
THE AUSTRALIAN

Sally McManus's silly pay plan was a disaster for Gough Whitlam in 1973

HENRY ERGAS THE AUSTRALIAN 12:00AM February 9, 2018

Not content with proposing the largest tax hike in Australia's peacetime history, Bill Shorten is edging ever closer to endorsing the ACTU's call for an increase in the minimum wage that rivals the Whitlam government's disastrous 27 per cent increase in 1973.

The increase is needed, says ACTU secretary Sally McManus, because the minimum wage has been "forced down to dangerously low levels", so that working people are "barely keeping from starving".

With "millions in poverty", raising the minimum wage to 60 per cent of median wages would be "one of the most effective" policies "building economic security for the lowest-paid workers".

Now, listening to McManus is undoubtedly the cheapest way of travelling to another planet. But she is right that the minimum wage has fallen from 80 per cent of the average earnings of non-supervisory employees shortly after Justice HB Higgins's Harvester decision in 1907 to 44 per cent today.

However, that is hardly because Australian workers are being driven to the breadline. To begin with, adjusting for increases in benefits (such as paid leave and superannuation), the minimum wage has more than trebled in real terms over the period.

Even more importantly, until recently the minimum was not a minimum at all, as many women were being paid substantially less.

Indeed, as late as 1983, well after equal pay had been introduced, the average earnings of women in the bottom 10 per cent of the income distribution were 20 per cent below the minimum wage, which was set in the metal industries award.

The minimum mandated by that award therefore looked high compared to average pay; but that was because it exceeded the real floor on earnings.

As women's educational attainment and earnings rose, and female labour force participation with them, women's move into higher pay brackets lifted average remuneration at a faster rate than the rise in the formal minimum.

In other words, far from being the outcome of a dystopian descent into "an American-style class of people who barely keep their heads above water", as McManus claims, the change resulted from greater pay equality.

At the same time, the evolving structure of the employed population dramatically altered the role of the minimum wage.

In 1911, barely 5 per cent of married women were in the labour force. The family with children that served as a benchmark in setting the minimum wage was therefore unlikely to have any sources of income other than its male breadwinner.

However, the female labour force participation rate has climbed to more than 60 per cent, a record high, and is approaching 65 per cent for married women.

Reflecting those increases, almost 70 per cent of families have two or more income earners.

The majority of families in which there is an income earner on the minimum wage has at least another income earner who is better paid.

As a result, even among adult full-time minimum wage earners, fewer than a third are in the poorest 20 per cent of working households and a quarter are in the top two-fifths of the income distribution.

And further weakening the relationship between the minimum wage and living standards, about a third of minimum wage earners are under 21, the bulk of whom live in their parents' home.

Little wonder then that, unlike McManus, the Hawke government recognised that raising the minimum wage was an ineffective and inefficient way of tackling poverty, since much of the gain would flow to families that were reasonably well off. It therefore shifted to targeted transfer payments as the primary means of bolstering the incomes of the working poor, in a reorientation away from reliance on the minimum wage that subsequent governments continued.

That shift severed the link between incomes at the bottom of the income distribution and the minimum wage. The real value of the minimum wage rose by only 1.3 per cent from 1986 to 2012, and that pause created, according to the Australian National University's Rob Bray, more than 60,000 jobs. But targeted transfers ensured that the typical family with two young dependent

children and a single earner on the minimum wage nonetheless enjoyed a 70 per cent increase in disposable income.

Thanks also to those targeted transfers, minimum income earners, far from languishing on incomes below 60 per cent of median income, as McManus contends, already have disposable incomes that are comfortably above the ACTU's 60 per cent target.

That hasn't stopped McManus from hailing Britain, which has legislated the 60 per cent target, as a model to follow. But what McManus didn't say is that the move was a trade-off for a cut in transfers that, according to the Institute for Fiscal Studies, will make most low-income earners worse off.

Nor did she say that the Office for Budget Responsibility, which is Britain's equivalent to our Parliamentary Budget Office, estimates the rise in the minimum wage will boost unemployment and reduce gross domestic product.

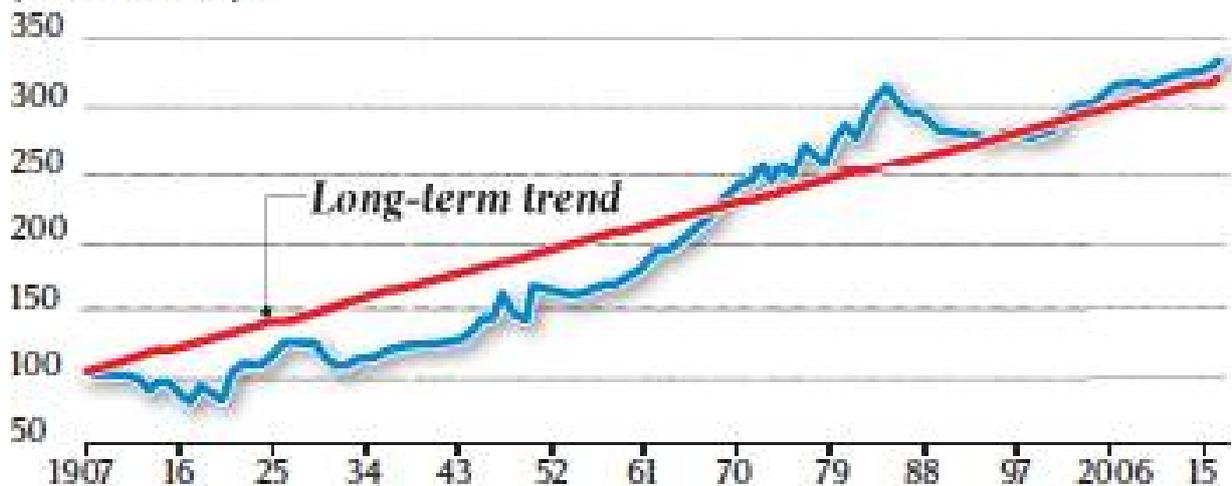
That should hardly surprise Australians. After all, as unemployment soared in the wake of the 1973 wage hike, even Gough Whitlam was forced to concede that "employees can price themselves out of the market", and the greatest costs fell on the most - vulnerable.

Now Labor and the ACTU want to repeat Whitlam's error. But there is no reason to think the damage will be any smaller this time around: the Fair Work Commission estimates changes in the minimum wage directly affect 2.3 million employees, so the proposed rise would cost at least 100,000 jobs. And if automation is making labour demand more responsive to wages, as many studies conclude, the long-run losses would be even greater.

That may not matter in Sally McManus's world of fake news. Yet, however fake her claims may be, the harm will be all too real. And once it's done, there will be no wishing it away.

Effective value of the minimum wage 1907-2018

Index of real value
(Harvester-100)



Source: Adapted from from Bray J.R., *Reflections on the Evolution of the Minimum Wage in Australia: Options for the Future*, ANU 2013