Abbott's rethink on social wage

According to the Minister for Employment and Workplace Relations, increasing the value of Government assistance, or the social wage, is a better way to help low-income earners than increasing their weekly pay.

This has echoes of the Accord. It is also redolent of the wage-tax trade-off put forward by five prominent economists in 1998 — a proposal that the Employment Minister, Tony Abbott, recently described as a "sophisticated response to disincentives to work".

The plan was dismissed by the then minister for employment, Peter Reith, as too costly and a diversion from the main objective of industrial relations policy, which was workplace reform.

So why would Abbott now be even hinting at a trade-off between wages and the social wage? Circumstances obviously have changed. The Senate is unlikely to agree to further major labour market reform. If anything, Saturday's election in South Australia will make the Democrats less willing to be associated with controversial reform.

The progress of workplace reform will now depend on employers making increased use of the Workplace Relations Act (for which the small take-up of AWAs suggests there is plenty of scope), and on what Abbott can achieve in the Industrial Relations Commission.

The commission still sets the award safety net and directly determines the wages of around 1.7 million workers.

The ACTU is seeking an increase of $25 a week in what it calls the living wage, which Government and employers will oppose.

From what Abbott is saying, it seems the Government's argument will be couched partly in terms of the increases in family support contained in its tax and welfare reform programs.

The commission certainly has the legal power to take account of changes in the social wage. And there is a strong economic argument for it to do so.

The unemployment rate troughed at 6 per cent in the second half of 2000 before the slowing economy sent it back up to around 7 per cent. Presumably the return to solid growth, if it continues, will bring the unemployment rate back down to around 6 per cent.

Getting much below 6 per cent, however, may prove to be harder. That almost certainly will take a combination of sustained, strong growth (which may be harder to come by in a post-IT boom world) and workplace reform.

Sustained productivity growth, distributed in the form of lower prices and higher profits, continues to be the key to reducing unemployment while delivering higher real income for workers.

A major disappointment of the last decade was that too much of the productivity growth went into higher wages for the employed, and too little went to increase the number of jobs for low-skilled workers.

The deal that the Government would effectively put before the Industrial Relations Commission would be to set a lower award safety net in recognition of improvement in the social welfare safety net provided by the Government.

"The ACTU is seeking a rise of $25 a week in the living wage."

The result would be a wider gap between the award wages paid to unskilled workers and the wages paid to their main competitors, skilled workers.

At the margin, it would also increase the incentive for low-skilled workers to engage in serious enterprise bargaining and workplace reform.

A trade-off between award wages and the social wage recognises that the wage system is an inefficient vehicle for achieving equity in the distribution of income. Higher wages for unskilled workers benefit those who are employed but at the cost of those who cannot get work because they have been priced out of the market.

By international standards, Australia's minimum wages are high relative to average wages.

Moreover, only the social welfare system can distinguish between low-wage earners in low-income families — who are in need of assistance — and the substantial number of low-wage earners in high-income households.

How far would the Government and the Industrial Relations Commission be prepared to take the logic of Abbott's social wage argument?

For the Coalition, whose main constituency is further up the income distribution, this is tricky political territory. No doubt Abbott probably will be restricted to taking one cautious step at a time.

For the commission there would be tricky arguments about the carrots and sticks of the Government's social welfare reforms.

But a positive response from the commission would be an incentive to the Government and employers to explore the scope for further trade-offs.

The longer term result could be a more rapid return to low unemployment, and more disciplined approach to government spending, with more of this term's prospective Budget surplus being spent on the genuinely needy and less on middle-class welfare.