

*John Hyde*

### THAT POLITICAL PAY RISE

The lesson to be drawn from the ACTU's effectively vetoing the Federal politicians' 11.7% pay rise is that centralised wage-fixing won't work efficiently.

We seldom hear politicians themselves, or ex-politicians like me, say that Australia deserves a better class of politician; but others say it.

It is not clear that countries such as the USA with expensive politicians are always the best governed. Some of the best government has been achieved by unpaid statesmen in 20 century Switzerland and 19th century Britain and USA. And there is no shortage of people wanting jobs as politicians. However, there may be a shortage of people who can do the job well. I have anecdotal evidence---I admit from a small sample---that money would attract quality in politics as elsewhere. When I was president of a division (Federal electorate council) of the Liberal Party, more than twenty State seats fell wholly or partly within it. I was required to help find suitable candidates for these and for the Federal seat. Most people I approached were pleased to be asked but said, 'No thanks'. Poor lifestyle and recollection of the brickbats they had thrown at politicians were probably their main reasons for refusal, but I recall two occasions when the drop in income was an important consideration.

Australia's economic difficulties have undoubtedly been caused by bad politics; our politicians, however good, have not been good enough. If we can hope that money will buy a better class of politician then we had best pay it. I admit the results are doubtful.

Politicians' pay is small beer beside what they spend. The base salary of a Federal politician is \$46,000. There are 224 of them so the annual cost of doubling it would be \$10.3 million---less than the cost of one bad decision. The annual bill for interest alone on the new, and unnecessary, Parliament House, will be at least \$120 million.

The overcrowding of the present building could be overcome by having fewer politicians with bigger electorates. There are also other ways. One would be to shift the Hansard department or even the library to, say, the Old Canberra Hotel or West Block.

For the cost of a little thought and reprint of the standing orders the whole of Canberra, with its many committee rooms, could be made available to politicians as all of London is available to the British MP. The British House of Commons manages to schedule its divisions for predictable times; why shouldn't we? Oppositions could do without the privilege of calling quorums to annoy the Government. Then MPs need not remain within earshot of the bells. Australia might have better invested the \$1100 million dollars the new Parliament House is costing in capital equipment or debt redemption. Incidentally, I have many times heard Malcolm Fraser blamed for the new Parliament House. To his credit he opposed it. In my judgment he fought the proposal as hard as could reasonably be expected.

The politicians cannot responsibly vote themselves a pay rise and the public cannot try to hire a better class of politician because Mr Kelty has made it clear that the ACTU will use the centralised wage-fixing system to bring about 'flow on' pay rises that would throw thousands out of work.

The ACTU claims the right to be consulted by the parliamentary government. This demand is, in effect, to be an integral part of government. The ACTU is an interest group so it is inevitable that Mr Kelty should speak for his own constituency---employed workers---and he has. The Government should keep it, and all interest groups, at arm's length. But that alone would not get over the problem; so long as a centralised wages system enforces uniform wages, 'flow on', a feature of even the best labour markets, is exaggerated and mandatory.

A wage that is too low (does not attract the quality of employee required) is as costly as one that is too high (leaves willing workers idle). Even if the Arbitration Commission could work out what the average wage should be, which plainly it cannot, it would not produce an efficient outcome. It would still be the wrong wage for most people and most jobs most of the time. Centralised wage fixing cannot discriminate between the differing circumstances of individual people and individual activities. It insists upon a 'flow on' from good carpenters to poor carpenters, from Port Hedland to Sydney, from metal workers to shearers, and from politicians to almost everybody. And, although awards specify minimum wages, it generates such rigid attitudes that it sometimes encourages a 'flow back' from bad carpenters to good etc.

The second tier of two-tier wage setting recognises this problem; it is intended to allow up to 4% flexibility around the established measures of comparative wage justice by allowing some awards to rise by up to 4% more than others. It is a step in the right direction but the awards apply to very large groups which are not uniform. Efficiency could be improved, and unemployment reduced, if there were no first tier. All award wage rises would then be determined by productivity bargaining. But even then the principle defect of the centralised system would remain. It cannot offer flexibility where it is needed most---between competing firms and employees within an industry.

Any sort of award system, by leaving no room for flexibility between competing employees, inevitably punishes the least skilled. It condemns them to unemployment or employment in an occupation which is not of their choosing. This is particularly hard on young people trying to start careers. The least centralised decision, right down to individual employee, offers greatest flexibility and least likelihood of injustice.

Every pay rise recommended by the MP's salaries tribunal which has been knocked back by MPs---and there have been several---has been rejected from fear of the flow-on. The problem is not confined to MPs' pay rises; it is intrinsic to the system and cannot be avoided by tinkering. However, politicians must go on setting examples so long as the centralised system and unemployment remain.

PS. MPs might try a 'productivity round' by which they agree to take no salary increase until they get Australian inflation below that of our trading partners and unemployment below 4%. They could promise themselves a whopper when the time came and I think the public would then feel its money had been well spent.

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