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No, Prime Minister, Blair is raising the minimum wage

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John Howard likes to quote the British leader's pro-market views, but he conveniently overlooks his approach towards low-paid workers

JOHN Howard is fond of quoting Tony Blair to demonstrate how a real Labo(u)r leader can be just as sensible as a conservative prime minister. Although he does not invoke his name quite as often these days on Iraq, he did dig out last weekend a quote from Britain's Prime Minister shortly after his election in 1997.

Explaining why he was keeping most of Margaret Thatcher's labour market reforms, Blair had said that ``fairness in the **workplace** starts with a chance of a job''. Howard added: ``And one of the great philosophical weaknesses of the **union** and Labor Party attack on our **workplace** relations reforms is that they never factor in the interest of the unemployed.''

But Howard did not mention what else Blair has done. Far from relying solely, or even mainly, on a deregulated labour market, he has introduced a national minimum wage and increased it in real terms, provided income tax credits to people who take up work and introduced an array of training, work experience and wage subsidy programs for the long-term unemployed and those with other disadvantages. In other words, Britain is using some of the dividends of economic reform to help those left behind; Australia is telling them their main pathway to work is to accept lower wages.

The clearest evidence of the benefit of the British approach is in long-term **unemployment**. In Britain the number of long-term unemployed has fallen much faster than overall **unemployment**, whereas in Australia the reverse is the case. For example, the number of 18 to 24-year-olds claiming **unemployment** benefits for more than a year in Britain fell by almost 90 per cent in the 5 1/2 years to November 2003. In Australia, the total number of unemployed claiming the Newstart allowance for more than a year fell by 17 per cent between 1999 and 2004, while those on the benefit for more than five years rose by 68 per cent.

The reason for these diverging trends is plain. It requires intervention to push the long-term unemployed further up the queue in a labour market in which they otherwise risk never getting a job. This costs money, but the rewards from getting them off welfare are the greatest. It avoids long-term welfare dependency and a costly bill for taxpayers, and it expands the supply of available workers.

The Howard Government never has been a fan of such active labour market intervention. Although it had promised to maintain the Keating government's Working Nation programs, its first budget in 1996 cut them heavily on the grounds that they were too costly.

Ever since it has spent less in this area than most developed countries.

But it has an alternative that its new **industrial** relations legislation is designed to promote. The less regulated the labour market, the more likely it is to reduce the wages for those least attractive to employers, such as the long-term unemployed, to the point where they become competitive with other labour. The trouble is that many economists believe the cut in wages required is large. An initial increase in demand for jobs is likely to come through employees working longer hours, which often is a cheaper alternative to taking on more staff.

That more deregulation and cutting wages for the unskilled is not the only solution is clear from international comparisons. New Zealand, with a more deregulated labour market, has lower **unemployment** than Australia (3.9 per cent v 5.5 per cent last year on the standardised OECD figures) but so does Norway (4.4 per cent) with a more regulated system. **Unemployment** in the US was 5.5 per cent despite its free labour market and a minimum wage 37 per cent lower than Australia's in terms of purchasing power. Of course, this proves nothing more than that wage levels and regulation are only two of the many factors that determine **employment**.

In the UK, **unemployment** has been falling ever since the Blair Government brought in the national minimum wage in 1999 and despite the fact that by October next year it will be 50per cent higher than when it was introduced. During 2003 and 2004 the minimum wage increased at double the rate of average earnings, and it will continue to rise faster than the average in future.

Interestingly for a body on which the new Australian Fair Pay Commission is modelled, the UK's Low Pay Commission, which sets the minimum rates, is very bullish about these trends. ``The national minimum wage has been a great success,'' said chairman and businessman Adair Turner in February.

``It has brought higher wages to many low-paid workers. In combination with the tax and benefits system, it has significantly improved the incomes of many low income families ... It has played a major role in reducing the gender pay gap. And it has achieved these benefits without any significant adverse effects on business or **employment** creation.'' The commission says in its latest report that ``it remains our view that some further increases relative to average earnings will be required in subsequent years to bring the minimum wage to an appropriate long-term level''.

In short, Britain is putting fairness into wage setting while Australia is taking it out on the basis that it should be a matter for government and the welfare system. Sure, the British minimum wage remains below that in Australia (45 per cent of the median wage last year, v 58 per cent in Australia), although it is catching up. But in Britain employers are bearing the cost of increases in minimum rates without any evident discomfort, while Australian employers have managed to persuade the Government to shift the burden to employees through lower real levels in future, and to taxpayers, who increasingly will be called on to top up the incomes of the working poor. Unless, that is, the Government cuts welfare benefits further, as it has just done for new recipients of the disability payment and the sole parent benefit.

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