



How the Price of the Minimum Wage is Paid by the Jobless

Publish Date:

July 2014

This article from the [July 2014 edition](#) of the [IPA Review](#) is by Research Fellow at the IPA, Aaron Lane.

The minimum wage only provides a safety net for those already in secure work. Although the minimum wage is routinely passed off as a tool to further social justice, in truth it is the opposite: a blunt instrument that hurts the most marginalised workers.

There is a serious case for the abolition of the minimum wage— part moral, part economic. Both parts begin with the uncomfortable truth that the minimum wage prevents employment and hurts the most vulnerable.

Two main misconceptions about the minimum wage need to be dispelled.

The first misconception is that the minimum wage provides an important safety net. The minimum wage only applies to those already in a job. As such, the unemployment benefit is the actual



safety net. The current rate of payment of the Newstart allowance for a single person is \$501.00 per fortnight—equivalent to \$6.59 per hour. By comparison, the minimum wage is now \$16.87 per hour.

The problem with this situation is that employment is prohibited between these rates. If a person cannot find a job at the minimum wage they are forced onto a lower standard of living—receiving just the \$6.59 offered by Newstart—for the duration of their unemployment.

It follows that the higher the minimum wage is, the more employment is restricted. The Fair Work Commission is the body that decides on the level of employment prohibition. Every year the commission conducts a wage review to decide the rate the minimum wage will be for the following year. On 4 June 2014, the commission decided to increase the minimum wage by \$18.70 per week—equating to \$0.50 per hour. Expectedly, this figure is roughly the midway point between the employer groups' recommendation, \$8.50 per week, and the unions' recommendation, \$27.00 per week.

This will further increase the gap of employment prohibition making it even harder for low-skilled unemployed people to land a job. Over 60 per cent of Newstart allowance recipients are in receipt of the payment for longer than twelve months. The median duration of payment is 88 weeks. Eighty per cent of long-term Newstart recipients do not receive any employment income.

The minimum wage is an arbitrary figure. If the current rate of \$16.87 is acceptable, what rational basis is there to make it illegal for an unemployed person to seek a job on \$16.86 per hour? It is unacceptable that the current system prefers that the unemployed poor remain unemployed.

The second misconception is that the minimum wage is about providing low paid workers with a level of dignity. In fostering this misconception, defenders of the minimum wage seek to invoke the name of Alfred Deakin. Writing in *The Age* on 9 April 2014, Marilyn Lake stated that Deakin:

spoke in support of the introduction of a minimum wage, he said it was not only a matter of social justice, but essential to our equal dignity and mutual respect as Australian citizens ... it would demean us all, said Deakin, if those who made our food and clothing or tended to our comforts and well-being were treated as inferior beings, unworthy of our care ...

Deakin was indeed a member of the Victorian Legislative Assembly in 1896, when the Victorian Parliament introduced one of the world's first minimum wage laws. However, the primary motivation for the introduction of the minimum wage laws—which came among a suite of industrial legalisation—was to shut out foreign workers, predominantly Chinese, who were willing to work for more competitive wages than white Victorians males were. Deakin, of course, went on to become the chief architect of the White Australia policy. The discriminatory intention was explicit. In introducing the *Factory and Shops Act* of 1896, Chief Secretary Alexander Peacock explained:

We have in our midst an alien population, having a very low standard of living, and



their presence here has been the means of absolutely ruining one particular trade, so far as the employment of white labour is concerned ... we have now to consider whether some legislation is not necessary to protect our own citizens from competition on the part of these semi-barbarous foreigners.

The Chinese were not the only group singled out for discrimination. The legislation also restricted women's ability to work. From its inception, the minimum wage shut out the most marginalised workers; and so it continues today.

There is not much dignity provided by a minimum wage that both causes unemployment and prolongs it. The economic theory is clear: minimum wage laws artificially increase the cost of labour, reducing labour demand and therefore employment. This is logical. If the government can continue to hike up wages without any harm to jobs, why stop at a \$27 per week increase (as the trade union movement argued)—why not lobby for a \$1000 per week increase?

The research has shown that job losses due to increases in the minimum wage harm the least-skilled workers from the poorest households. Further, increasing minimum wages do not have any real effect at alleviating poverty. Indeed, the beneficiaries of an increase in the minimum wage are mainly middle and upper-income households—principally because the poorest are unemployed.

Job losses due to an increase in the minimum wage may not occur in the form of overt redundancies. Rather, they are likely to occur in more subtle forms of slower growth of employment or hours of work in low wage jobs. As such, for those already unemployed it will make employment even harder to obtain—prolonging their period of unemployment.

Milton Friedman once remarked that the real tragedy of minimum wage laws is that well-meaning groups who want to reduce poverty support them; the people who are hurt most by high minimums are the most poverty-stricken. The best way to lift people out of poverty is for them to lift themselves out through employment income.

Minimum wages constitute a threat to the dignity of the human person. It strips away the right to work, and assumes that people are incapable of making decisions to further their own interests. There is dignity in work. By prohibiting and worsening unemployment, low-skilled and unemployed people are denied the option of attaining work that will provide invaluable opportunities to achieving higher standards of living in the long run.

The moral case for abolition rests on giving the preferential option to those that are on the margins of the labour force, and those that are unemployed. Defenders of the minimum wage routinely ignore these groups of people, in the interests of those already comfortably within the labour force. We cannot continue to let our economic policy be tainted by misconception. The minimum wage should be abolished.