earners an undue burden in reversing the inflationary trend when the acceleration of this trend must be ascribed mainly to factors other than wages” (p35).

ACAC’s thinking on inflation and unemployment changed by the 1986 review of wage fixing principles, stating grounds for discounting CPI increases “related to the state of the national economy and the likely effects of any adjustment on the economy, with special reference to the level of employment and inflation”(1986a p27). It gave “particular weight to...the need to deal with the resulting threat of an economic downturn and increased unemployment by rapidly removing the gap between our inflation rate and that of our trading partners” (p 61). The Workplace Relations Act (WRA) 1996 sharpened the connection, requiring wage decisions to be made with “special reference to likely effects on the level of employment and on inflation”(s.103 (1)(b)). The point of the CPI itself as a benchmark of need was inverted when it “took on a new meaning. Its primary policy function became the informing of the setting of interest rates, as
incorporated explicitly into the government’s 1996 Statement on the Conduct of Monetary Policy” (Bundy 2015 p628).

This is evident in the Australian Industrial Relations Commission’s (AIRC) 1997 Reasons for decision. “Higher inflation rates resulting from the success of the claim may lead to further wage claims.” This poses a threat to economic activity (or investment) when combined with an aspect of “the allegedly adverse impact of wage increases on employment”. That is “a higher general level of real wages tends to reduce the level of economic activity and, for any given level of activity, to reduce the quantity of labour employed” (AIRC 1997b).

In referring to the impact of “wage increases on employment” the AIRC was concerned that “wage increases which impose or accentuate a pattern of wage relativities different from that which would emerge in an unregulated market will cause structural unemployment. Administratively imposed relativities are contrasted with "flexible" or "market-clearing" relativities. Inasmuch as the Commission raises the relative wages of particular groups, it is likely to exacerbate unemployment among the groups which the Commission wishes to assist” (AIRC 1997b). In other words, the AIRC concluded that employers adjust the number of employees up or down on the basis of labour cost calculations, and so to lift low pay rates for those with jobs, will result in fewer of those jobs being available. The application of this assumption to minimum wage setting is discussed further in the next section on mediating the labour market.

The inflation- employment trade off is analysed more consistently, in greater depth by the RBA, which has for a period used the concept of a natural rate of unemployment, or non-accelerating inflation rate of unemployment (NAIRU), when setting interest rates (the price of money) at a level designed to either stimulate or contract economic activity. The RBA’s primary responsibility for money, leads it to focus on the price of that commodity, whereas the Commission approaches the trade-off from the perspective of the price of labour power.
Wage setting decisions since 1997 specifically acknowledge the RBA’s perspective. For example “Wage increases sufficient to raise inflation above a rate deemed acceptable by the monetary authorities will cause the authorities to raise interest rates, curtailing activity and employment” (AIRC 1997b). “Wages growth has not yet been identified as contributing to the recent higher headline inflation. The RBA has indicated, however, that labour cost pressures are one of a number of factors contributing to the upward shift in underlying inflation” (AFPC 2006 p10).

The wage setting commission’s understanding of the relationship between unemployment and a higher level of minimum wages has converged with the understanding of monetary authorities, particularly following legislative reforms. Inflation control is an imperative that the RBA manages via the interest rate in response to too low a rate of unemployment. The wage setting commission on the other hand contributes by restraining the minimum wage. From both of the inflation fighting perspectives, wage earners must sacrifice their needs.

This is an example of convergence of state agencies around economic policy, which enhances the appearance of the state as an economic actor. The changes to industrial laws were made possible by the separation of minimum wage setting from a measure of need backed by union leverage, and in turn resulted in more explicit application of trade-offs in favour of profitability, and the acceptance by policy makers and unions of a macroeconomic trade-off, disputed only at levels of magnitude, between the ability of minimum wages to meet the needs of the employed, versus the likelihood that they cause a greater level of unmet need though lifting unemployment.

It is this latter trade-off that has been the focus of the wage safety net as the commission seeks to mediate in the labour market.
Mediating the labour market

Incentives to employ, or demand for labour

The impact of minimum wages on demand for labour became a statutory reference point under the wage safety net system, requiring “attention to competing considerations such as employment effects and the needs of the low paid” (AIRC 2005 p52). The AFPC (2008 pp36 – 37) has posed the problem as a trade-off, or “balance” between “a desire for minimum wages to promote employment opportunities for unemployed and low-paid Australians [and]... the need for minimum wages to play their part in maintaining a safety net” (AFPC 2008 pp36-37). This came to be discussed as the disemployment effect.

The Commissions repeatedly noted the lack of evidence of the impact of minimum wage increases on employment, and the need for further research. The AIRC observed in 2005 (p77) “a continuing controversy amongst academics and researchers about the employment effects of minimum wage improvements... [and] nothing ... to indicate that the controversy has been resolved.” In 2007 the AFPC declared its intention to commission “research into the impact of minimum wage adjustments on labour demand” (AFPC 2007 p51). Four years later it sought “studies that include estimates both of the potential benefits (in higher incomes) and costs (in lower employment) resulting from minimum wage adjustments” (Healy et al. 2011 pvi). A research roundtable under the FWC found that “doing research on the employment effects of the minimum wage in Australia is difficult—due to the complexity of the wage setting system and data limitations; [yet] ... there is scope for doing extra research” (Borland 2018 p1).

Despite the need for research “the relationship between the level of minimum wage increases and employment” remained “pivotal to the Commission” (AFPC 2007 p51). It has made claims along the lines that “substantial safety net adjustments may have some negative effects on employment in those sectors of the economy in which a high proportion of the workers are award-reliant” (AIRC 2005 p52). “Setting minimum wages ‘too high’ will have a detrimental effect on employment growth and could even cause
unemployment to rise... The basis for any disagreement seems to involve the magnitude of the relationship rather than its existence” (AFPC 2006 pp7-8).

The AFPC gave the benefit of the doubt to employers, responding “a slower rate of growth in real wages may result in even better employment outcomes. It also overlooks the possibility that, while aggregate employment may be affected only slightly by increases in minimum wages, employment of low-paid workers may be disproportionately harmed” (AFPC 2008 p39).

The ACTU (2008 p71) and ACOSS (2008b p3) point to the lack of evidence for disemployment effects. The ACTU referred to a positive economic outlook (p 11), whilst ACOSS proposed measures of need (p 3). Neither of these refuted the effect, or defined conditions under which it might apply. More recently the ACTU quotes a study by Card and Krueger that says “Recent minimum wage increase have not had the negative employment effects predicted... Some of the new evidence points towards a positive effect of the minimum wage on employment; most shows no effect at all. Moreover, a re-analysis of previous minimum wage studies finds little support for the prediction that minimum wages reduce employment” (ACTU 2017 p15).

Coinciding with the replacement of inflation by wage stagnation as an immediate threat to economic growth, the FWC began in 2017 and 2018 to consider allowing more scope than previously for minimum wage increases.

The FWC (2018 p19) found “that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation” It cited research for the UK Low Pay Commission and a single paper by Bishop (2018) for the RBA which reached an equivocal conclusion that “finds no evidence of an effect of award adjustments on job destruction, [but] this does not rule out an adverse effect on employment” (p 10).
Despite moderating its view, the FWC (2018 p99) still considers “that an increase to the NMW and modern award minimum wages of the size necessary to ensure that all household types, most particularly single-earner families with children, earn more than the relative poverty line would likely lead to discernible disemployment effects.” The relative poverty line rejected by the FWC is the “60 per cent of median wages” towards which the UK is moving (2017 p219). The FWC continues to be cautious about substantially increasing the minimum wage to satisfy any measure of need.

To the extent that moderate increases are awarded, this generally depends on employment growth, as noted by the FWC “Employment continued to grow strongly in the economy generally, and it also grew in three of the four most award-reliant industries” (2017 p69).

There is no research pointing to how low the minimum wage would need to be to “clear the labour market”. Neither have any ACTU or other submissions for an increased minimum wage to boost demand suggested a level at which the minimum wage would stimulate sufficient demand to create full employment without causing inflation or other economic instability, or identified under what conditions minimum wage increases might cause unemployment to rise above the ‘natural rate’. There is no research quoted on a relationship between rising minimum wages and labour demand during an unemployment crisis, or in relation to underemployment.

These tensions remain even where moderate increases in the minimum wage are awarded. These tensions indicate that no wage level can be found that both meets the needs of wage-earning households, and induces employers to clear the labour market.

**Incentives to work, or labour supply**

Parallel with policy concern for labour demand is labour supply. Labour supply has grown steadily since the 1970s. Employment to population ratios have increased from
around 56% to over 60% in 40 years to 2018, and the labour force participation rate from around 61% to over 65% in the same period (RBA 2018c).

The Commission also considers the impact of minimum wage levels on the incentive to work, as a labour supply factor. The incentive to work is calculated in the difference between potential household income from wages and income support, called the replacement rate. The replacement rate as the ratio of unemployment benefits to minimum wages is one of the factors in some calculations of the natural rate of unemployment (Kennedy 2007).

The replacement rate could be relied on as a reason to increase the minimum wage in order to increase the incentive to work. The Labor government in 2010 submitted that an increase in minimum wages can “raise the financial incentives for those who are unemployed or not in the labour force to enter paid work” in preference to reliance on the social safety net” (FWA 2010 p69).

Employers opposed this, with the Ai Group submitting “If minimum wages are set too low to induce supply and so long as employers can at least cover their costs, employers will, without waiting to be prompted by a change in minimum wages, offer higher wages. This quintessential market adjustment will promote greater workforce participation and social inclusion without the need for an adjustment in minimum wage levels” (FWC 2010 p70).

The Commission acknowledges the replacement rate, but rather than lift the minimum wage to meet needs, it monitors the gap between the minimum wage and income support. For example in 2007 it noted Australian Government commissioned modeling which “established that of the household scenarios analysed, incentives to take on low paid work were highest for single adults and lone parents with one child. While financial incentives to take on a low paid job were lower for couples and some lone parent households with dependents, they were still substantial” and it reaffirmed “its position that incentives to take up low-paid work remain strong” (AFPC 2007 p53).
The FWC notes, but does not attribute influence on its decisions, to changes in the tax-transfer system. The FWC mediates a connection between labour demand and supply, in the context that the replacement rate, i.e. the work incentive, is a primary function of the tax and transfer system. The setting of income support in relation to labour supply and the replacement rate will be discussed further in the next chapter.

2.4 Women and the end of the family wage

The acceleration of workforce participation by married women began in the 1950s, and together with other related social changes, it added several factors that undermined the assumptions behind the family wage. These factors include an increasing proportion of households raising children that earn two incomes, decline of the standard working week, and greater diversity of household needs and incomes (Pocock, Skinner & Williams 2012 p15, p29, p67).

Equal pay challenged the basis for identifying the needs that should be met by the minimum wage. Unions did not grasp the significance of growing participation of married women in the workforce from the 1950s, nor of equal pay, for the minimum wage as the cost of reproduction of the household unit. The ACTU prosecuted equal pay cases in 1969 and again in 1973 without recognition of the long history of employers contending the average size of a household, and complaints about paying wages for “mythical” dependents in the case of single or childless men (Plowman 1995 p261).

---

3 It was the participation of married women in the workforce that grew the most dramatically during the twentieth century. “Between 1954 and 1961, there was an increase of 154,748 or 53.4 per cent, in the number of married women in the work force, compared with an increase of 213,767 or 25.3 per cent, in total females in the work force. The largest increase (both numerical and proportional) in any age group was for married women aged 35-39 years, where the increase in the seven years 1954-1961 was almost 82 per cent” (ABS yearbook 1964). The ABS attributes women’s growing participation in the workforce to “Changing social attitudes, the availability of safe contraception and planned parenting, …adequate child care facilities [and] growth in availability of part time work.”(ABS, 2011)
In 1973 the ACTU submitted that the Commission could “implement a uniform level of minimum wage”, as the “current standards of needs for the average family unit of man, wife and two children” (Plowman 1995 p279). The submission lacked awareness of the vulnerability of such a formula to contest on the grounds that it would exceed minimum needs. Where there is more than one adult minimum wage earner in a household, household income would be double minimum needs.

**Households**

In 1977 the Commission recognised changing household patterns, and the challenges this posed for identifying the minimum needs to be met by wages. “The family wage concept inherent in the earlier minimum wage [means that] a wage adjustment is not an appropriate method of doing equal justice to the single person and the family” (ACAC 1977 pp14-15).

The AIRC acknowledged the problem in 1997 of “the interrelation of need and family composition and the difficulty of relating wages to measured need” (1997b p44), and again in 2000.

“As a result of societal change it is often the case that there are two wage earners (sometimes more) within a unit. It is not surprising that it is no longer as simple as it once may have been to view the income of an employee as an indicator of household income. It may be that safety net wage increases intended to assist the low paid will supplement the income of some households of relatively high means. We accept that safety net adjustments are not perfectly targeted to meeting the needs of the low paid. They do, however, assist in meeting those needs” (AIRC 2000 Clause 108).

By 2014 the FWC defined the needs to be met by the minimum wage safety net as “the single person household rather than the couple household with children” (FWC 2014
Clause 365). It has nonetheless continued to consider households and their needs in its minimum wage decisions, by adopting a “multidimensional” approach, to identify "differences in need" relating to “income, expenditure, and household wealth” (Healy et al 2011 pv).

The most novel measure of household need used to set minimum incomes is financial stress, first surveyed by the ABS in 1998-1999 (ABS 2001). The ACTU in 2002 was the first party to raise it before the IRC, citing the ABS survey that “found a distinct correlation between level of income and the level of financial stress indicated” (AIRC 2002 Clause 133). The FWC acknowledged financial stress in 2008, but it could not apply the multiple dimensions of household need, including financial stress to calculating the minimum wage (FWC 2008 p64). The relationship between incomes, needs and finance is discussed further in Chapter four.

**Working time**

As employers increased their demand for part-time labour, women increased their workforce participation. The growth in part-time and non-standard employment since the 1960s, which also includes men from 1976, then young people, intensifies the disruption to setting a weekly minimum wage to meet the needs of a household.

Employers lobbied for and used industrial reforms in the 1980s and 1990s to extend flexible employment practices, including casual employment. Part-time employment has grown faster than total employment, and grew fastest in the decade from 1986 (Borland 2017 pp2-3). In the same period the ACAC ruled “claims for reduction in standard weekly hours below 38, even with full cost offsets, should not be allowed” (ACAC 1986a p 45).

This coincided with the structural efficiency principles in wage reviews, and was consolidated when Howard Government workplace reforms of 1997 excluded clauses from awards and disallowed EBAs from specifying proportions of an enterprise
workforce to be employed in categories such as casual, full time and part time (AIRC 1997a).

Chapman (2010) argues that “most of these working time developments in bargained outcomes were driven by business and employer imperatives of efficiency, productivity and employer discretionary power, rather than employee interests in gaining greater autonomy and choice over working hours.” Employer demand for flexible access to labour tapped a latent source of labour supply, the growing interest of women in part-time employment, and was given freer rein by the industrial reforms of the 1980s and 1990s.

The minimum wage as an hourly rate is not a living weekly income for part-time workers. Underemployment surpassed 8% in the four years from 2014 (ABS 2018a) and “31% of all jobs ...involved part-time hours compared with 10% in 1966” (Australian Institute of Health and Welfare 2017 pxiii). Women are a greater proportion of both minimum wage earners (60%) and of part-time workers (66%) (ABS 2018b). The FWC has acknowledged that “award-reliant employees are more likely than other employees to be working on a part-time basis” (FWC 2010 p70). Women are more likely than men to be earning less than a minimum weekly income when being paid minimum wage rates, because they are more likely to work part-time. This outweighs any narrowing of the gender pay gap found by Broadway & Wilkins (2017 p3) to be associated with regulated minimum award rates.

A minimum wage cannot be a living wage for women whilst mothers are “homemakers and primary care-givers first, and part-time waged workers second” (Chapman 2010). A minimum wage can only be an equal minimum wage when it is paid as a weekly minimum for a working week and a working life that also allows sufficient time for reproductive labour. Australian unions have approached the problem of lack of time for caring responsibilities via seeking rights for employees to vary hours of work on these grounds, and in so doing often to sacrifice income. For example the ACTU applied to the IRC unsuccessfully in 2002 to allow for hours of work to be reasonable in relation to both
overtime and standard hours (Chapman 2010). This approach places the responsibility on women to trade-off time for care against need for income.

An RBA researcher (Richards 2009 p20) identified an increase in the average total hours of wage labour per households headed by 25-39 year olds, from around 42hpw in 1983 to around 53hpw in 2008. The combination of a static standard working week since 1983 (ACAC 1983 p 31) with an increase in two income households has made this increase in household hours of labour possible. It is “presumably partly related to the rise in housing prices, both as a cause and effect” (Richards 2009 p20), intensifying competition between households for income to meet the cost of housing, and so is also relevant to Chapter four on finance.

There is lack of legal scope for adjusting standard working hours that would be necessary to provide a minimum weekly income from minimum wage jobs, by tackling both the level of underemployment and the gender bias of working hours. In the past, as productivity increased, labour sought a share not only as wages, but also as shorter hours and increased leisure. As household wage incomes decline at the low paid end of the workforce, and patterns of work have become more variable, union demands have been focused on hourly rates of pay rather than hours of work. The ACAC ruling (1986a p45) that “claims for reduction in standard weekly hours below 38, even with full cost offsets, should not be allowed” also served to close off campaigning for shorter hours.

Wolfinger & McLaren (2018) argue for an alternative approach to valuing reproductive labour time, by including it in national accounts, on the grounds that “the whole market economy would grind to a halt if it were not for unpaid caring work ... which facilitates the paid employment of family members.” This challenge to the legitimacy of the sexual division of labour does not point to any material reforms that would change it or ensure a living wage for women.
High income households, low paid workers

Although there are acknowledged unmet needs for even full-time minimum wage earning households, the commission is inhibited from raising the minimum wage to meet these needs. A minimum wage earner’s household could benefit beyond a minimum standard where there are other wage earners, especially if they earn above minimum rates. This is against the underlying principle of the minimum wage that it should be no more than a bare minimum. This is evident in a statement from the AIRC quoted above (2000 Clause 108).

The AFPC aims to avoid the minimum wage supplementing the incomes of relatively high-income households, calling on research into households, and citing this as a basis for discounting the minimum wage.

2.5. Conclusion

The Commission responsible for setting minimum wages no longer applies a benchmark of need or adequacy, since the industrial relations system, households and their waged labour have been transformed since the 1970s.

This chapter has shown that the role played by the minimum wage up until the 1970s in ensuring a socially negotiated minimum standard of living for most employees was contingent upon the social relations of the time. Changed conditions of profitability, and to the normative family structure that was supported by this minimum wage, combined to undermine the socially negotiated basis for the minimum wage meeting a benchmark for living standards.

Capacity to pay is considered at multiple levels, creating multi-directional and conflicting pressures on meeting the needs of wage earning households. At a time of rising and unexpectedly high levels of unemployment from the 1970s to the 1990s, the ACTU responded by making concessions to employers to discount the needs of minimum wage
earners. Coeval with the union concessions, state agencies refined their approaches to management of money and labour supply.

At the level of state management of money, inflation and labour supply, decisions of both the RBA and the commission counter-posed systemic capacity to pay to minimum living standards. The RBA applied the concept of a NAIRU estimate of 5% unemployment, by setting interest rates for contraction or expansion, to maintain unemployment at its NAIRU. The wage setting commission set the minimum wage to minimise a disemployment effect. Between the two agencies, minimum incomes were squeezed by unemployment directed against inflation on the one side, and wage restraint directed against unemployment on the other.

At the same time the minimum hourly rate of pay set by the commission no longer guarantees a weekly income. The proliferation of part time and casual work, resulted from a combination of employer demand for more flexibility in their purchase of labour time, with women trading off time for household labour against wage income.

The diversity of household needs, and the lack of a standard weekly income that allows time for reproductive labour, entrench gender inequality in the minimum wage. The Commission supervised the erosion of the standard working week, which was an incentive to greater workforce participation by women, but has done little to solve labour’s associated time and income trade-off.

The Commission oversaw this redefinition of the value of the wage without major social disruption, by mediating the conflict between capital and labour. Capital acquired leverage over labour by virtue of unemployment, and economic policy refined a more comprehensive set of levers in relation to money flows and employment, which further eroded union bargaining power. The Commission harmonised wage setting with this broader economic policy. Excess labour supply, or the availability of a surplus population, was central in allowing employers and the state to assert profitability or capacity to pay over needs in the last four decades.
Capital does not take on direct responsibility for averting disorder associated with unmet needs, and the management and reproduction of surplus population. The state is called on to do this, via the social safety net, or state funded income support.

At the 1997 Safety Net Review the Joint Governments submitted that the “inclusion of award employees in the social safety net meant, however, "that the Commission is relieved of any obligation that might otherwise be thought to exist that it should attempt its own overall estimation of ordinary living needs". That task should be handled through the processes underlying the social safety net, which "addresses the needs of all low income people, including people on low award wages" (AIRC 1997b p44).

The ambiguity, of the Joint Governments’ caveat was expressed by the FWC in 2014, when it stated “Consideration of the effect of changes in the tax-transfer system on the absolute or relative circumstances of the low paid must be made in the particular circumstances that apply” (Clause 358).

The social safety net and the tax-transfer system is the topic of the next chapter.
Chapter three. The social safety net: state responsibility for meeting needs

3.1 Introduction

The Joint Governments’ position in 1997 was that the AIRC need neither “attempt its own overall estimation of ordinary living needs” nor take account of the degree of protection afforded by the social safety net. "By its very nature the award system is an instrument which does not and cannot target the diverse needs of workers. Attending to that diversity is part of the role of the wider social safety net which is highly targeted to address the diversity of circumstances affecting people "(AIRC 1997b p45).

The gaps in the wage safety net accounted for in the previous chapter resulted in the state taking on responsibility from employers for the cost of reproduction of labour power at the margin between poverty and frugal comfort, identified in the 1907 Harvester judgment. Where income support paid by the state was historically intended to ensure the survival of people who were not able to avoid poverty by earning any wage income, income support is now paid to many wage-earning households. Income support is linked to labour supply in new ways. I interpret the rationales for setting eligibility for and levels of income support through the perspective of demands for labour supply, and the role of the state in ensuring the functioning of the labour market.

The question that this chapter seeks to answer is whether the state can be guarantor of an adequate minimum standard of living for all, within the prevailing relationships between employers, labour and the state?

Current labour supply means people in search of work. Future labour supply is guaranteed by the raising of children. The income support system takes account of both the time and money costs of raising children. This chapter examines the contradictions between the rationales for income support generated by the tensions between demands
for current and future labour supply, which qualify the extent to which needs are recognised and met by the income support system. It also accounts for how state agencies respond to shifts in the gender division of labour, to modify incentives for reproductive labour.

I focus on forms income support to wage-earning households and the unemployed, defined as tax concessions and allowances rather than as pensions, under the umbrella of the tax and transfer system. My primary sources are official reviews, policies and decisions of government on setting income support levels.

**Background**

For a brief period it seemed that needs met by the state would no longer be set at a poverty level of subsistence, but rather at a community standard of living.

Gough Whitlam promised in 1972 that under his Labor Government

“the basic pension rate will no longer be tied to the financial and political considerations of annual Budgets... the basic pension rate will be raised ... until it reaches 25 per cent of average weekly male earnings. It will never be allowed to fall below that level” (Hayden 1973).

Social Security Minister Bill Hayden (1973) made a case based on the principle of need, for the Social Services Bill of 1973:

“By setting common benefit rates for all pensions and for unemployment and sickness benefits” the government had “largely established the principle that common needs deserve common rates of benefit ... A man supporting a wife and 2 children, drawing unemployment benefit and even after allowing for child endowment, has been paid a benefit rate some $17 a week below the updated Melbourne University poverty line. There will be no more of this poor-house, alms-giving mentality which sees merit in official meanness and virtue in suffering, as long as it is in others.”
Limited progress was made on these intentions.

Just as the Whitlam government had done, the Hawke Government in 1983 committed to raise the Unemployment Benefit to the pension level, which it did not achieve by the end of its term. The last progress was in 1994 when unemployment benefits were increased as part of The Accord commitment to lift the social wage.

The aim of a uniform scale of income support, regardless of the reason for not earning a sufficient wage, and pegged to a level of wage earnings, was a short-lived radical departure from previous policy.

3.2 From social wage to social safety net

Poverty in working families had become an issue by 1987, when Prime Minister Bob Hawke promised that by 1990 “no child will be living in poverty” (ACOSS 2017 p3). Wage restraint had already begun to reduce the value of the minimum wage (Bray 2018 p260) and to leave unmet the needs of wage-earners and their children. A crisis of reproduction loomed.

The ACAC, unions and the Labor government had agreed that minimum wage increases could be limited in return for increases in the social wage (Cass 2005 p42). The ACAC (1986 p6) noted “the reduction in real wages resulting from the Medicare effect on the CPI was an important feature of the 1983 wage fixing package. Further possibilities of wage restraint are afforded by trade-off of taxation and social welfare benefits.” The government went on to substantially increase the level of family assistance, as compensation for declining real wages (Wilson et al 2013 p633). The Family Tax Benefit Part A (FTB) was linked, from its introduction as part of the Hawke 1987 child poverty pledge, to the pension rate, which was in turn adjusted for changes in earnings.
The social wage became the social safety net, in parallel with the minimum wage being redefined as the wage safety net. It opened the way for the state to underwrite the cost of reproduction of labour power via income support, and refine the combination of incentives for labour supply and reproductive labour.

The drop in the real value of the minimum wage, and its redefinition as a single-person wage safety net rather than a family wage, required the state to step in to pay for the costs of raising children even in wage-earning households. Between 1995 and 2015 the majority of increase in household income for the erstwhile typical family, came from tax concessions and transfers. These make up over 30% of the income of a single wage-earning couple with two-children household in 2017 (putting the family 4% above the poverty line), when state transfers made up less than 3% of such a household’s income in 1973.  

**Employer costs shifted to the state**

This shift of responsibility for the cost of reproduction of labour from employers to the state has an impact on government budgets.

Employers express a preference for income support over wages to meet household needs. The Ai Group argued “that providing the income safety net via the tax/transfer system [rather than more substantial increases in the minimum wage] is more “cost effective” since adjustments can "be delivered without having a negative impact on the demand for labour” and “can be relatively tightly targeted to low income households” (AFPC 2007 p64).

---

4 Minimum wage to social wage proportions 1972 to 2017 calculated on following basis. Child endowment, or Family Allowance for 2 children in 1972 totaled $1.50 per week (Social Security Guide 2018). The minimum weekly wage in 1973 was $60.10 (Western Australian Industrial Gazette 2008). The minimum wage in 2018 is $719.20 a week. Tax Annual $3,130. HPL for couple, head in workforce and 2 children is $971.05 (Poverty Lines Australia 2018).
Public policy has obliged employers. Family income support rose from 0.9 per cent to 2.6 per cent of GDP between 1980 and 2008 (OECD Data 2019), falling to 1.5% in 2016. The Family Tax Benefit A was received by 1.5 million families for assistance with the cost of raising children, as at December 2016 (Australian Institute of Health and Welfare 2017 p16). In contrast spending on unemployment payments fell from 0.7 per cent to 0.5 per cent of GDP between 1980 and 2008 (Wilson et al 2013 p626).

Even though the National Commission of Audit (NCOA) projected that the Family Tax Benefit Program would “remain relatively static at around $20 billion per year over the forward estimates.” (2014 p237), Treasurers, both Labor and Coalition, have made amendments to contain its unexpected growth (Swan & Macklin 2009). The main avenue for containing expenditure on income support is eligibility, rather than the rate at which it is paid. The primary factors considered in setting levels of income support are the trade-offs between enabling households to raise children, and ensuring labour supply in the form of incentives to work via the replacement rate, and the differentiation between these for the un(der)employed, and for wage-earning households raising children.

### 3.3 The labour supply imperative

The four criteria to measure adequacy of income support identified by the Australian Senate Community Affairs Reference Committee (2014 pxxi) are replacement rates; poverty lines; budget standards; and financial stress indicators. The Committee recommended that an “optimal basis for benchmarking payment levels” be based on determining “the merit and weight to be placed on each of the … measurements.” There has been no publicly established optimal benchmark for payment levels. Government and its agencies are not accountable to meet any measure of need.

I argue that the replacement rate as a measure of the intensity of the incentive to work, to ensure labour supply, is the principle constraint for setting income support levels to meet needs or alleviate poverty.
Scholars identify this principle of income support policy under various terms. The incentive to work is enforced through conditionality “involving the use of a range of sanctions to coerce the unemployed into low wage jobs” (Mendes 2015 p9). This policy is also described as activation, with the objective “to increase the efforts of the unemployed to find work and bring more people into the labour force by requiring them to actively look for work” (Whiteford 2016).

It is consistent with the first outcome set for the Department of Employment to “foster a productive and competitive labour market through employment policies and programs that assist job seekers into work, meet employer needs and increase Australia’s workforce participation” (Department of Employment 2017 p13).

The NCOA in 2014 also considered unemployment benefits in conjunction with the minimum wage, as well as family tax benefits. It specifically identified that “If the level of income support is too close to the minimum wage then recipients have a reduced incentive to obtain work” (NCOA 2014 p315). It simultaneously identified that where the minimum wage is “too high relative to income support then Newstart Allowance recipients with low levels of skill or experience may be priced out of the labour market and may not be able to find employment” (p315).

**Underemployment and part-time work**

As the demand for part-time labour increased (as discussed in the previous chapter’s section on working time) policy makers discovered that the income support system discouraged recipients from earning even small amounts, because the system had not been designed for this type of labour demand. Disincentives to part-time work were reviewed and reduced, so that income support payments tapered as wage income increased, in order to avoid the loss of income support acting as a deterrent to non-standard employment. Sanctions for declining any work offer, no matter how few hours reinforce this.
Complex disincentives to part-time work have been identified in reports, and then addressed in budgets (Cass 2005 p44; McClure 2000; Yeend 2012; NCOA 2014 p315). RBA research has demonstrated interest in work incentives, finding that higher levels of family payments and support can decrease the employment rate of sole parents (Belkar et al 2007 p30).

NewStart Allowance (NSA) is the standout payment for which penalties for earning have not been removed (ACOSS 2012 p8). However the combination of sanctions since 1989 against recipients if they failed to “accept any part-time, casual or temporary work within their capacity” (Ey 2012 p15), and the low replacement rate (ACOSS 2012 p7) make NSA recipients available for low-paid work and non-standard hours. Over 15 hours paid work a week, the same number of hours as mutual obligation requirements for NSA/YA jobseekers (Social Security Guide 2019), is worth more than the NSA.

Replacement rate data from the OECD (OECD.Stat 2018) for 2001-2015 show a decline over that period from 40% to 32% in single unemployment benefits assuming wage income of 67% of Average Weekly Earnings. In 2018 the Henderson Poverty Line (HPL) benchmark for a single unemployed person was 76% of NSA (Poverty lines Australia 2018 p1; Social Security Guide 2019 Section 5.1.8.20) which is itself widely challenged as insufficient to meet needs. Given the wide acceptance (except by government) that NSA is inadequate, and that the poverty line for a single NSA recipient is 76% of the NSA, a case could be made that the HPL has lost touch with real standards of living, and is not an indicator of the border between poverty and well-being.

3.4 Women and households: labour supply and reproductive labour

The income support system creates incentives for women to trade off time for reproductive labour against time in paid labour, by the extent to which it meets the minimum consumption needs of households with children. Raising of children is at heart of much social security system design and re-design (Cass 2005, Whiteford 1995, Donath 1995). Children are the next generation of the labour force. Where the family or
household cannot adequately fund child-raising, then the state has stepped in, usually but not always, within parameters of maintaining incentives for workforce participation by mothers. There is a tension with counter-incentives for reproductive labour, that discriminate by family type. The cost to a household of raising children is the principle basis on which the income support system funds a gap between wage income and needs.

**Women as independent wage workers**

Mothers, including and especially single mothers, are subjected to workforce participation policies, where previously the minimum wage and income support systems had favoured women's reproductive labour. New problems for income support design were produced with formal equality of men and women in both wage and income support systems, yet continuing earnings inequality combined with persisting inequality of time spent in reproductive labour. The solution for income support is to define needs according to household type, a measure that is recognised in wage setting, but which cannot be applied there, as identified in the previous chapter.

The unemployment benefit system is the crux of the gap between meeting needs through wage-earning, and denial of needs for failure to earn. Although women had won an equal minimum wage in 1972, and their workforce participation had been growing, the state still formally treated married women as dependent on a male breadwinner. Policy denied women unemployment benefits until 1995, when “very substantial changes... involved the partial individualisation of the benefit system for unemployed couples” (Whiteford 2000 p24). Once women were recognised as independent wage earners, income support was also redesigned to apply to various combinations of household types, with a focus on its dependent children.

From around 2000 costs of raising children are the only income support set on the basis of readily identified and published research into costed needs for working age people. Research includes a 2003-2005 review of Child Support, using complex data modelling (Henman et al 2007; Parkinson 2005 p2) and policy disentanglement (Smyth 2005 p60).
The cost of dependents and children in poverty was calculated in 2012 (Australia. Senate. Education, Employment and Workplace Relations Reference Committee p36). The NCOA (2014) measured the “costs of children”, relying on studies by the National Centre for Social and Economic Modelling (NATSEM).

The adequacy of payments for raising children is nonetheless traded off against considerations of labour supply. The NCOA identified that “in designing family payments there are trade-offs between the adequacy of assistance; appropriate targeting to those in genuine need; and the desire to maintain incentives for parents to participate in the workforce, particularly secondary earners” (2014 p235). It recommended reforms intended to “ensure that the family payment system achieves its objectives of supporting families to cover the costs of children without creating unnecessary workforce disincentives” (2014 p240).

The legitimation of women as wage earners conflicted with the earlier norm of the stay at home mother that had been reinforced by the family wage. With women’s growing workforce participation came time pressures on households in general, and women in particular, to trade-off waged and reproductive labour (Pocock, Skinner & Williams 2012). The income support system for a brief period actively created incentives for partnered mothers to choose reproductive labour to the exclusion of waged labour.

_Incentive to reproductive labour_

“Family payments were consolidated in the 2000 budget which also introduced the Goods and Services Tax (GST) and Family Tax Benefit (FTB) ...The introduction of FTB represented a significant expansion in family payments in terms of the generosity of the payments, expanded eligibility and increased Commonwealth expenditure” (NCOA 2014 p237).

Prime Minister Howard declared of FTB concessions that “They are tax relief for a universal reality – that it costs money to raise children” (Mendes 2009 p108). Howard
announced in 2004 that “to ensure complete fairness of treatment for families where one parent makes the choice to stay at home full time, we will provide an appropriate increase in the rate of Family Tax Benefit B” (Mendes 2009 p108). Howard could also have said that it takes time to raise children. FTBs were a disincentive for women in a two-parent household to be in paid work, and an incentive to prioritise reproductive labour (Hill 2004). Along with child-care restrictions, FTBs led to a fall in “women’s employment participation rate in [the] western suburbs of Sydney ... from 49.9 per cent to 47.2 per cent” between 1996 and 2000 (Summers 2003).

Howard’s family payments design was an interruption to both social trends, meeting employer demand for women’s labour and the direction of policy, which were all for increasing women’s labour force participation. The incentives for mothers to prioritise reproductive labour have been wound back. Treasurer Costello softened the penalties for partnered mothers of young children returning to part-time work in the 2004 budget (Hill 2004). ‘Affluence-testing’ was applied to FTB eligibility by Labor, after its 2007 return to government, trimming Howard-era generosity to middle income households (Wilson S et al 2013 p633) and reducing disincentives to women working, but continuing to supplement the wage earnings of low-income households. The NCOA in 2014 proposed the removal of FTB-B because it “is particularly detrimental in terms of workforce participation incentives and this particularly impacts women as they are more likely to take time out of the workforce to care for children” (p241).

**Labour supply overrides reproductive labour**

Income support for incentives to prioritise or enable reproductive labour in single parent households has been diminishing. Parenting Payments originally applied for parents of children up to sixteen years old. Sole parents are under earlier pressure to increase their hours of paid work since the Howard government in 2006 (Ey 2012 p226), and Gillard government in 2013 (Yeend 2012) transferred them from Parenting Payment to NSA when the youngest child is eight year old. The NCOA recommended a further cut in eligibility to age of six (2014 p241).
Coalition governments committed in 2014 to expanding child care places, a non-income but rather a reproductive labour time element of social security policy for women’s labour force participation (Productivity Commission 2014).

The post-Howard changes to family payments restored the direction of policy and social trends, to continue the shift towards mothers’ combining reproductive labour and wage labour, and reducing barriers to employer access to the labour of both women and men, though provisions remain that reinforce the gendered basis of reproductive labour.

### 3.5 Setting the level of income support

**Defining adequacy**

The social safety net for working age people that is delivered via the tax and transfer system, both supplements wage income, and is a sole source of income for the unemployed. It allows the income support system to target households by composition and therefore calculated need in relation to actual or potential workforce participation.

The household category to which an individual belongs is the starting point for calculating income support. Government agencies use extensive reports based on data, that categorise households according to income, composition and labour force status, and model adjustments in wages, taxes and transfers. They include the Household Income and Labour Dynamics survey (HILDA) produced by the Melbourne Institute, which also maintains the Henderson Poverty Lines. HILDA draws on ABS data from the Household Expenditure Survey (HES). Findings from the National Centre for Social and Economic Modelling (NATSEM) were used by the NCOA (2014 pp239 - 240). The Commission setting minimum wages refers to “equivalised household disposable income - ABS Household Expenditure, Income and Housing” (FWC 2018 p73).
Some payments and taxes are attached to a cost of living index, the longest running of which is the Consumer Price Index (CPI) applied to NSA and family payments. In some cases the inadequacy of the CPI is recognised, and specialised indexes are used, such as the Pensioner and Beneficiary Living Cost Index (PBLCI).

Aged pensioners face “limited or no expectation of work” (Australia’s Future Tax System & Henry 2009 pxx). The exceptional basis on which the pension is adjusted indicates that there is scope for governments to choose methods of greater benefit to households when awarding increases. It has been boosted in addition to cost of living increases, in 1997 and 2009. (NCOA 2014 p164). It is indexed to both wage movements, and the cost of living, whichever is the higher at the point of half-yearly indexation. “As such, pensioners share in productivity improvements and rising living standards as their income moves in line with that of people still in the workforce, rather than simply being maintained in real terms over time.” (NCOA 2014 p160). Nonetheless for those without superannuation, the pension itself is no more than a safety net.

This contrasts with NSA, which was last boosted in 1994 and is adjusted by reference to the CPI. “Since 1994, the single rate of NSA has fallen from 92% to 72% of the poverty line and from 26% to 21% of the fulltime median wage” (ACOSS 2012 p6). The Rudd government’s 2008 stimulus package made lump sum payments to most categories of people receiving income support yet specifically excluded the poorest – the unemployed (ACOSS 2008).

The differences between the reasons for these calculations of need applied to Newstart Allowance, FTB and pensions are explained by the workforce participation imperative. There are two underlying and consistent calculative directions to the setting of income support payments, cheap labour supply, plus ensuring households can meet the cost of raising children, as the next generation of labour supply. NSA was last evaluated for adequacy on government initiative in the 1994 and is being allowed to fall below a level that even the Business Council of Australia considers sufficient to support job-searching activities of single people without children. There is a general absence of active
calculation of the needs of NSA recipients. Family payments are being curtailed more cautiously. The need to maintain incentives to work for households with children is tempered by government commissioned research into the costs of raising children. More stringent means testing to target FTB to low-income households, is the direction of current reform.

A subsidiary calculation is the taper, or rate at which income support payments reduce against earned income. Despite cost to the federal budget, these taper rates have all been made more gradual. As an incentive for labour supply, this has reinforced the increase in non-standard hours and forms of employment.

A third calculation is government expenditure. The Howard Government’s Family Tax Benefit scheme undermined the consistently stated objective of containing budget expenditure. This objective is also evident in terms of reference for reviews and in the design and enforcement of eligibility for payments. Transferring people from more generous pension entitlements, to lower level job seeker allowances (eg by raising the pensionable age, lowering the age of dependent children for supporting parents, redefining disability and the related special minimum wage rates for workers with a disability) offer both budgetary savings and addition to the ranks of active job-seekers.

The Henry tax review of 2012 proposed changes to achieve “better co-ordination” between the elements of the tax and transfer system, including establishment of “adequacy benchmarks” and for “adequacy of payments” to be “maintained by common indexation arrangements” even though “full integration of the tax and transfer systems is not practicable given their different objectives” (Australia’s Future Tax System [inquiry] & Henry, 2009 pxx). These recommendations would make benchmarks for adequacy and indexation a subject for public debate, and have not been taken up by government.

*Convergence of policy*
The unprecedented frequency of government inquiries and reviews into social security since the 1970s is evidence of novel challenges arising from social and economic change. The state has refined its responses, not only to markets, especially the labour market, but to the transformation of the gendered division of labour and the reproduction of labour power. Regan (2014 pp1-2) notes recurrent themes throughout reviews of social welfare, such as employment and the labour market, conditionality, targeting of payments, adequacy of benefits and incentives/disincentives to work, and the relationship between the tax and transfer systems.

Since 2000 especially there has been convergence, but not complete integration, in the way that state entities consider the needs of low paid workers and welfare recipients in relation to incentives/disincentives to work. Both wage safety net decisions and tax and transfer rate settings are made with reference to labour force participation, household categories and poverty measures, such as median earnings, poverty lines, and financial stress.

The Howard Government’s extension of the Family Tax Benefit system was anomalous, going against the trend of growth in women’s participation in the labour force, by providing income support on the basis that mothers are out of the workforce. Later governments, both Labor and Liberal, have sought to restore the incentive to work, and to curtail expenditure, both policy trends that Howard’s system had subverted.

Ultimately the level of income support is set by Treasury in the Budget, after consultation with variously ministries concerned with social and family services, employment and workplace relations. Policy goals to reduce government debt and cut taxes motivate governments to reduce the budget allocation for income support, by limiting both eligibility for and indexation of payments.

The provision of a social safety net under the umbrella of the tax and transfer system allows for cross-referencing between state agencies in harmonising income support policies with other labour market policies, particularly increasing incentives or
decreasing disincentives to work. This is apparent in both taxation policy (Australia’s Future Tax System & Henry 2009 pp506-507) and minimum wage setting decisions of the Commission, which considers “the complementary roles of wages and the tax/transfer system” (AFPC 2007 p64). This creates greater policy coherence and the appearance of the state as a unified agency, rather than as a site of contest between competing perspectives on income support to meet needs.

3.6 Contesting regulated inadequacy

Several income support policies have been controversial, including income management and payments to cashless debit cards (Department of Social Services 2017 p4), and the greater number of hours of mutual obligation activity in the remote work for the dole scheme (Social Security Guide, 2019), both of which apply disproportionately to indigenous Australians.

It is the level of NSA that is most contested, a contest that has been spearheaded by ACOSS since at least 2012 (ACOSS 2012). ACOSS proposed that NSA be restored to its former value relative to minimum wages. “Compared to wages, the single rate of NSA is the lowest unemployment payment in the OECD, at just 40% of a low fulltime wage after tax (two thirds of the average wage), including Rent Assistance” (ACOSS 2012 p7). ACOSS argued that “There is scope to increase the single rate of NSA substantially without undermining work incentives” (p7) citing the government’s own inquiry into the tax system which acknowledged that the level of “Allowance payments were inadequate” and “counterproductive in encouraging people on income support payments to seek employment” and recommended “that allowance payments should be indexed to a measure of wages as well as the CPI” (ACOSS 2012 p6).

Nevertheless, the minimum wage itself is contained in order to keep down labour costs, on the grounds that this increases employment. This places a ceiling on the recognition of need of people receiving income support. “The minimum wage also impacts poverty indirectly through its relationship with the social security system” (ACOSS 2018 p5).
Advocates for recipients of income support accept the need for a gap between income support payments and the minimum wage “in order to ensure there is an adequate reward for paid work”(ACOSS 2018a p5). It is the extent of the necessary gap that is disputed. However the Australian Unemployed Workers’ Union (AUWU 2018) challenges the need for the gap between NSA and wages, citing ABS statistics indicating low demand for labour with Australia having “record high ratios of job seekers to job vacancies” of around 16:1.

The economic argument for substantial increases in both wage and state funded incomes is that increases in incomes for the low-paid in particular will generate economic activity. ACOSS commissioned economic modeling of a $75 per week increase in unemployment benefits and other allowances, showing a “prosperity effect” of “an additional 12,000 people being in work in 2020-21” and increased tax collections (Deloitte Access Economics 2018 p2)

Despite widespread agreement, even from employers, that NSA is punitively low, governments have not lifted unemployment benefits in real terms for over two decades. Mendes (2015 p435) attributes the lack of success to the combination of a policy of budgetary constraint, and the influence of “international trends in favour of conditional welfare systems which construct income security payments as a mere gateway to workforce participation and self-reliance.”

I would argue that there are two additional factors at play to those identified by Mendes (2015), which explain the failure of the ACOSS campaign to raise NSA. Firstly there is question of legitimating the denial of needs, which was hard won through the reshaping of the minimum wage, and has ensured cheap labour supply. This is a critical discursive selection made by the state. Denial of the needs of single unemployed people legitimises the work imperative, and reinforces cheap labour supply, through the low replacement rate. Secondly there is the construction of economic policy around conditions for profitability, which incorporate a low replacement rate of unemployment benefits as an
element of the natural rate of unemployment. Policy has achieved relatively stable conditions for profitability from employment in Australia, in part from the management of supply and demand in the labour market. These labour market factors, as conditions for profitability, lead the minimum income setting agencies to discount the needs of people who depend on these sources of income.

Any government or political party that undertakes to substantially increase and apply transparent benchmarks of needs to minimum incomes is likely to be countered by advice from its own agencies, such as Treasury and the RBA. A lifting in NSA could point to a lifting in the minimum wage to maintain the replacement rate as an incentive to labour supply. This could cause inflation, job losses and retard growth and trade. To the extent that these are possible consequences of setting minimum incomes on the basis of need, a government intent on such a reform, would also need to conceive of alternatives to profitability for coordinating economic activity.

The adequacy of income support to wage-earning households with children, and of levels of payments for the cost of raising children, are less contested than NSA. Given the proportion of household income that these represent for minimum wage earning households, and the impossibility of a standardised family wage, the ACTU’s living wage claim is incomplete without supporting claims for income support for the costs of raising children.

Women particularly face the tension between time for reproductive or caring labour and for paid labour. Adequacy for them lies in both time and money, including time for their waged partners to increase their contribution to caring work. Income support is designed mainly for the costs of raising children. To the extent that income support accounts for the time households need to raise children, it is limited to inadequately paid parental leave of 18 weeks, and partner leave of 2 weeks (*Paid Parental Leave Guide*, 2019). The value of a shorter standard working week was identified in Chapter two. The adequacy of paid parental leave length of time and rates of pay could also be contested.
3.7 Conclusions

The trade-off between jobs and wages discussed in the previous chapter in relation to wage setting and the replacement rate, plays out in reverse in income support policies. Wages must be low so that employers will employ. Income support must be low so that recipients will seek additional hours of work.

These labour market imperatives are not new, but the state must consider and coordinate changed tensions between the purposes of income support. To adequately fund a significant proportion of the cost of raising children, and to enable one parent per couple household to choose fewer hours of work in order to care for young children, can undermine incentives for all adults in a household to increase their hours of work. Employer preferences for income support are irreconcilable. They advocate that income support be sufficient to meet household needs above the single person minimum wage, and at the same time income support should remain low enough to be an incentive to those households to seek additional employment.

The standard of living supported by the minimum wage is not verified against any identifiable benchmarks, and is already near the Henderson Poverty Line. The living standards of recipients of income support are doubly penalised by the replacement rate concept, because their living standard must be discounted further than minimum wage earners’ living standards.

While public concern for income levels in relation to poverty is no longer expressed in income support policy, finance developed an interest in poverty level income definitions, for the purpose of assessing credit-worthiness. The HPL established in the 1970s is used not by the state as a target to lift households above, but rather by financial institutions and the financial system regulators to assess whether households income is sufficient for subsistence plus loan repayments. The impact of this on households is captured in newer measures of household need that are referred to in wage-setting and income support,
measures of financial stress. This interest of finance in minimum incomes, and its implications for asserting household needs, is the subject of the next chapter.
Chapter four. Finance and income surplus

4.1 Introduction

By turning to the relationship between finance and minimum living standards, I seek to investigate the connection between surplus value in production and finance, raised by Bryan. "A surplus can be appropriated from labour not just via the wage relationship, but via financial relationships also" (Bryan 2008 p.218).

This connection underlies the state’s consideration of minimum living standards across the three domains of wages, income support and finance. That the state would find links between markets in money and in labour makes sense from the theoretical perspective of de Brunhoff (1978), who identifies them as peculiar commodities. Bryan and Rafferty (2018 9-11) have identified finance’s innovations in relation to value stores and flows, risks and liquidity. These pose new challenges for the state’s approach to the financial system and its relationship to households, as well as to labour’s approach to contesting its value relationship to capital.

My focus is finance’s interest in lending to the household sector, particularly home loans, on the basis of calculations of minimum living standards and ability to pay. This chapter shows that living standards have become a more significant and calculated element in household–finance relationships and capital accumulation. The implications for broader contests over living standards and value cannot be understood if finance is theorised only as the domain of capital-capital transactions, from which labour and production is separate.

The calculation of household incomes has become a central concern of lending institutions and of the state via its financial regulators, as the relative weight of household lending has grown on the books of finance, competition between financial institutions has grown, and household mortgage payments have become a larger and
more integrated component of financial flows. Lower and middle-income households, including those with volatile levels of income to service a mortgage, have become more important to both profitability and stability.

Rates of home ownership peaked in 1966, when 71.4% of dwellings were owner-occupied, up from 53.4% immediately after the war, and fell to 67.1% in 2016 (Hall 2017). The rise in home ownership up to the 1970s was possible because of the extent to which the wage incomes of households were more than sufficient to meet the cost of living, and savings could be invested in purchasing homes. The fall in other living costs, such as food, also increased scope for spending on housing (Tetlow 2018). Home ownership and savings have deteriorated despite the promises that financial deregulation and other reforms of the 1980s and 1990s would open up opportunities to households that had previously been excluded. Rather finance invented ways to use home lending to capture household incomes above a minimum standard of living.

Financial competition and innovation intensified globally from the 1970s, and Australian governments in a series of steps removed regulations to allow for the expansion of financial markets and increased competition. Competition has made it imperative for each financial institution to try to increase its market share. The household sector grew dramatically as a proportion of lending, primarily mortgage lending, since the 1980s.

Lenders trade-off the risk and cost of default, against projected earnings, using calculations of household minimum spending requirements, in order to maximise the chance of issuing loans, and income from repayments. Regulators calculate the trade-off between the ability of households to make repayments, against the parameters of fostering competition and profitability, so as to contain the risk to the financial system of any sharp escalation in defaults. Households trade off their non-housing consumption needs against the ongoing cost of their most expensive necessity, at the highest standard they expect that they are able to afford.
For private capital the goal is to maximise profits, the capture of value from households, whilst hedging their own risks. For the state the goal is that stable financial flows and institutions are maintained. This partnership between capital and the state negotiates the calculation of minimum incomes for various types of households within this framework. It gives finance access to household incomes that are above, around or even below minimum consumption or poverty levels, such as the HPI. Increases in the cost of housing in this context are closely related to household income and the corresponding increase in availability of credit.

The chapter begins with a historical overview of why, how and when household living standards become a primary concern of financial institutions. It then examines the way in which the actors, finance, the state and households, approach the calculation of minimum household incomes and living standards.

The implications of the findings of this chapter are that increasing minimum wages and income support will not necessarily raise living standards, whilst financial institutions lend the maximum that they calculate households are able to repay after meeting minimum consumption needs. Reforms to or demands placed on the state and/or employers, without attention also to the role of finance in capturing household incomes, cannot resolve problems of working class living standards. Where labour had been able to earn wage incomes above the minimum necessary for the reproduction of labour power, finance has found ways to recapture the value embodied in those wages. As in the setting of the minimum wage, this development has been produced by a partnership between the state and capital, with the demands of capital initiating the process, and the state working for orderly management of the process of capital increasing its capture of value.

**4.2 The financial importance of households**

Up to the 1980s lower-income households seeking a mortgage were limited by regulation to borrow no more than 90% of the value of the property (Loan To Value ratio
- LTVR), with repayments of no more than 30% of household disposable income (Debt Service Ratio - DSR). Household income was assessed on the basis of pay slips, which varied little from fortnight to fortnight. By the turn of the millennium banks and other lenders no longer relied on these ratios but on income surplus models. An income surplus model calculates a minimum household cost of living, and designs a loan on the basis that all household income above that cost of living can be committed to loan repayments. The origin of the income surplus model lies in the development of the finance sector over a similar period for which minimum wages and income support were transformed, as discussed in the previous two chapters.

Up to the 1970s banking and finance in Australia was protected from overseas competition, and institutions operated within clearly defined, distinctive roles. “Institutions were specialised: trading banks lent to businesses; savings banks lent to households, almost entirely for housing; and finance companies lent for more risky property loans and consumer credit” (Debelle 2010).

“The system was not open to foreign bank entry or to offshore transactions. Banking business was essentially a low-risk proposition conducted at regulated prices.” Securities markets were undeveloped (Edey & Gray 1996 p7).

The globalisation of capital and finance in the 1970s was a significant trigger for financial deregulation in Australia. The Deputy Governor of the Reserve Bank in 2007 accounted for the beginning of financial deregulation in the 1970s, in the pressure that increased international capital flows placed on the Australian dollar exchange rate, making domestic financial conditions and liquidity difficult to manage. “One of the first major steps in the deregulation process was the removal in 1973 of controls over the interest rates that trading banks could pay on some wholesale deposits” (Battellino 2007 p79).

This led to it being harder for the Reserve Bank to control liquidity, which in turn responded by issuing securities at tender, so that the market set the interest rate, not the
Reserve Bank. The fixed exchange rate on the Australian dollar inhibited the government securities market, and in 1983 the Australian dollar was floated (Battellino 2007 p79).

The impetus for the 1980s deregulation came from the banks themselves, responding to competition from newer unregulated financial intermediaries. Bank share of financial markets had fallen from 70% in the early 1950s, to 40% by the early 1980s (Battellino 2007 p78).

Continuing deregulation in the 1980s included: admitting foreign banks from 1985, removal of the ceiling of 13.5% on housing loan interest rates in 1986; removal of the distinction between savings and trading banks in 1989, all of which “allowed the existing big players to expand the scope of their activities, as well as for an increase in competition from smaller players” (Debelle 2010).

The financial sector nearly doubled in size, relative to GDP in just over a decade from the 1980s, through a process in which a credit boom following financial deregulation gave “capacity to satisfy long-standing, repressed demands for finance... Availability of finance contributed to an asset price boom which further fed back into credit growth” (Edey & Gray 1996 p10). Although the banks had sought deregulation so that they could expand their operations, that deregulation also increased competition. Specialist institutions did not incur the costs of cross-subsidising other services that banks had to provide. Securitisation markets, mortgage brokering and electronic banking all accelerated (Battellino 2007 p80). Towards the end of that period of finance sector growth, the reversal in share of business vs housing lending accelerated. Between 1988 and 2010 business lending fell from 62% to 35% of lending, whilst housing lending grew to 58% (Debelle 2010).

According to Assistant Governor of the Reserve Bank, the principal reason for the banking system shifting its focus from business lending towards housing lay in the 1990s recession, when banks suffered their “largest losses in forty years” (Gizycki 2001 p20).
The losses on housing loans were “relatively mild”, in comparison to large losses on business loans, “notwithstanding the fact that the unemployment rate rose to about 11 per cent and mortgage rates reached as high as 17 per cent” (Debelle 2010). In other words banks realised that households were lower risk borrowers than business, they had a capacity to stay on payment for housing, even when their incomes were squeezed. Or as noted by Bryan, Rafferty and Tinel (2016 p 53) “Households want to keep paying these bills just as long as they can, for they are the means of accessing subsistence items. If they default on payments, households lose their means of subsistence.”

This appreciation by finance of lower risk in household lending was already taking shape. The RBA issued guidelines in 1988 (when it was still the banking sector regulator) that implemented the Basel Capital Accord for a risk-based measurement of banks’ capital adequacy in which “housing loans were given a risk weight of 50 per cent, whereas business and personal loans had a risk weight of 100 per cent” (Debelle 2010).

The shift of focus by the banks to a preference for housing lending led to “considerable product innovation in the Australian mortgage market [from about 1995 to 2005] Lenders sought to cater for a wider range of potential borrowers and found new ways to assess their borrowing capacity” (Debelle 2010). A significant accompanying innovation was the growth of asset-backed securities. “The securitisation market, whose growth since the 1990s had been a major contributor to increasing competition in housing loan markets, was one of the hardest hit by the GFC” (Davis 2011 p318).

Securitisation as a financial process of risk management and risk-shifting has extended and deepened the integration of household incomes beyond significant market share for lenders, to an underpinning of the financial system. The level of risk posed by the possibility of a critical mass of household defaults gave rise to the concern of state policy for the financial stability of households. “Household payment streams emerg[ed] increasingly [as] an anchor for the monetary system” (Bryan, Rafferty & Tinel 2016 p48).
Regulators in Australia have taken concerted action to reduce the risks posed by securitisation and household default. Asset-backed securities grew from the 1980s, and plummeted in 2007-2008 from nearly $30billion to under $5billion (RBA 2017 p38). APRA formulated new standards for securitisation over five years from 2011-2016 (Brennan 2016). In 2008 Treasury ordered the Australian Office of Financial Management to purchase RMBS (Residential Mortgage Backed Securities) to remove a potential for disruption to the system, and then to divest in 2015 (Hockey 2015). The value of asset-backed securities has regrown slowly, but by 2017 was only just above $10 billion.

Securitisation as a form of product innovation by finance, and the response of Australian regulators to systemic risks posed by securitisation, epitomise a relationship between capital and the state, in which capital takes the initiative as profit-seeker, and the state follows to manage the contradictions unleashed by capital, if necessary with market actions that may short-term constrain profits, as well as regulation to preserve system stability.

The RBA's emphasis on financial stability was “possibly the most significant development” of the decade from 2000, brought to greater prominence by the GFC. “Re-adjusting financial regulation to promote financial stability, including by affecting the structure and inter-linkages within the financial sector, without impeding socially valuable financial innovation and efficiency, was the main challenge” (Davis 2011 p345). The RBA published its first annual Financial Stability Review in 2004.

The “process of financial system evolution [from oligopolistic in the 1950s and 1960s to a more open and competitive], while driven largely by market forces, has been assisted by prevailing regulatory and supervisory arrangements.” (Edey & Gray 1996 p6)

The state has played a necessary role, in money and financial market policy, that has enabled and responded to change. “The consequences of reforms are not always entirely predictable... the removal of one set of controls often put pressure on other controls. This
meant that the reform process, once it had begun, developed its own momentum” (Battellino 2007 p80).

The contradictions and trade-offs considered by finance, the state and households are the dynamics of this momentum. At the core is profitability. Household living standards are assessed via a Net Income recognised for Serviceability (NIS) model. This allows for the lowest viable estimates of household consumption costs to maximise the value captured from households, on which rests the profitability of mortgage lending and securitisation.

4.3 Household ability to pay

From the 1990s finance developed income surplus policy based on ability to pay theory which says that “households will attempt to keep paying their mortgages despite equity considerations and only default when their incomes no longer cover the repayments and subsistence consumption expenses” (Bryan & Rafferty 2018 p148). The NIS models are the method for implementing income surplus policy.

These “new ways to assess borrowing capacity” (Debelle 2010) allowed finance to issue larger mortgages to households than they would have been able to, under the long-standing 30 per cent rule of thumb that banks had previously applied to mortgage repayments as a proportion of disposable income.

Lenders develop their own methods for assessing the living costs of mortgage applicants. Prior to the 1990s the common method used by banks to assess whether a household could afford mortgage repayments was the DSR, which compares debt and other fixed payments to the borrower’s gross income, and which by definition assumes that living expenses increase with the borrower’s income (Laker 2007 p4).

The Chairman of APRA explained that NIS “models require the borrower to have a minimum surplus of net after-tax income after taking into account debt servicing, other
fixed payments and a basic level of living expenses. In contrast to the debt servicing ratio method, these expenses do not vary with the borrower’s income” (Laker 2007 p3). In other words NIS models assume an across the board minimum standard of living. The advantage of NIS models to lenders is that they can assess more households as able to repay larger mortgages.

APRA found that in 1998 only around half of banks used a NIS model, and by 2006 ninety per cent did so “some in conjunction still with the debt servicing ratio” (Laker 2007 pp3-4). From 2017 the APRA Prudential practice guide included only a NIS model, and the DSR method reference was removed.

When in 1999 a major bank, the ANZ, first used default cost-of-living expenses based on data from the ABS to calculate servicing margin for mortgages it was said to have “resulted in practice in a tightening of credit standards” (Eslake 2007 p80). The subsequent easing of credit standards could be the result of banks having lowered their default cost-of-living estimates.

By 2006 lenders were applying an NIS model with a benchmark or measure of a minimum living expenses that was generally “either the Henderson Poverty Index (HPI) or (the higher) Household Expenditure Survey (HES) data from the Australian Bureau of Statistics” (Laker 2007). After 2010 lenders began to use a new index as a NIS model, the HEM. “Senior Credit Risk Managers (through the Risk Managers Roundtable)” asked the Melbourne Institute of Applied Economics and Social research to develop the new measure as an alternative to the Henderson Poverty Line “as the HPL was increasingly being viewed as out-dated and unsuited for the purpose of assessing household expenditure levels” (RFi Analytics 2018a).

The Melbourne Institute bases the Household Expenditure Measure (HEM) on data from the ABS produced HES (conducted every 6 years), and augments it with the quarterly CPI combined with assumptions about rates of increase in living costs. In contrast to income
support (previous chapter), the HEM differentiates by geographical location, state or territory, and inside or outside a capital city (*Household Expenditure Measure* 2014).

“The principal objective of [HES] is to facilitate the analysis and monitoring of the social and economic welfare of Australian residents in private dwellings” Lenders of finance being significant users of the HES, can be counted among its other identified main users “government and other social and economic analysts involved in the development, implementation and evaluation of social and economic policies.” It “collects detailed information about household expenditure and financial stress” (ABS 2017). And like income support policies (previous chapter) it measures for household types, single or couple, and numbers of children from none to three or more.

The HEM classifies the 600 expenditure categories of the HES as “absolute basics” (spend cannot be avoided or varied), “discretionary basics” (spend cannot be avoided but can be reduced in times of need) and “Luxury” (spend can be avoided). By making the split between absolute and discretionary basics the HEM ensures it is not overly generous by design” (RFi Analytics 2018a). The HEM differentiates between households on the basis of income with 13 bands from $20,000 or less up to $100,000 or more per annum (*Household Expenditure Measure* 2014).

The RBA (2012 p40) anticipated the impact of banks moving from using the HPI to the HEM for debt-serviceability calculations. “The new measure was designed to be a more accurate estimate of households’ living expenses. The impact of the change will vary for different borrowers.” The RBA expected only minor changes to the availability of credit overall.

The HEM level itself is subject to confidentiality. Subscribers (at a minimum cost of $1850 per annum) must agree “For internal use only, and not to release the underlying data and reports outside their organisations / serviceability calculation engines” (RFiAnalytics 2018b).
The data appears to have been published more widely once only in 2012, attributed by Dargan (2012) to the Commonwealth Bank’s (CBA) HEM, until an exhibit at the Financial Services Royal Commission (FSRC) from NAB (2017). The 2012 data compares the HEM to the HPI. A single adult with no children is assessed by the bank using the HEM as being able to survive at 88.5% of the HPI measure of the poverty line, and a single adult with three dependents as able to survive on less than 73% of the HPI. A couple with two or three children is assessed at around 99% of the HPI. A HEM assessment above the HPI is made for a couple with no dependents or only 1 child.

The Commonwealth Bank (FSRC 2018a p36) labels the standard of living afforded at the HEM benchmark as “modest, but above the level of ‘substantial hardship’ as it includes some discretionary expenditure, which consumers would generally be able to give up if required.” A Bank of America Merrill Lynch (BAML) report in 2011 pointed to banks “playing down the cost of living ... below the Henderson Poverty index...By the banks using low default living costs, they are able to artificially inflate the level of debt they can provide to borrowers” (Liondis 2011).

Another source quoted the BAML report as saying that “the average bank cost-of-living assumption is seven per cent lower than the [Henderson] poverty index, 14 per cent lower than our [Merrill Lynch] barebones budget, and even more for our adjusted [living costs, based on] ABS survey [data]” (Houses and Holes 2011).

The motivation to issue credit was apparent again when APRA conducted an exercise with lenders in 2014-2015 on their application of NIS calculations. At the start at least 5 of the 17 lenders discounted customers’ declared living expenses. Nine months later in a subsequent test APRA concluded that “all ADIs now reflect the customer’s declared living expenses where these are higher than the [HEM] benchmark”(Richards 2017 p8).

As ASIC noted “HEM is a conservative measure of expenditure, rather than a typical or average figure, which means that many consumers will have higher expenses than HEM. We identified significant numbers of loans across several lenders where the consumer
expenses were stated to be equal to the HEM benchmark. While lenders and brokers may be able to use benchmarks such as HEM as part of their process for verifying consumers’ expenses, they are still required to make inquiries into the consumer’s actual expenses.

The HEM as a minimum was not always applied. The FSRC heard evidence that the HEM was used by banks when the consumer’s declared expenses were even lower than the HEM, i.e. the banks had made inquiries into consumer incomes. The HEM was being used not as a floor, but a ceiling for living expenses, above which repayment could be supported, in order to calculate the size and terms of loan approvals. For example it was described by Ernst & Young (EY 2017 p6) “as an area of concern” that NABs serviceability calculator defaults to the higher of HEM and the customer’s GLEE (general living and entertainment expenses), which represents customer advised level of living expenses.” NAB admitted to the FSRC that it waived policy standards on about 15% of its loans” (FSRC 2018b p212) including in cases of a “debt servicing deficit”, i.e. “that there is an inability on the part of the customer to repay the loan based on the assessment of their financial situation” (FSRC 2018b p208).

The pressure on households created by low estimations of consumption needs embodied in the HEM is intensified by the use of mortgage brokers. Brokers “are responsible for arranging around half of all home loans in Australia… in 2012 brokers arranged 47.7% of home loans for the lenders in our review. In 2015, this increased to 54.3%” (ASIC 2017 p8). ASIC found in 2017 that the standard model of broker remuneration, “of upfront and trail commissions creates conflicts of interest… a broker could recommend a loan that is larger than the consumer needs or can afford [emphasis added] to maximise their commission payment.” The FSRC (2019 p45) made recommendations recognising this conflict of interest.

In late 2018, after the FSRC had gathered evidence on home lending practices, and lending standards had tightened, the RBA’s view was of a lower risk NIS that “allows for household expenditure to increase with income, and has the advantages of granularity and ability to take into account differing household characteristics” (RBA 2018b p33).
The RBA’s 2018 picture is of a lower risk NIS model that can better discriminate between types households. APRA’s 2007 understanding was of a higher risk model that sets needs regardless of income.

4.4 Regulators and the state – sharing risk management

While lenders develop their own methods and criteria for approving loans, the state monitors the wider system consequences and risks. ASIC sets standards for responsible lending and supervises implementation by lenders, including loan serviceability assessments and household default risk monitoring. APRA oversees the solvency of lending institutions and their prudential practices, including loan serviceability. The RBA takes an overview from the perspective of the financial system and macroeconomic risk.

RBA Deputy Governor (Battellino 2007 p81) observed that risk had become a more important dimension for both regulators and banks since deregulation. “Once regulations are removed, competition can result in a surge in risk-taking... Supervisors need to be prepared for this and need to monitor developments in the banking system closely.” This monitoring and supervision of risk-taking is government’s preferred approach to state intervention rather than “prescriptive regulation” which it sees “may come at the cost of hampering business investment opportunities in Australia and abroad” according to a 2004 report of the Financial Sector Advisory Council (Grant 2005 pp74-75).

There is continuing tension between the preference of lenders to issue loans, and manage their own risk, versus regulators seeking to contain prudential and systemic risk without disrupting competition or availability of credit. State regulation and supervision of lending standards form the parameters within which lending institutions are supposed to operate.

The risks in the application of NIS and the lowering of living standard estimates are open to self-regulation by financial risk management, and subject to state monitoring for
systemic risk, and to regulation via prudential standards, penalties and reputational damage.

**Self-regulation of financial risk**

The assessment made in 2017 (Westpac Banking Corporation) identifies the risks arising from looser lending standards.

“To date most industry thinking about the consequences of responsible lending failures has been centred on the potential for fines, reputation damage and the costs of any remediation necessitated by a breach. It is now clear that thinking needs to broaden... there is a risk that responsible lending issues could impact enforceability of our security and accelerate losses in a downturn.”

Banks and other lenders have developed internal risk management systems, to deal with potential for losses and defaults. In relation to home lending this includes active collection of intelligence and advice from consultants and industry experts, who monitor household consumption needs in measures of consumer sentiment, such as confidence, financial anxiety and stress. These measures of consumers’ reported needs, and challenges in meeting their needs, help investors, including finance, to predict household demand and capacity to pay.

For example Digital Finance Analytics (North 2018b) states that it has “52,000 households in our sample at any one time” and asks “detailed questions covering various aspects of a household’s financial footprint” relating to job security, changes in real income, changes in costs of living, their loans and debts and savings, and net worth. The NAB Consumer Anxiety Index (NAB 2018) captures changes in categories of both household spending and causes for concern in financial position, such as utilities, savings, wages, job security, health, ability to fund retirement, cost of living, government policy. From 2010 Dun & Bradstreet (2014) derived a consumer financial stress index as a predictive assessment of economic conditions, business expectations and payment
behaviour, and credit and spending activity in Australia. Moody’s sells credit ratings and publication such as the *RMBS Australia: Mortgage Delinquency Map* to wholesale clients.

Thanks to exhibits at the Financial Services Royal Commission (FSRC) in 2018, the internal practices of banks in this area have become easier to discover. A document from ANZ (2017 p31) shows multiple categories of risk, including the LTVR, had been discarded in assessing an applicant’s eligibility for a loan, but continue to used as a risk management tool (ANZ 2017 p131). ANZ could avert its risks with these tools, shifting them onto households instead.

Awareness of these risks is integrated into financial processes, mortgage insurance, securities and interest rates.

**Self-regulation vs state regulators**

The tensions between profitability, household living standards and financial stability are concretised in regulation of home lending practices. Lending standards are the rubric under which regulators monitor the risks and terms of the relationship between borrowers and lenders, and a source of ongoing adjustment.
Finance’s view of lending standards

The prospect of tighter lending standards is not welcomed by finance, particularly by brokers who have low exposure to default risk or institutional insolvency. They expect tighter standards to reduce the volume of lending and therefore weaken profits. “The next downturn will, ironically, be triggered by regulation. Recent developments show that this could soon play out…. ANZ chief Shayne Elliott and RBA governor Philip Lowe both admit that lending is becoming more difficult” (North 2018c).

Anecdotal evidence from brokers gives more visceral expression to the relationship between lenders and the regulations on living expenses.

“I’ve spoken to a number of mortgage brokers, head groups and lenders about this issue. On the record, they see more data around living expenses as a positive development. Off the record, they can’t stand the idea and anticipate a significant drop in volume. One broker put it to me plain and simple: When a person gets a mortgage, they change their living expenses accordingly: They stop spending on rent, reduce their entertainment budget and work harder for that job promotion. In other words, they adapt to their new financial position” (Mitchell 2018).

This attitude by brokers and banks to wanting to issue loans without regulatory interference is framed more positively in this example of business intelligence from Equifax UK. It found that 62% of rejected applicants for “a financial product” are “unlikely to use that company again in the future.” So “fully understanding each consumer’s transactional and credit behaviour … may [de]crease the chances of a rejected application – an outcome that may be detrimental to both the consumer and the lender, both of whom come away from the interaction empty handed” (Innovation in the mortgage industry, 2017).

Some reactions by finance industry insiders to tighter lending standards indicate potential for macroeconomic impact.
In response to exposure of the inadequacy of the HEM to account for household expenses, and evidence of banks circumvention of even that minimum, the banks that use the HEM set up an industry panel to work with the and APRA to look at raising the minimum level of household living expenses, as benchmarked by the HEM (FSRC 2018b p207).

A rise in the minimum level of household expenses for assessing lending would not be without other costs to the system. “UBS ... analysis of the mortgage market” and the FSRC, suggests that “households ‘borrowing power’ could drop by -35% [sic], mainly thanks to changes to analysis of expenses, as the HEM benchmark... is revised” (North 2018a).

An editor of publications for professional financial advisors (Mitchell 2018) sees reduced credit availability as a problem with “forensic evidence of customer living expenses and tighter restrictions on mortgage lending”.

“Messing with [mortgage lending] could have serious implications... The risk is that measures designed to strengthen the system could inadvertently weaken economic growth, consumer sentiment and the propensity for Australians to continue spending... Customer living expenses are at the centre of this”

If households are able to borrow less for housing, there will be fewer and smaller loans issued, eroding bank profits, and most likely lowering house prices, further shrinking lending and real estate profits. This brings into sharp relief the tension between profitability and household living standards. These are macroeconomic developments that the RBA monitors and responds to.

*Financial stability reviews and the RBA*

The relevance of the RBA’s annual *Financial Stability Review* lies in “changes in the structure of financial regulation that have thrown the role of central banks in safeguarding financial stability into sharper relief” (RBA 2004 p1).
A specific focus on household financial stability was apparent when the Basel Capital Accord was being updated to differentiate capital requirements according to risk. The RBA reported APRA’s proposal for an upward revision of capital ratio requirements where a lender “does not independently verify an applicant’s income as part of the loan approval process” (RBA 2004 p34).

Several RBA papers stress the need to “continuously assess the household sector's financial resilience” because of the weight of household sector lending, and the significant risks “to financial stability and, consequently, to the broader macro economy” (Bilston, Johnson & Read 2015 p1). “The incidence of mortgage-related financial difficulties is, therefore, an important indicator of the financial health of households and lenders” (Read, Stewart & La Cava 2014 p1).

Concern that “standard econometric stress-testing methods based on historical aggregate data could give a misleading picture of the resilience of banks to household credit risk” led the RBA to develop a “simulation-based stress-testing model” to “capture developments in household balance sheets over recent history” (Bilston & Rodgers 2013 p28). This model uses data from the HILDA survey referred to in previous chapters of this thesis in relation to minimum wages and income support. The RBA has at times identified “households that are particularly vulnerable to income or expenditure shocks” (Read, Stewart & La Cava 2014 p18), for example sourcing a “loan-level dataset” from MARQ Services, a firm that provides investors with information on the collateral pools backing residential mortgage-backed securities (Read at al 2014 p5).

The Governor of the RBA was concerned in early 2017 about the volume of loans made “where the borrower has the skinniest of income buffers after interest payments. In some cases, lenders are assuming that people can live more frugally than in practice they can, leaving little buffer if things go wrong” (Lowe 2017). But in 2018 the RBA assessed that there had been “a significant improvement in the risk profile of new lending over the past couple of years, [which has] stemmed the deterioration in the resilience of
household balance sheets” as a result of “regulatory measures and improvements in lending standards” (RBA 2018a p20).

The fall in house prices that is a consequence of these measures poses in turn a risk from the other direction. There is a fine line between households being at risk of insolvency, and risk from households not spending enough.

“Recent purchasers could see their property value fall below the value of their loan (negative equity). This would make it more difficult for borrowers struggling to repay their loans to resolve the situation by selling the property. Falling housing prices also reduce household wealth, which can weigh on consumption and affect the broader economy” (RBA 2018b p26).

Lower interest rates since 2009 have been associated with more rapid house price rises (Owen 2017). The RBA’s primary tool for intervening in the economy is interest rates, which it had not increased since November 2010. An increase in interest rates would work against “some pick-up in wages growth, which is a welcome development. The improvement in the economy should see some further lift in wages growth over time, although this is still expected to be a gradual process” (Lowe 2018).

The RBA wanting to allow interest rates to remain low so that wages could grow, may have passed off to the finance sector regulators APRA and ASIC, the job of reducing risk from households. The decline in house prices from 2017 resulted from a combination of regulator actions, especially tighter lending standards and benchmarks for capital ratios (RBA 2018b p3). APRA and ASIC take the link between household living standards and the financial system to the institutional level.

Regulators and living standards

An APRA official (Richards 2016) identified that any disruption in the [housing loan] sector would have a much more significant impact than in the past” considering that in
2016 housing loans made up “nearly two-thirds of Australian ADI loan portfolios” in comparison to the early 1990s when “housing credit overall was less than one-quarter” of the loan portfolios. APRA’s assesses bank standards used to calculate borrower’s debt servicing ability. The NIS approach is a risk assessment tool, because it allows “the lender, in a systematic way, to discount income streams or add margins to living expenses and interest rates to test whether a borrower could continue to meet repayments under adverse scenarios” (Laker 2007 p4). “Ultimately, all lenders pay the price when higher loan losses eventually materialise” (Richards 2016).

APRA takes an active interest in lenders’ “methodologies to calculate the borrower’s capacity to repay. This work has allowed us to benchmark lending standards more directly, rather than relying on indirect proxies” (Richards 2016). APRA advised lenders (2017 p13) about prudency in serviceability assessment models. Lenders should allow for “potential increases in mortgage interest rates, increases in a borrower’s living expenses and decreases in the borrower’s income, particularly for less stable income sources” such as seasonal, variable, temporarily high or uncertain income. It is notable that finance is concerned with “less stable income” in assessing minimum incomes, whereas it is absent in wage and income support setting.

The points APRA makes in its guidelines on serviceability are indicative of issues in practice. For example "good practice is that ongoing serviceability would not rely on longer-term access to ‘honeymoon’ or discounted introductory rates” (APRA 2017 p12). A companion measure to the income surplus approach is the Loan to Income (LTI) breakdown. LTI data “indicate that mortgage lending at four times gross income is ... one-third of all new ADI housing loans. Lending at six times or more of gross income is ... nearly 10 per cent.” APRA is “encouraging ADIs to use LTI type metrics in internal risk management.” (Richards 2016). Here the ability of households to afford repayments is a concern for financial risk, not for the well-being of households.

A (next) layer of risk supervision that APRA takes on is the mortgage insurers. An APRA home loan stress test in 2003 “found that deposit institutions ‘could withstand a
significant increase in housing loan defaults without a material deterioration in their prudential soundness’ [because] a significant portion of the risk is transferred to lenders mortgage insurers” (Grant 2015 p28). APRA supervises in order to contain the risk of default is contained from all sides advising lenders that “LMI [Lenders Mortgage Insurance] is not an alternative to loan origination due diligence. A prudent ADI would, notwithstanding the presence of LMI coverage, conduct its own due diligence” (APRA 2017 p27).

Competition and profitability are a constraint on tighter serviceability assessments. An ASIC spokesperson explained the need to manage competition between ADIs to facilitate the “strengthening” of their serviceability methodology. “For individual ADIs, there has been no first-mover advantage to tightening their policies” (Richards 2016 p6), in other words, a lender that increased stringency of income assessments, could lose customers to a less restrictive lender. This assessment was later reinforced by Commissioner Hayne in observing that “If one bank moves away from HEM and the others remain with HEM there will be competition consequences, won’t there?” (FSRC 2018b p206).


“Loan serviceability policies would include a set of consistent serviceability criteria across all mortgage products ... Where an ADI uses different serviceability criteria for different products or across different ‘brands’, APRA expects the ADI to be able to articulate and be aware of commercial and other reasons for these differences, and any implications for the ADI’s risk profile and risk appetite.”

APRA seeks to allow for variation in serviceability assessments of loan “products”, as this allows lenders to compete, and for the lenders to be aware of the risks they face. “Standardisation” is not designed to benefit households taking out the loans, by making serviceability comparable across products. APRA’s “objective was not to eradicate
differences in risk appetite or the ability to offer competitive terms” (Richards 2016). “A focus on short-term profits and market share” can justify looser “standards because peers are doing the same. Strong loan growth may be attributed to operating efficiencies or clever marketing, when in fact the real driver is taking on more risk.” (Richards 2016).

More realistic assessments of household needs inhibit competition. These were mandated as “Responsible lending practices” by amendments to the 2014 the Regulatory Guide for the National Consumer Credit Protection ACT, and ASIC and APRA had already made some moves to have banks implement them, prior to the calling of the FSRC.

APRA and ASIC monitored lending standards and alerted banks to lending practices that may not be prudent or compliant. The regulators were well informed through their monitoring. For example the APRA Chairman (Laker 2007 p4) warned that only around 20 per cent of lenders were adding a margin for error in their estimates of living expenses, and found “that many lenders were ... using estimates of living expenses below the HPI or were not regularly updating their estimates.” (Laker 2007 p4) Because the NIS approach allows people to borrow more than previously “there are fears that some lenders are applying the new approach imprudently. For example, they may use unrealistically low estimate of living expenses, thus overstating borrowing capacity” (Laker 2007 p4).

In 2014 APRA implemented supervisory measures, when it found that “lending standards were not as robust as they needed to be: standards did not reflect the risks that were building in the environment.” APRA Chairman Byres (2018) noted that “competitive pressure was restraining many ADIs from tightening policies unilaterally”. Supervisory measures included benchmarks on interest-only lending and reviews of lending practices. ASIC had also been concerned that lenders were not inquiring into borrowers actual living expenses, as they were supposed to do. When ASIC “tested the adequacy of lenders and brokers’ assessments of consumer expenses by reviewing the distribution of expense figures across loans … The proportion ...where the consumer’s expenses were equal to or very close to the HEM benchmark suggests that these
inquiries were not occurring properly” (ASIC 2017 p15). However APRA “doesn’t provide specific dollar figures for banks to adhere to” in making loan serviceability assessments that make allowance for living costs (Living Expenses Calculator) but rather sets broader standards.

APRA Chairman Byres was able to advise lenders in 2018 that the supervisory measures had led to more robust lending standards and “an uplift in capital resilience”. Systemic risk was the primary concern of the regulators, rather than the welfare of borrowers.

ASIC has been reluctant to enforce regulations and standards on lending practices. ASIC did lodge a prosecution of Westpac in March 2017 for contravention, because Westpac’s “Serviceability Assessment and System Rule assessed the suitability of the Home Loan, and enabled the automated approval of each of the Home Loans, by reference to HEM Benchmark Figures as to expenses but without regard to the Declared Living Expenses” (ASIC v Westpac 2017). The FSRC also investigated of the use of the HEM, and the suitability of any benchmark to establish an amount of “UMI [Uncommitted Monthly Income]” (Kane 2018). The case against Westpac indicates the updated view on regulatory enforcement.

A recommendation of the FSRC arising from the Westpac prosecution is that “If the court processes were to reveal some deficiency in the law’s requirements to make reasonable inquiries about, and verify, the consumer’s financial situation, amending legislation to fill in that gap should be enacted as soon as reasonably practicable” (2019 p57).

The regulators responses to the banks and their home lending practices have been far more dynamic since 2000 than have the policies of the state on wages and income support, indicating that the problems posed by households in relation to the financial sector are themselves more complex and volatile.

Commissioner Hayne stated that “we need to be taking financial institutions to court more often” (FSRC 2018d p6960) as he questioned ASIC over its preference for
negotiations with banks, the use of community benefit payments and enforceable undertakings. For Commissioner Hayne, legal proceedings are needed for a higher purpose than enforcement of a particular law, they are needed to reinforce the legitimacy of the system.

**Legality, legitimacy and reputation**

The banks were not unaware of the risk of legal penalties (ANZ Bank 2017 p62). However it was not until the call was raised for the FSRC that ASIC moved to prosecute, a possible indication of concern for its own legitimacy. The FSRC put it more sharply.

“Breach of the law carries consequences. Parliament, not the regulators, sets the law and the consequences. There are cases where there is good public reason not to seek those consequences. ... But the starting point for consideration is, and must always be, that the law is to be obeyed and enforced. The rule of law requires no less. And, adequate deterrence of misconduct depends upon visible public denunciation and punishment” (FSRC 2019 p 430).

Reputation damage, or a legitimacy crisis is an emerging trigger for tighter standards. The calling of the FSRC was a response of the government after journalists exposed the hardship that finance imposes on customers, and the cause was taken up by opposition parties. As a consequence, and in order to reestablish the reputation and legitimacy of for profit finance, there is likely to be some “lifting” of credit standards, as the banks and APRA “consider what might be the most appropriate HEM measure that will be used going forward” (FSRC 2018b p207). The banks are also reducing their reliance on the HEM and “improving processes for inquiries and verification” of declared living expenses (FSRC 2019 p57).

Whatever standards emerge after the disruption of the FSRC, designed to rebuild reputations, they will continue to be based on calculating the ability of households to pay.
4.5 Households and home finance as subsistence

Housing is a subsistence good as well as a value store or asset. Home ownership via repaying a mortgage grew rapidly in the post war boom. When taking out a mortgage a household considers its other living cost and consumption needs in relation to the cost of buying their home.

Credit availability doesn’t solve the supply of housing so much as it increases the competition between borrowers over the amount of their income they are able to commit to purchasing a home. Easier access to finance, which was said to support an increase in housing supply and the rate of home ownership, by providing credit to more households, instead helped to accelerate already rising housing costs, and makes homes less affordable despite banks willingness to lend. It also accelerated an increase in working hours per household referred to in Chapter two. “‘Dual incomes is now a necessity for home purchase’” (Burke, Stone and Ralston (p. 43) cited in Hall 2017).

Households trade-off their other subsistence needs, and their time away from paid labour, against paying for their homes. In this indirect process, unwaged reproductive labour has been converted from a latent supply of surplus labour, to paid labour, by the need to purchase a home. This is one means by which financialisation “makes a direct incursion of capitalist calculation into the household” (Bryan, Martin & Rafferty 2009 p461).
Figure 5: House prices have grown much faster than incomes

A rationale for deregulating credit was to enable more people to have the chance to borrow and purchase a home. The longer-term consequences for home ownership were not obvious to the Assistant Governor of the Reserve Bank when he assessed that the “overwhelming effect [of easing lending standards] has been to widen the range of households who can access finance” (Debelle 2010). Falling levels of home ownership indicate that fewer households are able to take on a mortgage. A larger proportion of households with mortgages cannot subsist on their remaining income (See Figure 5).

Banks and brokers generally offer online tools for consumers to make at least a preliminary self-assessment of what they can afford, by calculating the amount that could be borrowed. These are tools such as NAB’s GLEE, ANZ’s UMI, and CBA’s Smart calculator (ANZ 2017). Even with access to these tools, a significant number of households underestimate their living expenses, at the time of making a formal application for a loan.
The Commonwealth bank says that it takes “account of the tendency of customers to underestimate their living expenses in credit applications, even when questions about expenses are broken down into multiple categories” (FSRC 2018a p35).

The RBA and the Grattan Institute claim in 2018 that households in the 2016/17 period were managing to maintain their mortgage repayments. “The HILDA survey and the 2015/16 Household Expenditure Survey also indicate that the share of households experiencing financial stress has been the lowest since at least the early 2000s” (RBA 2018a p21). “High debt is not (yet) resulting in higher mortgage stress At least in the short term, this increase in debt is not causing defaults. Mortgage stress … has fallen over the past five years. But there are risks if interest rates rise. Mortgage stress would then also rise quickly” (Daley, Coates & Wiltshire 2018 p88).

Yet in 2017 the percentage of loans that are “non-performing” is more than double the rate in 2003 (Figure 6).

**Figure 6: Banks non-performing housing loans**

(Source: RBA 2018a p21)
The RBA’s graph is concerned with whether or not loans in arrears are “well-secured”. The assessment that default risk is low appears to be based on the slower increase in the percentage of non-performing loans since 2016, but not on the increase since 2003 in percentage as an indicator of numbers of households struggling financially.

Moody’s Investor Service took a less optimistic view, and connected household incomes, including challenges of underemployment, to increasing risk of default, noting record levels of mortgage debt. “Household debt as a proportion of disposable income was 188 per cent in September 2017 compared with 161 per cent in September 2012” (Moody’s Investor Service 2017). Mortgage pressures may also be a factor in increased labour supply, in form of both household hours of work (Richards 2009 p20) and underemployment.

Other data also suggest that households are finding it harder to make mortgage payments. “It is getting harder to pay off a home despite low interest rates, because loans are larger and wages are growing slowly” (Daley et al 2018 p23). “Households have partly accommodated ... increases in payments by lowering their voluntary prepayments of principal and have been aided by the low interest rate environment” (RBA 2018a p21). “There is a small share of borrowers who have not accumulated prepayments despite having had their loan for some time and may have little margin for unexpected increases in living expenses or income falls” (RBA 2018a p22).

These are indicators that households may have declining resilience to interest rate rises, loss of income or other stresses. The level of stress and risk of arrears or default is greatest for low-income households. The majority of the 5% of households in 2016 with required mortgage payments greater than 50 per cent of their disposable income were in the lowest income quintile (RBA 2018a p21). “HILDA data indicate that households who borrowed close to the largest amount they could were almost entirely at the lower end of the income distribution of mortgagor households” (RBA 2018b p36).
4.6 Conclusions

The setting of minimum standard of living benchmarks has been abandoned in wage setting and income support, but has been embraced by finance in its adoption of income surplus policy, or NIS models. The HEM as the widely used NIS model, defined a lower level of consumption than most households would find realistic in practice, despite self-assessments that may be even lower.

NIS is a risk management tool for lenders when they seek to increase their volume of business, and for APRA supervising the solvency of lenders. It is not an expression of concern for household well-being and needs.

Both regulations and tools for applying a NIS model have been revised several times since 2000. Lenders initially commissioned the HEM as a measure for assessing income surplus, or ability to repay. The RBA’s endorsement of NIS (2018b pp32-34), and the revision of the HEM in 2018-2019 following the FSRC, suggests that benchmarks of household living standards remain important. The RBA anticipates a more viable application of the benchmark, noting that “APRA has required that banks improve the calculation of the NIS in order to ensure households have an adequate buffer in the event of a shock” (RBA 2018b p34).

The HEM served to increase the availability of credit, which advocates claimed would open up home ownership to lower-income households. The longer-term result of competition between lenders for mortgage customers since the early 2000s, has been intensified competition between home buyers to purchase, an acceleration in house prices at a much faster rate than incomes, a decline in home ownership, and an increasing rate of arrears and defaults on mortgages. The availability of money did not equate to home ownership.

The driver for the expansion of household credit has been financialised capital. The financial deregulation commenced by governments in the 1970s was primarily designed
to maintain trade flows after the end of the boom, a case of economic developments driving policy rather than vice-versa. Australian governments added further deregulatory and supervisory measures in finance, as capital developed new opportunities for profitability and risk management, particularly targeting households after the downturn of the early 1990s, producing previously unforeseen consequences. Deregulation has not meant that the state has vacated a role in finance, the state has adapted to new ways to manage financial stability in partnership with, and often following the initiatives of finance, such as in securitisation.

The tensions and trade-offs between the state regulators and the lending institutions are not an expression of abstract or ideological preference for free markets versus state regulation. There are concrete tensions. Self-regulating banks see increased scope for profits from maximising assessments of borrowers’ ability to pay, where inability to pay is a financial risk to be managed across the lenders’ portfolio. The regulators’ aim is to foster competitive conditions between lenders which allow them to assess borrowing capacity according to their own risk appetite, while monitoring the ability of households to repay in order to avoid mass defaults which would threaten financial system stability. Arising from this the RBA may also trade-off the factors leading to excessive default risk against the contractionary dangers of insufficient credit. A subsidiary trade-off against profits imposed by the state, and accepted by the lenders, is that consumer protection is necessary for the legitimacy of the financial relationship with households.

The difficulty the regulators and finance have had in settling on the HEM and NIS model are indicative of the more pressing nature of the contradictions between profitability for finance, and living standards. The FSRC exposed the difficulties of legitimating this trade-off.

The prospect of improving living standards through wage increases or income support is potentially eliminated in this relationship with finance, because increases in household incomes are open for assessment by finance as available to be put towards mortgage repayments.
A pathway to household agency to assert their interests in direct relation to finance is difficult to see, whilst home mortgages are a field of competition controlled by private for profit finance. Households will make their greatest effort to increase earnings and/or decrease other subsistence expenditure in order to pay for their housing. However if households in large numbers run out of scope to economise, and default on their mortgages, and fail to pay their bills they pose a threat to financial flows, liquidity and economic stability (Bryan 2018). In this sense, households can be seen to have leverage as market actors, but not a consciously collective leverage.

Bryan (2018) observes that “no regulator has a mandate to ensure that the financial system doesn’t create stability problems for households. Someone or something has to assume this mantle, for mounting poverty and default risk is surely going to play out as a social crisis, not just a financial one”. My concluding chapter suggests some directions arising from discussion of the connections between minimum income setting by finance, and in wages and income support.
Chapter five. Conclusions

Minimum incomes legitimate a boundary between capital and labour, profits and needs, in the contest over value. Stability of labour supply and the financial system both rest on a tension between household living standards versus capital’s call on value via low labour costs and high contractual repayments.

5.1 Public policy and the state

This new terrain for valuing labour sharpens the contradictions to be managed by public policy that accepts profitability as the underlying imperative, seeking stability and flows in both labour markets and money markets.

Public policy has become increasingly contained within the assumptions of macroeconomic policy, formulated to achieve stable conditions for profitability. The rationales for minimum income setting are conditioned by macroeconomic goals in the three domains of wages, income support and finance. Low estimations of minimum living standards play out directly in profitability - for wages, as a minimum cost for employing labour, in income support as an incentive or compulsion to increase labour supply, and in finance as a means to increase credit volumes and value flows. The RBA’s analysis and policies are a unifying institutional thread to macroeconomic thinking amongst the agencies setting minimum incomes in each domain.

The state’s approach to ensuring working class subsistence and social order has shifted, from concern to avert industrial and social disorder, to the logic of economic stability. It is no longer only the state managing risks to social order arising from poverty, but the RBA and financial institutions monitoring household finances and pricing risk to avoid financial disorder.
This constitutes a set of “structurally-inscribed selectivities” (Jessop 2006) that would present complex obstacles to an elected government that proposed to change the basis of minimum income setting. Such a government would need to understand how it would respond not only to opposition from capital, and the threat of economic instability, but also to the reaction of the network of state agencies that is imbued with economic thinking predicated on managing conditions for profitability and enforcing the wider law of labour.

5.2 The three domains and what finance changes

The similarities between the domains are more straightforward, but differences and tensions within and between them point to lack of coherence and likely indicators of areas of instability and further change, as prefigured in my introduction.

In all three domains, households absorb the consequences of underestimation of their needs, which translates to labour market discipline and curbing consumption. They all reflect the hold that capital has over livelihoods by its ability to withdraw the means of subsistence, whether as employer, or home finance lender.

The differences between the domains are based on the tensions in capture of value from labour as employee by employer capital, and capture of value from households by financial capital. As an avenue of value capture based on calculating standards of living after income, finance has generated new risks for economic stability.

In the period of disruption in the 1980s and 1990s, the state agencies setting minimum wages and income support were able to both remove industrial leverage from minimum wage setting, and to develop policies to increase labour supply by taking advantage of women’s interest in paid work. Economic policy on labour supply and demand cohered around incomes versus employment trade-offs, with guidance especially from the Reserve Bank. There have not been any fundamental changes in the approach of the state to managing minimum incomes in the labour market since the early 2000s.
In contrast it was not the state but finance itself that invented minimum income setting for the purpose of maximising the volume of repayments and profits from home lending. The banks trade-off business risk. The state became concerned after the event, for the bigger picture of financial system stability. Where standards for minimum income setting in wages and income support have barely changed since 2000, they have been in flux in finance.

The issue of household financial stability is possibly a successor as top priority for the attention of the RBA. The inflation risk attributed to wage rises, that was the focus of RBA attention for at least two decades before the GFC is a far less immediate threat to stability. The RBA has mobilised APRA and ASIC to contain risk by requiring banks to make more realistic income surplus assessments. The RBA’s own tool, the interest rate, could not be raised in order to lower house prices and lending volumes, because it would also place downward pressure on wage incomes, which the RBA is concerned are not growing sufficiently. The RBA through interest rates has hands on both ends of the flow of value in living standards – from wage earnings through to committing surplus wages above other consumption to mortgage repayments. But because of value captured by capital in between, the ends do not join to form a circle.

The RBA deals indirectly with labour supply through interest rates, and their impact on growth in investment and employment. Labour supply on the market is an explicit consideration of the Fair Work Commission in relation to minimum wages, and of Treasury and social security departments in setting income support. All explicitly consider labour supply, the imperative to work. The FWC, like the RBA, poses a link between lower investment costs and higher rates of employment. The FWC trades this off against the needs of employed households. The RBA until recently, traded-off consumption needs against inflationary stimulus.

The significance that regulators attribute to household repayments is suggested by their attention to revision and implementation of the income surplus assessment by finance.
Where minimum income standards for wages and income support previously used benchmarks of adequacy such as the CPI or the HPI, the criteria on which they are now set has become less defined, and more subject to opaque multiple factor inputs, including variation between household income sources and needs. In contrast, the revision and maintenance of calculable living standard benchmarks remains important to both finance and the regulators. The redesign of the HEM in 2018 by a partnership between banks and APRA, brings minimum income setting in finance closer to public policy.

Adequate minimum household living standards imposed through finance are a significant underpinning of macroeconomic stability in 2019. It is a fragile stability as households with time pressures and squeezed incomes from both wage earnings and mortgages, have little scope to increase their incomes or to reduce their living costs any further in the event of increases in interest rates or any other income shocks. Reciprocally, this instability could be a source of leverage for households, if they organised around it.

5.4 Value in households

The labour relationship remains foundational, even in the financialised household, which must first work for the income to make the payments, even if they must also curtail consumption. The value captured by capital is based on the paid labour of households.

The labour relationship is fundamental in that it is through the labour relationship that society produces the necessities and luxuries of life, subsistence goods, human bodies, labour power. Labour produces that which meets the needs, which are purchased with value share in the form of incomes that are open to contest, whether in employment and wages, or finance and payment streams and the trading of associated risks.

Since the end of the family wage, the household has emerged as a unit through which financial capital captures value, and through which the state imposes the labour
imperative and cheap labour supply. Households (rather than individuals or a normative family) as the unit of consumption, reproduction of labour power and labour supply have become more clearly the focus of policy for management of these risks, and are recognised in practice, if not theory, by both capital and the state as the source of profitability. Households have become the source of surplus population also, with scope to increase their hours of waged labour.

5.5 A labour response

There are new challenges for labour to reshape itself as a conscious agent able to assert its needs over profitability, and to challenge the hold of capital over livelihoods. The terms of contest for value share, and the role of the state as well as labour’s own contributions to these changes, are relevant in all three domains, not just in wages, the traditional concern of unions.

Labour’s ability to assert needs over profitability is undermined by the hold of capital over livelihoods through the investment-employment nexus, the persistence and diffusion of surplus population, and the risk of loss of homes.

Trade unions relinquished their agency in relation to minimum wages in the 1980s. Unemployment whether a result of deliberate policy (as in the natural rate) or as a result of market dynamics (crises), or a combination of the two, had the effect of bringing unions to submit to the capacity to pay arguments of capital and macroeconomic managers, against wage rises.

Organised labour, via union and ALP policies, has failed to understand early enough the directions which capital has taken since the 1970s in investment, employment and finance at a cost to minimum living standards. It continues to believe that a Labor government can change the rules in favour of wage earning households, while having no plans for avoiding repetition of concessions such as industrial leverage and minimum wage standards, when labour and finance markets were disrupted.
The decline of trade union membership has been attributed to many causes, including the inability of unions to defend wages and conditions. This thesis has taken a wider picture beyond wages, of minimum income setting as a foundation of living standards. While work, wages and withdrawal of labour remain important, even central points of leverage to defend living standards, there are other points of contest over living standards, and changes to the labour market, that call for new priorities and identification of new demands, new points of leverage, new forms of organising and even a reimagining of the identity that is called working class.

The wage earning household as a whole, not just the union member, is at the centre of pressures to earn, to make time for caring work, and to keep making repayments. The needs of households cannot be assured within only one dimension of wages, income support or finance, and they most certainly cannot be assured without organised disruption of the stability of conditions for profitability leading to “modification of the balance of forces” (Jessop 2006).

A public policy for benchmarks of need to be drawn on in any and all contexts - wages, income support and mortgage serviceability assessments - would allow need to be recognised by public agreement, rather than to be set behind closed doors to suit the interests of capital. It would be similar to a Universal Basic Income, but in order for it to set at a benchmark to fully meet needs, it would have to be backed by organised leverage from unions and other collectives, and a job guarantee. A minimum income cannot remain adequate over time if it is not tied to a position relative to average or median incomes.

The waged component cannot provide a reliable minimum income for men and women if it doesn’t come with standard hours that allow sufficient time for all to contribute reproductive labour, as well as sharing the time-saving benefits of productivity improvements, such as are gained through automation. Alternative approaches to housing and finance are also needed to take them out of competition.
The abolition of deprivation would abolish the wider law of labour, the compulsion to accept low-paid work. Organised labour needs to develop its own picture of how work can become a form of self-determination and co-operation, rather than punitive competition for a livelihood, as it is in a labour market dominated by the work imperative and need for cheap labour.
### Appendix 1: The Commission and its predecessors

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Description</th>
<th>Source: <em>History of employment law</em> (n.d.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1904</td>
<td>CCCA</td>
<td>Commonwealth Court of Conciliation and Arbitration</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>CCAC</td>
<td>Commonwealth Conciliation and Arbitration Commission</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>ACAC</td>
<td>Australian Conciliation and Arbitration Commission</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>AIRC</td>
<td>Australian Industrial Relations Commission</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>IRC</td>
<td>Industrial Relations Court of Australia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td>Transfers jurisdiction of the Industrial Relations Court to other courts, mainly the Federal Court</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>AFPC</td>
<td>Australian Fair Pay Commission</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>FWC</td>
<td>Fair Work Commission</td>
<td></td>
</tr>
</tbody>
</table>

*Commonwealth Conciliation and Arbitration Act 1904.*


*Industrial Relations Act replaces.*

*Industrial Relations Reform Act.*

*Workplace Relations Act.*


*Fair Work Act 2009.*
Figures

Figure 1: The labour income share 1960-2012  
Figure 2: Components of real disposable income 1910-2015  
Figure 3: Minimum, average and median full time weekly earnings –  
Figure 4: Unemployment in Australia 1901 – 2007  
Figure 5: House prices have grown much faster than incomes –  
Figure 6: Banks non-performing housing loans  

Abbreviations

ABS – Australian Bureau of Statistics  
ACAC - Australian Conciliation and Arbitration Commission  
ACOSS – Australian Council of Social Service  
ADI – Authorised Deposit-taking Institution  
AFPC - Australian Fair Pay Commission  
AIRC - Australian Industrial Relations Commission  
APRA – Australian Prudential Regulation Authority  
ASIC – Australian Securities and Investments Commission  
BAML - Bank of America Merrill Lynch  
CBA – Commonwealth Bank of Australia  
CPI – Consumer Price Index  
FSRC – Financial Services Royal Commission - Royal Commission Into Misconduct In The Banking, Superannuation And Financial Services Industry (2017-2019)  
FWA - Fair Work Australia  
HEM – Household Expenditure Measure  
HES – Household Expenditure Survey (ABS)  
HPI – Henderson Poverty Index  
HPL – Henderson Poverty Line
LTI – Loan to Income breakdown
LTVR – Loan To Value Ratio
NAB – National Australia Bank
NAIRU – Non Accelerating Rate of Inflation Unemployment
NCOA - National Commission of Audit (2014)
NIS - Net Income recognised for Serviceability
NSA – NewStart Allowance
RBA - Reserve Bank of Australia
References


Australian Bureau of Statistics (2018b, May). *Employee earnings and hours, Australia* (No 6306.0). Retrieved from


Ey, C. (2012). *Social security payments for the unemployed, the sick and those in special circumstances, 1942 to 2012: a chronology.* Retrieved from Parliament of Australia


