

**That Australian Minimum Wage**  
**Guest: Ben O'Neill**  
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***Ben O'Neill is a lecturer in statistics at the University of New South Wales in Canberra, Australia.***

**WOODS:** Right now there's something like a five to six percent unemployment rate in Australia. When you look at the figures for unemployment in the U.S. the figures are all screwy, and the government's manipulating them to seem lower than they are. Unemployment turns out to be much worse than the official numbers make it seem. Is there anything similar going on in Australia?

**O'NEILL:** Yeah, there are certainly a lot of the same things. I can't speak comparatively about the degree to which the U.S. or Australia is worse in that respect but certainly the same kind of fudging of figures goes on here. The ABS, our Australian Bureau of Statistics, which looks at unemployment figures—although it does calculate an unemployment rate of around five to six percent, it also has another measure called "Extended Labor Force Underutilization," which looks at underemployment and things like this. The reason that they have this other figure is that within their unemployment figures they'll count someone as employed regardless of how low a number of hours they work. So even if a person was to work one hour a week, that'd be classified as employed.

When you look at the underutilization figures, the more realistic labor force figures, the rate of underutilization is a bit more than double the official unemployment rate. It's at around 14 percent at the moment. There's also been a lot of shifting of people away from the job-seeker classification that counts in unemployment figures towards non-job-seeker classifications through a big push within the welfare system to get people into education and training, and also an increase in people being classified as disabled. There are a lot of similar things in Australia going on in terms of how these figures are, I'd say, manipulated. Partly it's manipulation and partly it is just a genuine effect of efforts to put people into education and training in cases where perhaps otherwise they would be looking for work. Certainly the five to six percent figure really understates the situation a lot.

**WOODS:** How high is the minimum wage in Australia?

**O'NEILL:** On the face of it, the minimum wage here is a little over \$16 an hour, and that's probably the figure that gets reported a lot in the U.S. But it's important to understand that in Australia that minimum wage figure applies to workers over 21 years old. We actually have a system of graduated minimum wages for younger people. Minimum wage, you need to

understand, mostly affects low-skilled workers and therefore mostly affects young people. At the younger end of the spectrum in Australia, the minimum wage is graduated down to as low as about \$6 an hour for people under 16. Then it goes up gradually with each year of age from then until it fits the adult figure that's a bit over \$16 an hour. Although you probably hear the \$16 figure in the U.S., and that is correct for people over 21. For the people where the minimum wage is actually biting a bit, I suppose in terms of unemployment, the very young, the figure is much lower due to that graduated system.

**WOODS:** That is an important factor. This is the key thing. When understanding the minimum wage, you have bear in mind that the number of people who are likely to be earning a wage that low is not that great to start with, and most of those people are going to tend to be the younger people. So they've already been in a way accounted for here in the graduated system. Here in the U.S., basically in any country, you ask economists about the minimum wage, and the consensus is that it creates unemployment. In recent years, some economists have softened a bit on this. Is it the case, though, that if I travel to Australia, economists are going to give me a completely different view? They're going to say, "Well, here in Australia somehow we've made it work"?

**O'NEILL:** No, I don't think you'd get a different view. I think to begin with even just having that system of graduated minimum wages is itself an admission by the government that they understand that the minimum wage does cause unemployment, particularly among the young, and therefore, they have these lower rates for younger people in order to reduce the extent to which that occurs. If you are talking to economists in Australia, I guess I can't give any view of the broad consensus. But I know at least in studies on the minimum wage in Australia that have been undertaken, the findings have been broadly similar with elsewhere, which is that when there's an increase in the minimum wage labor demand goes down and unemployment results. Again if you had to look at the scholarly literature in that area, you see that that's detectable mostly among young people, so I think that that's well understood here also. Australia isn't really some magical place where somehow the laws of economics don't apply. I think that's reflected in the graduated minimum wage system, that the government already understands this is an effect of their policies.

**WOODS:** I can imagine an objection like this, though: "Yes, it will have some disemployment effects, and yes it's true that the employment picture in Australia is not as rosy as it may look. Neither is the employment picture in the U.S.—"

**O'NEILL:** Sure.

**WOODS:** “—The point is that if we implemented a \$16 minimum wage, assuming a dollar for dollar exchange rate, sure, it would have some depressing effects. But apparently they wouldn’t be catastrophic, because look at Australia.”

**O’NEILL:** I guess it depends what you mean by catastrophic. I don’t think the imposition of a minimum wage ends the universe, but it does have negative effects. If you had a look at the Australian case what you do see is that unemployment outcomes due to the minimum wage do show up to some extent across the age ranges, but they are concentrated among that low group. It’s important to understand when you’re talking about the minimum wage that the minimum wage actually only does anything in terms of (a) affecting people’s wages and (b) causing unemployment. In situations where economists refer to it as being binding, meaning in order to do anything it actually has to specify a wage which is somewhere in the vicinity of the amount of money people are earning in that area—if you were to impose a \$16 minimum wage on neurosurgeons and movie stars or something like that, it would simply do nothing.

**WOODS:** Right.

**O’NEILL:** So if you were to impose a very high across-the-board minimum wage in the U.S., perhaps even targeted only to people over 21, similar to the Australian system, the effect would be that on high-income earners nothing would happen. Wages would continue as before, and there would be no unemployment. But on low-skilled people, and there would be some in the older age groups, it would then price them out of a job effectively.

**WOODS:** Is there anything else that you want to say on the general subject of the minimum wage that’s unsaid up to now, or do you feel like this is more or less the case?

**O’NEILL:** I think the most important thing for people that aren’t that familiar with what the minimum wage does is just to have an understanding that all the minimum-wage laws actually do is prohibit employment contracts operating with a wage in a certain range. And in Australia, for example, it’s legal to employ someone for zero dollars an hour, and it’s legal to employ someone for \$16.37 an hour or more. But it’s not legal to employ them for any amount of money in between that. So all the minimum wage does effectively—it doesn’t create any new jobs, it doesn’t create any new capital or new resources.

All it does is prohibit certain mutually beneficial exchanges of employment. That necessarily means that anyone who would have liked to enter into an employment contract in that wage range, perhaps because their productivity is not high enough to justify a higher wage, now cannot do that. I think when people understand that all the minimum wage is is a prohibition on working under certain circumstances, that becomes clearer. I think people sometimes have this foggy view of the minimum wage, of thinking that it’s a law to raise people’s wages.

Actually all it is is a simple prohibition. It prohibits employment contracts that operate in a certain wage range.

**WOODS:** But I think some people have a faulty understanding of how wages rise in the first place, and I think they think that without a minimum wage, there would be employers who could just arbitrarily keep wages low, and the minimum wage is really the only way we can get unorganized and unskilled workers any type of a boost. So, yeah, it's true that it is simply a prohibition, but on the other hand these fat cats are going to need laborers, and this will force them to pay at least a little bit more to those laborers.

**O'NEILL:** I do agree with you that a lot of people think that way. I suppose to those people I would ask them if they believe that it's true and that employers can simply arbitrarily set a wage as low as they want. Why are there any jobs that pay above the minimum wage? I mean, there are jobs—for example, my academic job pays well above the minimum wage, not even close to it, and there are people that earn an enormous amount more money than me. There are movie stars that earn millions of dollars a year. I mean, tens of millions of dollars a year. If it were true that employers can simply arbitrarily pay people as low as they want, absent the minimum wage, then those things wouldn't exist. So I suppose people who are thinking that way—I guess I just urge them to have a look around at just jobs in general and ask why it is that anyone earns more than the minimum wage if that's the case.

**WOODS:** As long as I have you for X minutes here, and we've covered the minimum wage, I was looking up the sorts of things that you've researched and written about. You've written about one law that is even more popular than the minimum wage, and that is antidiscrimination law. Now, everybody favors antidiscrimination law, don't they? And if not, why shouldn't they?

**O'NEILL:** Well, almost everybody, I suppose. I don't favor it, and so that's what my writings have been about. I'm a statistician by trade, so this is my area of interest. One of the things that being a statistician teaches you is the extent to which you can use information about other people as proxy characteristics to try to infer other things about them, and antidiscrimination law in large part prevents that occurring. It creates a situation where certain kinds of logical inferences are regarded as unlawful and are attacked as being irrational, when in fact statistical inference tells us that it's often quite rational to discriminate against people on all sorts of grounds, including even the kind of verboten grounds of sex, age, race, and so on. There are instances where it's perfectly rational to discriminate on those grounds. Certainly I'm not saying that all discrimination on those grounds is rational, because it's certainly not. There are instances where sex discrimination or age discrimination or race discrimination is rationally justified and I think morally justified. Antidiscrimination law prevents that. For that reason, I refer to it as a system of mandatory irrationality.

**WOODS:** When you make a claim like that you're going to have to give some specifics, so give me specific examples.

**O'NEILL:** An example I like to use is an example from the 1980's in Washington, D.C. There was a study of taxi driver service in Washington, D.C., and essentially, the study found that taxi drivers were less likely to pick up passengers who were young black males. I can't recall the exact methodology. But assuming their findings were right, and I think it's quite plausible that they were, both white taxi drivers and black taxi drivers were less inclined to pick up a prospective taxi passenger if he was a young black male. When inquiring into why this occurred, it was simply, "Well, we know the crime rate among this group is higher than, say, I don't know, old Asian ladies or whoever else, any other demographic group, and therefore it's a high risk candidate for us as a passenger."

This was used as a kind of an example of a breach of civil rights and as an instance where political action needed to be taken to stop these taxi companies and these taxi drivers acting in a purportedly racist manner. But when you actually have a look at the kind of logical dynamics of that situation you have a case where a taxi driver may very well wish to judge a person by their individual merits, but they're in a situation where they simply don't have the information that they need to judge a person on their individual merits. They have maybe five, six seconds to make a decision of whether to pick up a person who's waving them down for a taxi fare, and they have to use whatever observable information they have in that instance to try to determine whether the passenger's high risk.

In that situation, statistical science tells us that sex is a very useful predictor of crimes. So is race. So is age, and so it's perfectly rational for a taxi driver in that situation to discriminate against males and in favor of females. It's perfectly rationale for them to discriminate against young males, in particular teens and young adults. It's also rationale for them to discriminate by race. So I think in those kinds of situations you get a case where actually people are acting perfectly rationally and towards a quite legitimate objective of trying to avoid criminal assault. They're acting in a situation of very limited information, and I don't think antidiscrimination law adequately reflects that kind of situation.

**WOODS:** I remember reading about this, and you're right, the black taxi drivers were just as unlikely to pick up young black males in particular neighborhoods as the whites were.

**O'NEILL:** Sure. They're no less scared of assault than white taxi drivers are, and the inference for them is exactly the same. But it's not surprising to me that that's the case.

**WOODS:** What kind of antidiscrimination law do you have in Australia? Is it similar to what we have in the U.S.?

**O'NEILL:** I believe it's similar to what you have in the U.S. We have a commonwealth statute or a couple of them, in fact, which prohibits discrimination of various grounds. Mostly demographic grounds, sex, age, race, political opinions, pregnancy, sexual status and so on, and in certain kinds of areas like the provision of employment or the provision of goods and services and things like this. So certainly the statutes in Australia probably would be imposed on that kind of situation involving the provision of taxi fares.

**WOODS:** Ben, is there an easy place where people can find your writings?

**O'NEILL:** Sure. Probably the easiest thing would be to Google my name, which is Ben O'Neill, and you'll find my Mises Institute author page, where most of my writings are. Some other academic writings are available through my staff webpage.

**WOODS:** I remember when either I was about to go back home or you were. Maybe it was me—

**O'NEILL:** I think I was over in the U.S. at the Mises Institute, and you bought me lunch I believe.

**WOODS:** —Right. One of us was just about to leave. I think it might have been me. So I took you out for lunch, and I wanted to know what libertarianism was like in Australia. What were the fortunes of it? How many people were involved in it over in Australia, and I remember your answer was that for whatever reason in Australia people tend to be just middle of the road, not too excited in either direction. And so it's hard to get people really burning with interest and excitement over a philosophy that really is very much one way: individual liberty. It just doesn't seem to fit well with the Australian temperament. Is that still the case?

**O'NEILL:** Yeah, I think it is. I mean the blessing and the curse of Australia is that the people here are very easygoing, and that's nice from a kind of cultural perspective. It does make it difficult to get people riled up about political injustices and things like that. That's, I suppose, just an aspect of the Australian culture and temperament. But the libertarian movement here is growing. I'm amazed now by even just in the last few years the number of new libertarians I've met here younger than me who I didn't know existed, so there is definitely the same exponential growth I think down here as what you guys have been experiencing in the U.S.