

## The impact of new forms of wage setting on wage outcomes in Australia

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### Abstract

Since the introduction of the *Workplace Relations Act 1996*, substantial changes have occurred in the conduct of labour relations in Australia. In this paper, we outline the wage-setting framework under the *Workplace Relations Act* and summarise the extent to which agreement-making has become the dominant form of pay setting. We examine the economic impact of shifting labour relations largely to the common law domain. The macroeconomic trends in the labour market that have accompanied the increasing decentralisation of labour relations are also documented. Finally, we compare mean wages and wage distributions across the different methods of pay setting.

The implementation of the Accord heralded a long-term decline in the wage share. This trend was not significantly affected by the 1996 legislation and the shift to enterprise-based agreements. We note the contradiction between decentralisation under industrial relations reform and exhortation by the Reserve Bank to employers and employees to moderate wage outcomes. Full-time employees earned higher mean and median wages with correspondingly less inequality under collective agreements than individual agreements. Finally employees under awards receive relatively lower wages compared with other employees in the same occupation or industry. Thus the award system is becoming increasingly irrelevant in specifying minimum wages for different job classifications.

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## INTRODUCTION

In the five years since the introduction of the *Workplace Relations Act 1996* (*WR Act*) substantial changes have occurred in the way in which labour relations are conducted in Australia. The *WR Act* was an emphatic expression of the trend initiated by the Hawke-Keating Accord process whereby the 'centralisation of wage fixing through national wage cases in the Industrial Relations Commission, determined by principles based on cost of living and national productivity indicators, has been replaced by a new decentralised approach' (Mortimer 2000: 175).

In this paper, we examine the extent to which agreement-making has become the dominant form of pay setting in Australia. Within the limitations imposed by the data, we compare mean wages and wage distributions across the different methods of pay setting. We also utilise other information on average weekly earnings movements to examine the macroeconomic changes that have occurred since the *WR Act* was introduced.

At May 2000, the most common method of setting pay was unregistered individual agreements (38.2 per cent) (ABS 2001: 7; see also National Institute of Labour Studies [NILS] 1999b; DEWRSB 2000b). This indicates that the legislative changes have installed the private commercial contract as the major instrument for determining wages and conditions. Given the history of specialised judicial processes for arbitration and conciliation in Australian labour relations, this is a major change and raises both legal and economic questions. We consider these economic issues, explore the relationship of the wage determination system to the conduct of macroeconomic policy and analyse the outcomes under the different forms of wage setting.

## WAGE SETTING UNDER THE *WORKPLACE RELATIONS ACT 1996*

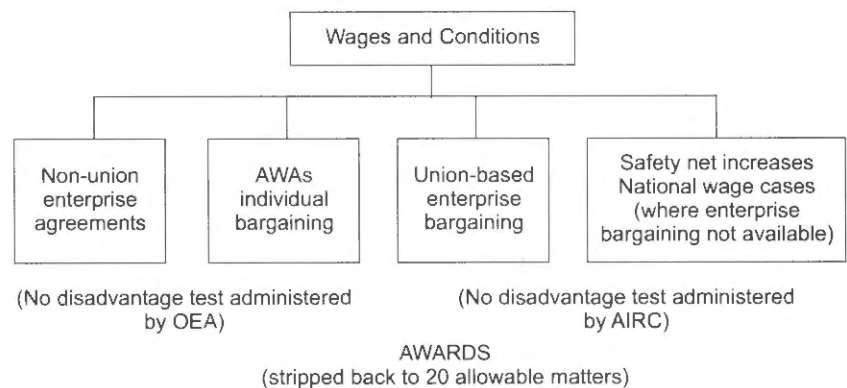
### The major changes

The *WR Act* formalised the decentralisation of wage setting started by the Labor government under the later phases of the Accord. Many coalition state governments, including Victoria and Western Australia, had already implemented similar or more far-reaching reforms. Underpinning the *WR Act* were four assumptions about the industrial relations system held by the coalition parties and the major employer groups. First, the previous Accord system was too centralised, and gave too much power to the Australian Industrial Relations Commission (AIRC) and the trade unions. Legislative change was required to restore the balance of power in the workplace. Second, the system was too rigid, because there was insufficient scope for incorporating different circumstances across enterprises. In particular, the award system was seen as a barrier to flexible employment arrangements. Third, the previous

system was incompatible with microeconomic reform and was responsible for major macroeconomic problems, including unemployment, inflation and chronic current account deficits. Fourth, the previous system encouraged direct or indirect coercion by trade unions and resulted in a lack of choice for employers and employees in the bargaining process (see for example, Hancock 2000: 84).

Wailes and Lansbury (2000) describe the new industrial relations regime as a system of *fragmented flexibility* which 'has attempted to increase the range of bargaining options available to employers and employees'. Figure 7.1 (reproduced from figure 6 of Wailes & Lansbury) shows the bargaining modes now available under the *WR Act*.

The *WR Act* and related legislation introduced individual contracts into the federal system, reduced the scope of awards and restricted the influence of the AIRC to 20 allowable matters. The *WR Act* forced the AIRC to simplify all federal awards so that they only include a 'safety net' of minimum wages and conditions. Enterprise agreements replaced awards and set out the minimum conditions of employment for employees engaged in particular types of work. Unlike awards, they only applied to employees in a particular enterprise. The global no-disadvantage test compares the overall package of provisions of the agreement with those of the relevant award to ensure that there is not a reduction in an employee's terms and conditions of employment. The role of unions has been reduced because enterprise bargaining may now exclude trade union involvement.



Source: Wailes & Lansbury (2000), figure 6.

Figure 7.1 Wage and conditions under fragmented flexibility

The introduction of Australian workplace agreements (AWAs) shifted the regulatory role away from the AIRC and placed it in the hands of a statutory body, the Office of the Employment Advocate (OEA). The award, which is regulated by the AIRC under the allowable conditions determined by the *WR Act*, is ineffective

once the OEA ratifies the AWA. Some of the features of these federal agreements under the *WR Act* are summarised in table 7.1 (see also Birmingham 1997; OEA; DEWRSB 1999).

Waring and Lewer (2001: 2) argue that, through successive rounds of legislation during the 1990s, the no-disadvantage test has been diluted. Also, with award simplification and the growing disparity between award wages and agreement outcomes, the benchmark has deteriorated, which has further weakened the effectiveness of the no-disadvantage test.

Uncertified or unregistered agreements have become the most significant method of pay setting and are essentially common law contracts. These can be written or verbal agreements made and applied as accepted practice in the workplace, even though they are never formalised. The intent and outcome of the *WR Act* has been to shift labour relations away from specialised tribunals into the common law domain that governs any contract.

Defining Concept	Australian Workplace Agreements	Certified Agreements
Coverage	Employees under federal awards Employees in the ACT, NT and Victoria	Employees under federal awards Employees in the ACT, NT and Victoria
Bargaining mode	1. Negotiated with employees on a collective basis and each employee must sign-off on the agreement. 2. Negotiated with employees on an individual basis	1. Collective agreement made between an employer and a valid majority of employees. 2. Collective agreement made between an employer and a union or unions representing employees 3. Each employee should sign-off on the agreement but even if an employee does not want to be a party to a certified agreement, they will still be covered if a valid majority of the employees concerned approve the agreement in a secret ballot.
Role of union	May be used by employees as 'bargaining agents'.	May be used by employees if they have member/s in the enterprise and if requested by the employees.
Consideration period	14 days for existing employees 5 days for new employees	14 days
What must be offered	Employees must be offered a similar agreement to those that have been offered to other employees in the same workplace who are doing the same type of work.	The agreement can cover some or all employment conditions

Defining Concept	Australian Workplace Agreements	Certified Agreements
What is replaced	AWAs override award conditions	The terms of the agreement override award conditions relating to similar issues.
Expiry date		The agreement must specify a nominal expiry date, which cannot be more than three years after the agreement comes into operation.
Main Authority	OEA	AIRC
Main criteria for assessment	No-disadvantage test, for which the benchmark is the relevant award. If the EA has concerns about the no-disadvantage test it must refer the AWA to the AIRC.	No-disadvantage test, for which the benchmark is the relevant award.

**Table 7.1** A taxonomy of federal enterprise agreements

This is consistent with orthodox economic theory that conceptualises labour to be a factor of production, a commodity that is subject to the impersonal forces of markets. Under common law the key principle is that 'the worker and employer should basically be free to decide on the *content* of their relationship' (Moore 2000: 140). Golden (2000) notes that the non-registration of agreements in the relevant industrial tribunal makes their enforcement difficult and they may be unenforceable if challenged. We examine the shift to common law within the Australian labour relations system in section 3.

### Trends in award and agreement coverage

Limited reliable data are available on award and agreement coverage in Australia since the major changes occurred (DEWRSB 2000b; ACIRRT 2001). Data from the latest ABS survey of Employee Earnings and Hours (ABS 2001) held in May 2000 indicate the extent to which agreement-making has become the dominant form of pay setting.

Individual agreements are defined to include those who:

had all or any part of their wages or salaries paid in the survey reference period set by individual agreements. This group mainly consists of employees whose pay is set by an individual common law contract, employees receiving over award payments by individual agreement, and working proprietors who set their own rate of pay. This group also includes employees who had their pay set by individual agreements in conjunction with other pay setting mechanisms (awards and/or collective agreements) (ABS 2001: 69).

Similarly collective agreements, includes employees whose pay was set by a collective agreement and an award (ABS 2001: 69).

Table 7.2 shows that:

the most common methods of setting pay were unregistered individual agreements (38.2 per cent), registered collective agreements (35.2 per cent) and awards only (23.2 per cent). Registered individual agreements (1.8 per cent) and unregistered collective agreements (1.5 per cent) were the least common pay setting methods (ABS 2001: 7).

Registered individual agreements in the public sector (3 per cent) cover twice the share of employees as compared to the private sector (1.5 per cent). Registered collective agreements dominate public sector wage setting (83.2 per cent), while unregistered individual agreements are most significant in the private sector (47.8 per cent of total, 54.2 per cent of males, and 40.9 per cent of females). It is also notable that awards cover nearly 30 per cent of females compared to 17 per cent of males.

	Awards only	Registered collective agreements	Unregistered collective agreements	Registered individual agreements	Unregistered individual agreements	Total
Proportion of Employees (per cent)						
<b>Males</b>						
Private	18.8	23.6	1.7	1.8	54.2	100.0
Public	8.7	81.4	* 2.5	4.4	3.1	100.0
All sectors	16.8	34.9	1.8	2.3	44.2	100.0
<b>Females</b>						
Private	35.5	21.0	1.3	1.2	40.9	100.0
Public	10.8	84.7	* 0.8	1.7	1.9	100.0
All sectors	29.9	35.5	1.2	1.3	32.0	100.0
<b>Total</b>						
Private	26.8	22.3	1.5	1.5	47.8	100.0
Public	9.8	83.2	* 1.6	3.0	2.5	100.0
All sectors	23.2	35.2	1.5	1.8	38.2	100.0

Source: ABS, *Employee Earnings and Hours (2001)*, table 23, p. 44.

\* Estimate is subject to sampling variability too high for most practical purposes.

**Table 7.2 Methods of setting pay by sector (per cent)**

Male and female part-time employees are more likely to be subject to awards (39.9 per cent in total) and less likely to be operating under unregistered individual agreements than their full-time colleagues (ABS 2001: 45 and unpublished ABS

data). This disparity is reflected in a significantly higher percentage of male and female full-time workers who are subject to individual registered and unregistered agreements.

Individual agreements, both registered and unregistered, predominate in firms with less than 100 employees, whereas collective agreements, both registered and unregistered, cover the highest percentage of employees in larger firms. Other data sources convey a similar picture (see DEWRSB 2000b).

Analysis of the 1995 Australian Workplace Industrial Relations Survey and a workplace manager survey found that use of individual agreements was associated with management preferences, rather than employee preferences. The registration of agreements was more common at workplaces with a union presence and with few women employees. The study also found that satisfaction with individual agreements was highest where agreements had been formalised (registered) under industrial legislation. (NILS, 1999a).

### ECONOMIC IMPLICATIONS OF THE SHIFT TO COMMON LAW

The discussion has highlighted the significant decentralisation of pay setting that has occurred in Australia in recent years. This change raises a number of issues. Why were labour relations given a specialised judicial process in the first place? Why is the original rationale no longer valid? The neoclassical theoretical postulates that justify the move away from the AIRC are not supported by any empirical evidence, so do the changes predominantly reflect an ideological predisposition? In this section we consider some of the economic issues involved in the shift to common law labour relations.<sup>1</sup>

#### Labour as a commodity

Krugman (1998) argues that at the heart of capitalism's inhumanity is that it treats labour as a commodity. In economics textbooks, the labour exchange is considered similar to the exchange for lemons or any other inanimate object. Accordingly, the object is exchanged for money and use-values are transferred between worker and employer to be consumed outside the exchange, but the worker relies on employment for sustenance and social identity. The fundamental shifts in labour relations since the *WR Act* have effectively been part of a move to 'recommodify labour' (Standing 1999).

The development of labour-specific, union-oriented arbitration and conciliation processes in Australia reflected a need for labour law to redress the power imbalance which placed workers in a subordinate position to employers. The centralised approach to setting wage and conditions helped to provide protection for unionised workers.

The clear intent of recent legislation is for wage and conditions to be determined by market forces and for equity and social justice issues to be picked up by other legislation. Australian legal practice until recently has not regarded

labour relations as being best regulated by commercial (contract) law. Labour or employment law was seen as being distinct, with certain rights and responsibilities that transcend commodity exchange. Common law, in particular, leaves unorganised labour vulnerable, particularly with the arbitral powers of the federal tribunal being confined to the fixation of a limited range of minimum conditions (Giudice 2000). The current Howard government has foreshadowed further cuts in the role of the AIRC by allowing private mediation. This is likely to lead to *ad hoc* outcomes, which would erode collective employment law. The ultimate goal of the current push for decentralised outcomes appears to be the abolition of labour relations law altogether and to have issues concerning employees dealt with under common law, trade practices law and company law (see Moore 2000). The coalition government has foreshadowed its desire to remove the industrial relations power of the Constitution, having employment regulation covered predominantly by the corporations power.

In the light of the trend towards unregistered individual agreements, the relative benefits of AWAs need to be assessed. AWAs provide more protection to employees (and employers) than common law. More than 40 per cent of the workforce is currently on unregistered individual agreements and it is unclear whether the conditions are in breach of awards and other laws. This is because of their private contractual nature. Non-unionised workers gain higher protection under the AWA model because there are well-defined and codified procedures, proper education about workers' rights with respect to independent advice, and scrutiny by the OEA. If the OEA is not satisfied that the employee (overall) is better off under the AWA, the employer is required to give legal undertakings to improve the agreement in the worker's favour. Common law agreements provide none of this protection. This is particularly relevant given the rapid decline in union membership in Australia.

The downside of ongoing AWAs is that the protection built in via the OEA and the no-disadvantage test is finite. The employer could use their increased power under the *WR Act* to renegotiate an AWA and cut the benefits captured in a prior agreement. Further, there is pressure for workers to trade in non-wage entitlements for cash rewards which is not necessarily consistent with a rising quality of life.<sup>2</sup>

## MINIMUM WAGES

Orthodox economists claim that wage inflexibility is a fundamental cause of persistent unemployment, particularly among the lowest productivity workers like teenagers (Dawkins 1999). Notwithstanding this view, protection to over 20 per cent of all employees who are low paid continues to be provided through safety net rises determined by the AIRC (see table 7.2), which includes some workers on overawards who have individual agreements.<sup>3</sup> Since 1996 annual adjustments to the minimum wage have been made. In the 1997–8 decision the increases were to be fully absorbable against all overaward payments, including those contained in certified agreements, AWAs and



informal overaward payments. In the 1998–9 decision the full bench amended the Economic Incapacity Principle, such that increases were to be available no sooner than 12 months after the award was last varied (DEWRSB 1999 and 2000a). Wage increases awarded under the safety net decisions over the period 1996–2001 have been significantly less than those negotiated under other forms of pay setting (see figure 7.7).

## THE MACROECONOMICS OF THE LABOUR MARKET

In this section, we provide a macroeconomic perspective on the changes in earnings that have occurred over the last 10 years. We examine the movements in factor shares (summarised by the wage and salary earners' share of non-farm gross domestic product). We also examine the changes in the trade-off between inflation and unemployment over the period since the 1970s. The recent period of pay determination appears to have been associated with an inward shift of the relation between inflation and unemployment.

### The wages share

During the 1970s the distribution of income shifted sharply in favour of the wages share (Green, Mitchell & Watts 1997). The Hawke–Keating Accord was introduced when the dominant view (not shared by the current authors) was that these distributional shifts were detrimental to employment. The Accord was designed to reverse these increases in the wage share and was very successful. The increased emphasis on decentralised wages bargaining among policy makers since the late 1980s has its roots in the belief that wages must be matched to plant productivity outcomes if employment growth is to be sustained.

The correlation between the rising wage share and rising unemployment in the 1970s and the early 1980s and then the falling wage share and rising employment in the second half of the 1980s, seemed to conform with the predictions of neoclassical employment theory. Post-Keynesian economists challenged this interpretation arguing that the marginal productivity link between the real wage and employment was flawed, and, particularly, failed to account for the role of aggregate demand (Mitchell & Watts 1997). The latter, it was argued, could simultaneously create unemployment due to a deficiency of sales and a real wage overhang (measured as a rise in the wage share) due to the pro-cyclical nature of productivity (the denominator in the real wage overhang measure). The Accord period, for example, initially saw strong employment growth correlated with a declining wage share but then major employment losses were associated with continuing gains in the profit share during the early 1990s. Real wages fell over most of the Accord period while productivity growth moved in concert with the fluctuations in GDP growth. The combined effect was a significant realignment in factor shares in favour of profits. Employment changes over the 1983 to 2000 period have not shown a close correlation with these

movements and exhibited three phases: strong growth, sharp decline and strong growth again. Over this period, the behaviour of employment has closely matched the cycles in investment and private consumption spending providing evidence that demand fluctuations appear to be a major determinant of employment and unemployment changes (Mitchell 1996).

Figure 7.2 depicts the movement in the wage share (wages bill as a percentage of non-farm GDP) since September 1959. The wage share shows distinct counter-cyclical patterns over the entire period as well as evidence of a segmented trend and mean shift around 1984. Until the beginning of the Accord there appears to be a modest increasing trend. Two notable rises occurred in the mid-1970s and in 1982/3. Over the Accord period, the wage share trended downward with some slowing of this movement due to the 1990s recession (which reduced output faster than employment). The wage share appears to have stabilised around this lower level.



Source: ABS AUSSTATS Database.

Figure 7.2 Share of wages in non-farm GDP (per cent)

A series of recursive regressions were run to test for significant breaks in the wage share time series over the 1959 to 2000 period (results available on request). The regressions were constructed as segmented (linear) trends with the break-point being determined by likelihood ratio tests. The most significant break appears to have occurred in 1983(2). The period up to this point exhibited a mild increasing trend, largely driven by the substantial distributional shifts that occurred in the 1974–5 period. From 1983(3) the series exhibits a significant negative trend. There is not a statistically significant break attributable to the introduction of the *WR Act* in 1996. Indeed, the latter half of the 1990s appears to have been associated with a stabilisation in the mean of the series at the lower level.

The decomposition of movements in factor shares into their constituent parts (available on request) reveals that labour productivity growth (measured as output per person employed) exceeded the growth in real wages over the period 1995 to 2000.<sup>4</sup> Thus businesses used the productivity gains to expand their margins. This period resembles the 1960s. Low inflation has been accomplished at the expense of rapid employment growth.

An analysis of trends in earnings, employment and productivity across industries since 1984 does not provide any insights as to why real wages have been growing more slowly than productivity at the macroeconomic level over this period.

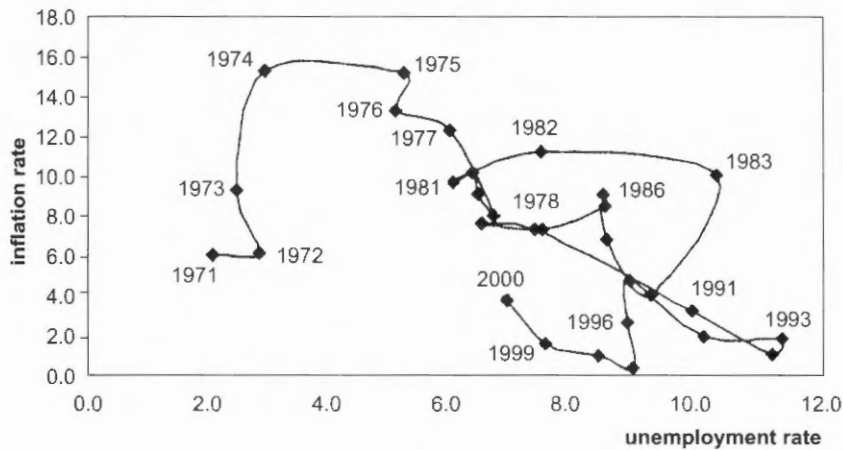
### The Phillips Curve perspective

The relationship between the rate of inflation and the unemployment rate has long been a topic of debate. While the proponents of the non-accelerating inflation rate of unemployment (NAIRU) paradigm reject the idea that policy makers can exploit a long run trade-off between inflation and unemployment, they have been unable to provide accurate empirical estimates of the NAIRU for any country. There is mounting evidence to support the view that inflation processes do not exhibit NAIRU dynamics (Akerlof, Dickens & Perry 2000; Fair 2000; Mitchell 2001).

Under the Accord macroeconomic wage outcomes were managed via specialised tribunals, principally national wage cases (Mortimer 2000). After the Accord was abandoned, the wages system became increasingly decentralised making the timing and size of wage increases less predictable. The Reserve Bank commented that: 'to achieve the bank's inflation objective, and at the same time reduce the unemployment rate, aggregate wage growth must reflect economy wide productivity growth and low inflation expectations' (Reserve Bank 1996). This raises a conflict between the rhetoric encouraging more enterprise bargaining and the Reserve Bank's insistence on using wage outcomes as its guide to interest rate policy. It is illogical to promote a system of wage determination that may require the crude use of interest rate policy to moderate wage outcomes by the creation of unemployment. Ironically, with awards being adjusted through safety net cases, award recipients, who are typically the lowest paid, have borne the brunt of wage restraint (Watts 2001).

Figure 7.3 shows the Australian Phillips curve for the period 1971 to 2000. The first period up to around 1975, was dislodged by the oil cost shocks of the mid-1970s and the resulting distributional conflict. The Phillips curve appeared to be undergoing a second outward shift following the rapid rise in wages, price inflation and unemployment in 1982–3. The Accord largely prevented that shift from occurring and allowed the economy to grow without further wages outbreaks (see Mitchell 1987 and 2000). The abandonment of the Accord and the move to more individualist wage outcomes has been associated with a new

(parallel) shift leftwards in the Phillips curve, so that lower levels of unemployment are now associated with each inflation rate. The shift corresponded to the virtual elimination of inflationary expectations and the highly persistent behaviour of unemployment in the early 1990s (Mitchell 2001). The rate of price inflation really only dropped during the recession of the early 1990s despite several years of wages moderation under the Accord. The most recent period has seen some reductions in unemployment but a rise in underemployment (Mitchell & Carlson 2000) and a rise in inflation due to the GST.



Source: ABS AUSSTATS Database; authors' own calculations.

Figure 7.3 Australian Phillips curve 1971–2000

## WAGE OUTCOMES UNDER DIFFERENT METHODS OF PAY SETTING

The main sources of contemporary data used to examine wage outcomes under enterprise bargaining have been the Department of Employment, Workplace Relations and Small Business Workplace Agreements Database and the ADAM (Agreements Database and Monitor) Report assembled by ACIRRT. These data typically report wage increases based on registered collective and individual agreements and awards, so that unregistered agreements are neglected.<sup>5</sup> A comprehensive picture of outcomes from enterprise bargaining can only be obtained, however, by a detailed analysis of the wages and conditions that are negotiated in each agreement which also identifies the status of those employees who are party to the agreement.

The analysis will be mainly confined to the snapshot of wage outcomes in May 2000 drawing on ABS (2001), so that the dynamics of pay setting are largely

ignored. The published data refers mainly to average weekly total earnings (AWTE) associated with awards only, and individual and collective agreements, which are sub-divided into registered and unregistered.

These data enable a preliminary investigation of the impact of the different bargaining streams on the level and dispersion of wages differentiated by public and private sector, part-time and full-time status, occupation, industry and gender.

### Registered and unregistered agreements

Males have a lower AWTE under registered collective agreements (\$850.40) than their contemporaries working under registered individual agreements (\$914.40). Likewise males on unregistered collective agreements (\$709.80) earn less than those on unregistered individual agreements (\$834.40) (see table 7.3). On the other hand, females on average receive higher earnings under registered collective agreements (\$591.80), as compared to registered individual agreements (\$562.60), but less under unregistered collective agreements than unregistered individual agreements. Male and female employees on 'awards only' receive lower AWTE, as compared to males and females on collective or individual agreements, whether they are registered or not.

In total, employees subject to registered individual agreements earned the highest average weekly total earnings (\$787.70), followed by those subject to unregistered individual agreements (\$728.10), registered collective agreements (\$722.30), unregistered collective agreements (\$605.50) and awards (\$416.10).

	Awards only	Registered collective agreements	Unregistered collective agreements	Registered individual agreements	Unregistered individual agreements	Total
<b>Males</b>						
Private	449.10	789.30	761.70	827.80	827.60	745.30
Public	762.10	923.20	* 562.70	1170.00	1328.70	923.80
All sectors	480.90	850.40	709.80	914.40	834.40	780.20
<b>Females</b>						
Private	357.90	489.60	463.90	420.90	573.80	476.10
Public	604.40	677.10	* 326.00	895.90	718.80	671.00
All sectors	378.30	591.80	442.90	526.60	575.80	520.60
<b>Total</b>						
Private	391.20	654.20	635.40	629.90	723.20	616.00
Public	670.00	790.40	* 498.30	1085.00	1076.80	789.90
All sectors	416.10	722.30	605.50	787.70	728.10	652.80

Source: ABS, *Employee Earnings and Hours* (2001), table 23, p. 44.

\* Estimate is subject to sampling variability too high for most practical purposes.

Table 7.3 Average weekly total earnings (\$) by methods of setting pay by sector

## Public and private sectors

Table 7.2 revealed the distinctive patterns of pay setting across the public and private sectors, with the former dominated by registered collective agreements and the latter by unregistered individual agreements. The public sector yields superior AWTE outcomes for both males and females under individual agreements, whether registered or not (see table 7.3). On the other hand, females receive higher average private sector AWTE under registered collective agreements, as compared to registered individual agreements, whereas the converse is again true for males.

## Part-time and full-time employees

Part-time versus full-time status is critical in determining the outcomes under the different methods of pay setting. Registered individual agreements are superior for full-time males as compared to registered collective agreements, with the reverse holding true for unregistered agreements. Full-time females are worse off under registered individual agreements compared to registered collective agreements and better off under unregistered individual agreements (see table 7.4).

	Awards only	Registered collective agreements	Unregistered collective agreements	Registered individual agreements	Unregistered individual agreements	Total
<b>Males</b>						
Full-time	619.20	948.90	886.40	1023.40	896.90	883.80
Part-time	263.50	304.40	* 183.60	239.00	320.20	289.00
Total	480.90	850.40	709.80	914.40	834.40	780.20
<b>Females</b>						
Full-time	573.10	787.90	680.70	737.00	724.40	717.70
Part-time	274.70	355.10	250.30	258.00	293.40	305.60
Total	378.30	591.80	442.90	562.60	575.80	520.60
<b>Total</b>						
Full-time	596.40	886.50	829.40	939.30	838.40	821.00
Part-time	271.80	342.10	222.60	250.30	301.70	301.00
Total	416.10	722.30	605.50	787.70	728.10	652.80

Source: ABS, *Employee Earnings and Hours (2001) unpublished data*.

\* Estimate is subject to sampling variability too high for most practical purposes.

**Table 7.4 Average weekly total earnings (\$) by methods of setting pay by full-time/part-time status**

The published data combines registered and unregistered collective agreements and registered and unregistered individual agreements. Full-time employees under all collective agreements earned \$884.30 in May 2000, as compared to \$842.90 under individual agreements and \$596.40 under awards only (ABS 2001: 45). Male and female full-time employees and total male and total female employees earn higher average weekly wages under collective agreements, but all employees earn lower average weekly earnings under collective agreements than individual agreements. The reason is that a higher percentage of full-time employees are subject to individual agreements (47 per cent) as compared to collective agreements (37.8 per cent), whereas a higher percentage of part-time employees are subject to collective agreements (34.6 per cent) as compared to individual agreements (25.5 per cent). These different weights explain the disparity between collective and individual agreements for all employees.

Finally, hours of work are collected for non-managerial employees by the ABS. Both males and female non-managerial employees, both part-time and full-time, enjoy higher hourly pay under registered collective agreements than registered individual agreements, whereas the converse is true for unregistered agreements (ABS 2001: 52).

### Pay setting across occupations

Earnings for males and females under these different bargaining arrangements will reflect the occupation and industry of employment, in addition to their full-time or part-time and private sector or public sector status.

Individual agreements (both registered and unregistered) predominate in some of the highly skilled, highly paid occupations, notably managers and administrators, associate professionals, tradespersons, advanced clerical and service workers and intermediate clerical, sales and service workers, whereas higher percentages of workers are subject to collective agreements in the remaining occupations (ABS 2001: 47). Awards predominate in the lower paid occupations. Except for advanced clerical and service workers and intermediate production and transport workers, awards account for less than 80 per cent of the corresponding average earnings by occupation. Using the shares of total employment by occupation in May 2000 as uniform occupational weights in the calculation of the average earnings yields \$742.54 for employees on collective agreements, \$697.13 for workers on individual agreements and \$502.60 for employees on awards, as compared to \$717.40, \$730.80 and \$416.10, respectively. This demonstrates that the incidence of different bargaining streams across occupations is a major influence on the overall wage relativities between these different methods of pay setting.

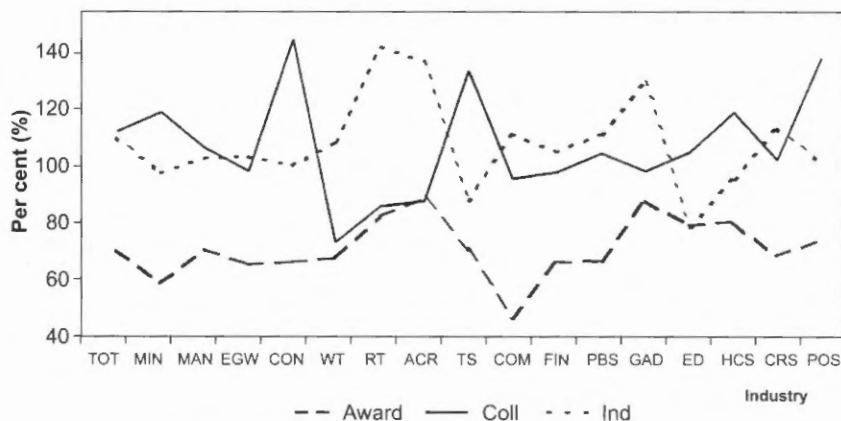
### Pay setting across industries

An analysis by industry is important for the analysis of different forms of pay setting, given the focus of bargaining at the enterprise level. Again registered and unregistered agreements are combined.

A significantly higher percentage of women are subject to awards only in manufacturing, wholesale and retail trade, accommodation, cafes and restaurants, property and business services, education, health and community services and personal and other services. On the other hand, men predominate in collective agreements in manufacturing, wholesale trade, transportation and storage, property and business services, health and community services and personal and other services.

Figures 7.4 and 7.5 depict for males and females respectively the ratios of average weekly total earnings by method of pay setting and industry to the corresponding industry wage. The figures demonstrate that, with the exception of mining (males), education (females) and accommodation, cafes and restaurants (males and females), employees on awards fare the worst under the three forms of pay setting.

Average pay for males under collective agreements exceeds corresponding average wages under individual agreements in mining, manufacturing, construction, transportation and storage, education, personal and other services and all industries. On the other hand, females do better under collective agreements in all these industries, but in addition, in Health and Community Services.

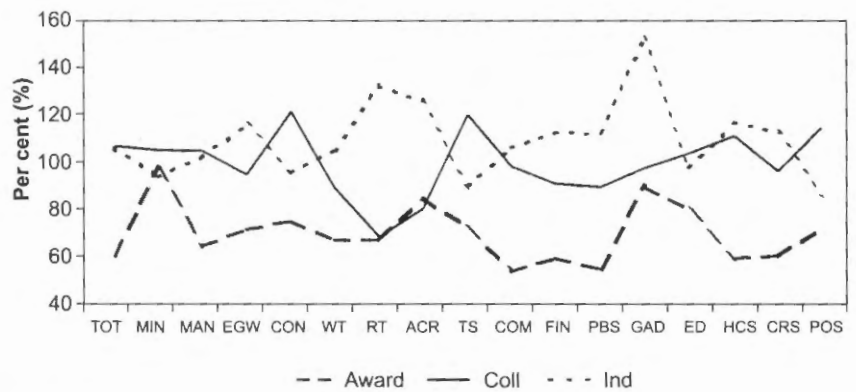


Notes: MIN: mining; MAN: manufacturing; EGW: electricity, gas and water supply; CON: construction; WT: wholesale trade; RT: retail trade; ACR: accommodation, cafes and restaurants; TS: transportation and storage; COM: communication services; FIN: finance and insurance; PBS: property and business services; GAD: government administration and defence; ED: education; HCS: health and community services; CRS: cultural and recreational services; POS: personal and other services.

Source: ABS Employee Earnings and Hours, 2001 Table 25, p. 46.

Figure 7.4 Male AWTE ratios by industry and type of pay setting, May 2000





Notes: For key to industries, see figure 4.

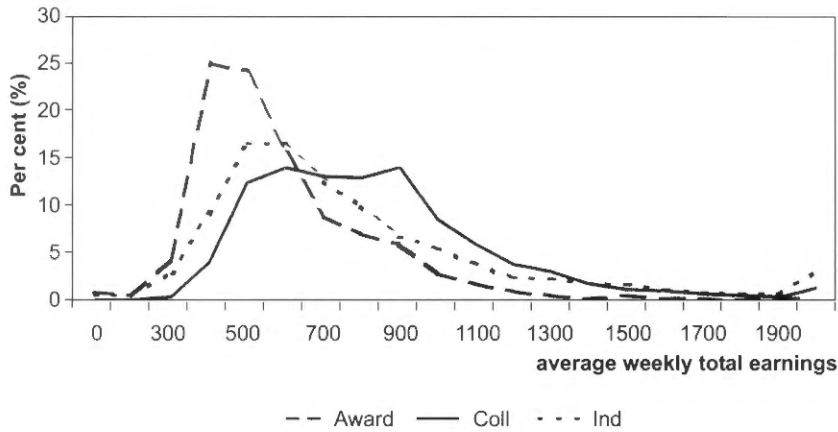
Source: ABS *Employee Earnings and Hours*, 2001 Table 25, p. 46.

Figure 7.5 Female AWTE ratios by industry and type of pay setting, May 2000

### Wage inequality

Rising wage inequality has been experienced in most industrialised countries, including Australia, the United States, Canada and Britain (Watts 2000; Watson 2001). Orthodox explanations tend to focus on skill-biased technical change and the impact of a growing volume of international trade (Borland 1999). Institutional change is being increasingly scrutinised by US researchers including Thurow (1998), Fortin and Lemieux (1997) and Borland (1999: 194).

Wooden (2000: 145) notes that inequality grew steadily over the period 1975 to 1998, a period characterised by both highly centralised and decentralised bargaining systems (see also Watts & Mitchell 1990). He found that there was a marked increase in dispersion after 1994, at a time when enterprise bargaining was accelerating.



Source: ABS, *Employee Earnings and Hours*, 2001 unpublished data.

Figure 7.6 Distributions of average weekly total earnings for full-time adults, May 2000

The ABS publication also provides distribution data by average weekly earnings for non-managerial, as well as managerial (unpublished) full-time adult employees under awards, collective agreements and individual agreements<sup>6</sup> and in total for May 2000<sup>7</sup>.

Figure 7.6 shows the wage distributions of full-time adult employees under the different forms of pay setting. Given the predominance of registered collective agreements as a share of total collective agreements and the high share of individual unregistered agreements, this largely represents a comparison of registered collective agreements and unregistered individual agreements. Both distributions are positively skewed. The respective median wages for awards, collective agreements and individual agreements are \$577.87, \$839.69 and \$725 based on linear interpolation while the mean wages are higher due to the right skewness, namely \$637.30, \$890.90 and \$852.70 (see table 7.5). As noted in the previous section, once full-time employment is isolated, collective agreements are shown to yield higher mean wages than individual agreements.

	Total		Awards		Collective agreements		Individual agreements	
	Gini	Mean Median	Gini	Mean Median	Gini	Mean Median	Gini	Mean Median
<b>Total (managerial and non-managerial) full-time adult earnings</b>								
Total	0.237	\$837.80	0.187	\$637.30	0.194	\$890.90	0.263	\$852.70
		\$746.37		\$577.87		\$839.69		\$725.00
Male	0.248	\$902.70	0.204	\$673.60	0.202	\$954.30	0.276	\$912.70
		\$802.68		\$610.69		\$894.12		\$802.68
Female	0.196	\$731.50	0.162	\$602.50	0.165	\$789.60	0.217	\$734.10
		\$673.10		\$555.33		\$757.50		\$657.00
<b>Non-managerial full-time adult earnings</b>								
Total	0.201	\$783.50	0.182	\$626.80	0.184	\$860.80	0.200	\$760.50
		\$719.62		\$572.27		\$820.59		\$683.42
Male	0.210	\$835.90	0.199	\$663.70	0.191	\$918.20	0.209	\$801.50
		\$773.02		\$572.27		\$820.59		\$773.02
Female	0.173	\$706.20	0.151	\$590.70	0.155	\$772.20	0.173	\$691.90
		\$661.86		\$548.73		\$746.67		\$641.70

Table 7.5 Gini ratios, means and medians for full-time adult employees by different methods of pay setting

Accordingly, we compute the Gini ratios of inequality for males, females and in total.<sup>8</sup> The results, as shown in table 7.5, are conclusive. Collective agreements for males and females not only yield higher median and mean wages but also lower Gini ratios for both total and non-managerial full-time adult employees.

These results do not provide clear insights as to the impact of different methods of pay setting on overall wage inequality. The increased inequality associated with individual agreements may not translate into overall increase in inequality across all methods of pay setting, because the corresponding means and medians are lower, so that, as shown in figure 7.6, the distributions overlap. Also we only have a snapshot, so that simple comparisons of wages across different forms of wage setting can be misleading.

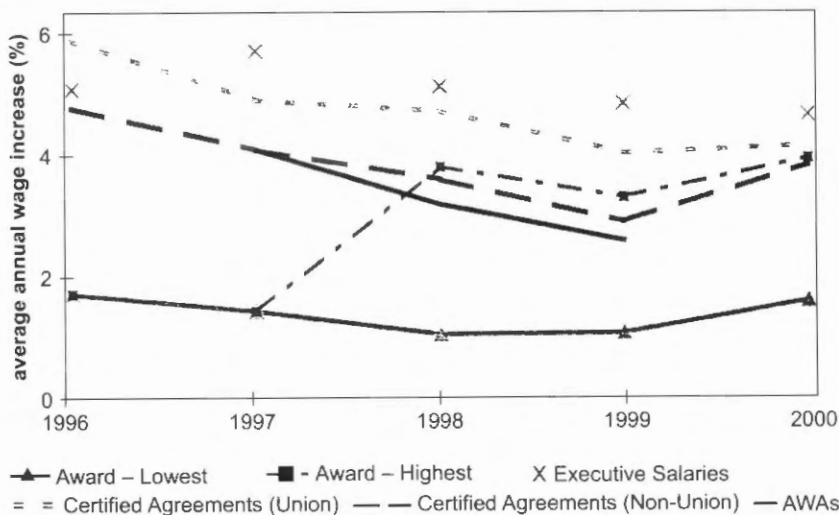


Figure 7.7 Wage increases by awards, collective agreements, AWAs and executive salaries, 1996–2000

However, figure 7.7 demonstrates that wage growth under certified collective agreements, whether union or non-union, exceeded wage growth under AWAs, that is, certified individual agreements, over the period 1996 to 2000. The significant wage increases paid to some groups may, however, be in exchange for non-wage benefits.

## CONCLUSION

The implementation of the Accord heralded a long-term decline in the wage share. This trend was not significantly affected by the *WR Act* of 1996 and the trend to enterprise-based agreements. Analysis of the microeconomic data has not provided an explanation of this trend in the wage share. There is a contradiction between decentralisation under industrial relations reform and exhortation by the Reserve Bank to employers and employees to moderate wage outcomes. The paper explores the repercussions of more employees being subject to common law, under unregistered agreements. Full-time employees are shown to earn higher mean and median wages with correspondingly less inequality under collective agreements than individual agreements. Finally, employees subject to awards receive relatively low wages, as compared to other employees in the same occupation or industry. Thus the award system is becoming increasingly irrelevant in specifying minimum wages for different job classifications.

## NOTES

<sup>1</sup> For an exploration of legal issues, see, for example, McCallum, McCarry & Ronfeldt (1994).

<sup>2</sup> This problem also arises with respect to the no-disadvantage test (see Waring & Lewer 2001: 10–11).

<sup>3</sup> Dawkins (2001) estimates that 25 per cent of workers receive safety net increases.

<sup>4</sup> The decomposition is based on the definition of the wage share as the ratio of the real wage to labour productivity. The growth in the wage share is the sum of the growth of nominal wages and employment minus the growth in nominal prices and real output.

<sup>5</sup> DEWRSB (2000b: 5) provide average weekly wages for full-time employees on awards only, overawards/unregistered agreements, registered collective agreements and other pay agreements.

<sup>6</sup> Both individual and collective agreements include both registered and unregistered agreements.

<sup>7</sup> Hourly earnings data would be preferable, but the ABS does not collect hours data for managers and administrators.

<sup>8</sup> The wage distribution data are grouped in ranges of \$100 above \$200, with above \$2000 being open. ABS publishes within range mean wages. For the calculation of the Gini ratio, the data are treated as consisting of grouped data corresponding to each range and centred on the published mean wage. The Gini ratio can be written as:

$$\sum_i \sum_j |\bar{w}_i - \bar{w}_j| f_i f_j / 2\bar{w}$$

where  $\bar{w}_j$  denotes the mean wage of the  $j$ th range and  $\bar{w}$  denotes the overall mean wage (Dagum 1997).

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