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Editors: Emeritus Professor Keith Hancock and Dr Joshua Healy

Editorial Assistant: Ms Trish Amee; Subscriptions: [nils@flinders.edu.au](mailto:nils@flinders.edu.au)

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Flinders University of South Australia  
GPO Box 2100  
Adelaide SA 5001  
Phone: 08 8201 2265 Fax: 08 8276 9060  
Email: [nils@flinders.edu.au](mailto:nils@flinders.edu.au)

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National Institute of Labour Studies  
Flinders University, Adelaide  
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determining relative wage structures is what the market is prepared to pay, and in most industries, at least those without a significant public sector presence, this is the outcome that will tend to prevail.

Attempts to achieve different outcomes through minimum award wage structures, however, while ultimately doomed to fail (unless supported by transfers from taxpayers), can impose considerable costs on society, and unfortunately most of those costs will be borne by those most in need: that is, those with relatively few labour market skills who spend long periods on income support.

## Endnotes

\* This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either FaHCSIA or the Melbourne Institute. I also thank Judy Slean for comments.

<sup>1</sup> After exclusion of owner managers, 28.2 per cent of employees report that they were paid exactly the award rate in wave 8 of the HILDA Survey. By contrast, the Survey of Employee Hours and Earnings (ABS cat. no. 6306.0) reports that, in August 2008, just 17.4 per cent of employees were paid exactly the award rate.

<sup>2</sup> Official data on the numbers of both unemployed and underemployed are reported in Australian Bureau of Statistics (ABS), Australian Labour Force Statistics, July 2010 (ABS cat. no. 6105.0). The numbers on unemployment reported here, however, come from the monthly ABS publication, Labour Force Australia, June 2010 (ABS cat. no. 6102.0).

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Invited Paper

## Australia's Other Two-Speed Economy: Gender, Employment and Earnings in the Slow Lane

Therese Jefferson and Alison Preston

### Abstract

Talk of a 'two-speed economy' was prevalent in Australia in the first half of 2010. The Australian Chamber of Commerce and Industry argued against a significant increase in the minimum wage on the basis that most minimum wage earners were employed in the 'slower' sectors of the Australian economy, where employers could not afford increased employment costs. This article considers the recent Fair Work Australia wage decision in the context of the argument that Australia has a two-speed economy. Using earnings and employment data from the Australian Bureau of Statistics, we find that it is possible to identify significantly different patterns to the earnings outcomes experienced within specific sections of the Australian economy. There are some clear 'tracks', particularly between men and women in the private sector. The data suggest that the recent minimum wage decision will play an important role in countering labour market inequities, particularly those that are evident in Australia's gender pay gap. Further work remains to be done, however, and the forthcoming equal remuneration case will provide a further opportunity for Fair Work Australia to contribute to gender pay equity in Australia.

### Introduction

The first National Wage Decision under the newly constituted Minimum Wage Panel of Fair Work Australia (the Panel) offered an opportunity to gain insights into the interpretation and application of the new minimum wage objectives (Section 284 of the *Fair Work Act*). Additional interest was added by the global and national economic contexts in which the decision was given. Globally, the context was one of economic uncertainty, Australia's relatively favourable economic outcomes during this period were tempered by rhetoric that we have a 'two-speed economy' and that wage increases among those on lower pay would result in losses of employment.

Our analysis suggests that while Australia may be described as having a two-speed economy, for wage and salary earners, the two speeds appear to be defined by the contrasting outcomes experienced by men and women in private sector employment. In this context, we find that Fair Work Australia's focus on key issues such as the definition of low pay and social inclusion indicate a recognition that National Minimum Wage decisions will continue to play a pivotal role in wage equity within Australia.

## Background

In the immediate aftermath of the 2008-09 financial crisis, the last national wage decision given in July 2009 by the Australian Fair Pay Commission (AFPC) was to freeze Australia's Federal Minimum Wage. The key argument was that an increase in the Federal Minimum Wage would come at the expense of jobs of low paid workers. The decision was based on relatively pessimistic forecasts of rising unemployment:

While opinions vary, most analysts expect employment to continue to fall through 2009-10, with unemployment rising towards 8.5 per cent of the labour force. In previous downturns, the increases in unemployment have taken many years to reverse, and the Australian Government now projects that unemployment will not return to current levels for approximately six years (AFPC 2009, p. 9).

Ultimately, these scenarios proved to be pessimistic. The headline unemployment rate peaked at 5.8 percent in mid 2009 before declining to 5.2 percent by May 2010 (ABS 2010b, trend estimates). On the other hand, the distribution of work shifted between different sections of the workforce. Contrary to expectations, in the year after September 2008, women's workforce participation and employment initially rose. Men's full-time employment declined, while their part-time employment rose sharply. Labour underutilisation rates rose among both women and men and more employees found that they could not obtain their required number of working hours. While some observers framed these labour market developments as 'job sharing' designed to avoid job losses (Gillard 2009), evidence suggested that the shift to part-time employment occurred largely as a result of job transitions (Van Wanrooy et al. 2009, p. 35).

By the beginning of 2010, it appeared that Australia had weathered the immediate aftermath of the global financial crisis in better shape than comparable western economies and, by avoiding two consecutive quarters of negative growth, managed

to avoid a technical recession, allowing Australia to be described as belonging to one of the 'world's most exclusive clubs' (Jones 2009). This outcome has been attributed to a range of factors. The Governor of the Reserve Bank of Australia (RBA) related it to growth in China as well as 'prudent fiscal and monetary frameworks', the 'economy's flexibility' and the 'relative strength of the financial sector' (Stevens 2009).

The apparent avoidance of the relatively pessimistic outcomes forecast for Australia's labour market did not, however, lead to widespread acknowledgement among employer groups that there was a need to redress the imposition of a wages freeze on Australia's lowest paid workers. It was claimed by Peter Anderson, CEO of the Australian Chamber of Commerce and Industry, that Australia has a 'two-speed economy' in which 'small and medium employers who are in the slow lane of the two-speed economy... have been hit with six interest rate rises in eight months and not yet seen the economic recovery boost their capacity to pay above inflation wages, as the unions and Government would want' (Anderson 2010).

Given the context and outcomes of Fair Work Australia's first National Wage Decision, in this article we consider three linked questions:

1. Does Australia have a two-speed economy?
2. What does Fair Work Australia's decision suggest for the future of wage equity in sectors characterised by lower than average wage outcomes?
3. Has Fair Work Australia jeopardised employment opportunities in the 'slower' lanes of Australia's economy?

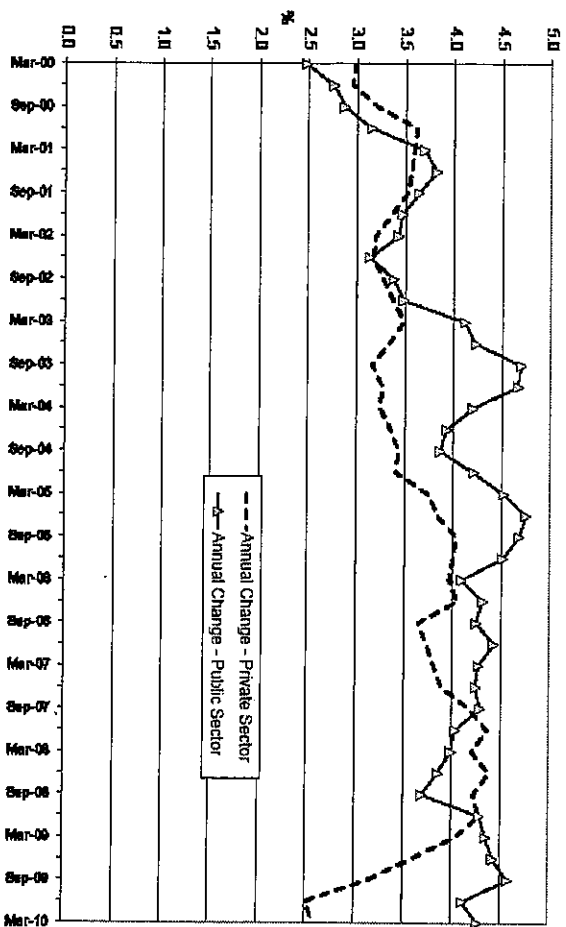
## Does Australia Have a Two-Speed Economy?

In recent years, reference to a two-speed economy has generally been interpreted as a comment on the relatively fast rate of growth in Australia's resources sector, contrasted with slower growth in other sectors. In terms of wages and earnings, however, it is possible to define a very different view of the two speeds in Australia's economy. In February 2007, the ratio of ordinary time earnings of women and men in full-time employment (the gender wage ratio) was equal to 84.2 per cent; by February 2010 the gap had widened by 1.6 percentage points to 82.6 per cent. The change was statistically significant. There appears to be a slow track for women's earnings in Australia (ABS 2010b).

The widening of the gender pay gap is largely a result of deterioration in the relative pay of women in private sector employment. At a national level, the average annual change in hourly earnings as measured by the ABS wage price index (WPI) was 4.3 per cent in both the public and private sectors at December 2008 (ABS 2010c). By March 2010 the annual growth rate was still 4.3 per cent in the public sector but had fallen to 2.6 per cent in the private sector (see Figure 1).

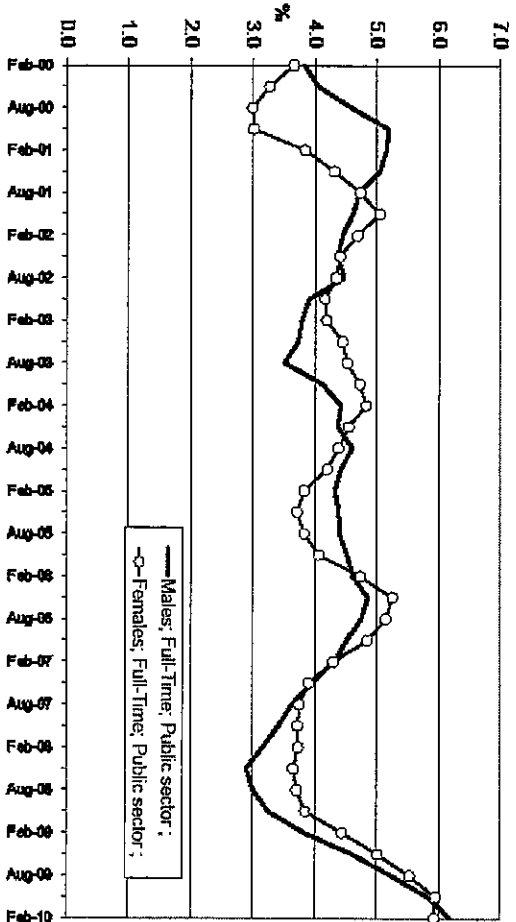
The WPI data cannot be disaggregated by sex. The ABS 6302.0 Average Weekly Earnings data may, however, be used to compute a series to compare the earnings growth of men and women in full-time employment disaggregated by sector (ABS 2010a). Comparisons are made using ordinary time earnings. Figure 2 shows trends in the public sector. At February 2010 the annual growth rate in earnings of women in this sector was 5.9 per cent and for men 6.2 per cent. Figure 3 shows trends in the private sector. At February 2010 males employed in the private sector were experiencing an annual average annual growth in their earnings of 6.8 per cent. Amongst females wages growth was much more subdued, being 3.9 per cent over the same period.

**Figure 1: Wage Price Index (excluding bonuses)  
Annual Change in Total Hourly Earnings by sector, March  
2000 to March 2010**



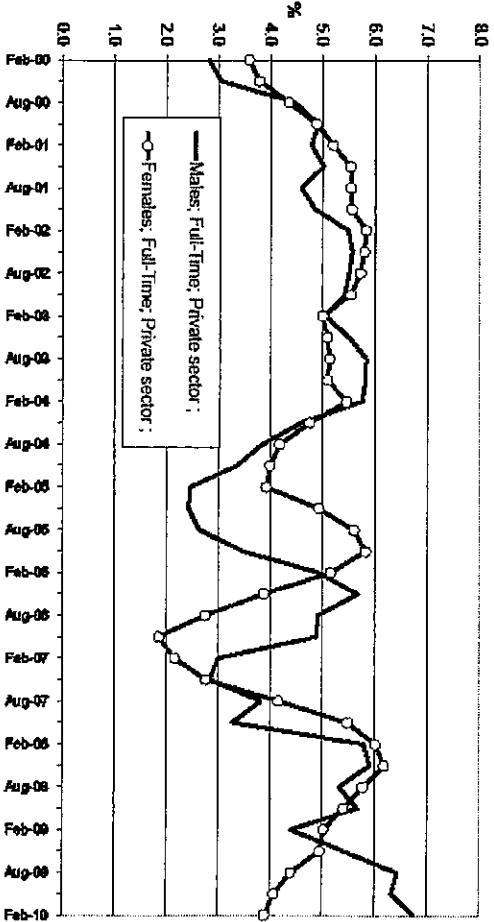
Source: ABS 2010c, original series

**Figure 2: Average Annual Growth in Ordinary Time Earnings,  
Males and Females Employed FT, Public Sector, 2000 to 2010**



Source: ABS 2010a, Tables 5 and 8

**Figure 3: Average Annual Growth in Ordinary Time Earnings,  
Males and Females Employed FT, Private Sector, 2000 to 2010**



Source: ABS 2010a, Tables 5 and 8

Industries with below average wage growth include manufacturing, retail trade, accommodation and food services, finance and insurance services, administrative and support services and other services.

The above data say little about trends in the part-time and casual labour market. The significant increase in part-time work (part-timers now account of 30 per cent of the workforce), together with the decline in average hours worked and increase in labour underutilization, suggests that the gender pay gap may be much wider than that shown here. Part-timers typically have worse (pro rata) earning outcomes than full-timers.

### **Fair Work Australia's National Minimum Wage Decision and Gender Wage Equity**

It is likely that the decision by the AFPC in 2009 to freeze the minimum wage would have done little to improve gender pay differences and may have served to exacerbate them. Women are proportionately more reliant on minimum award conditions than men. A higher proportion of women are employed in low paid sectors, where employers and employees have not engaged in collective bargaining and workers' wages and conditions have more commonly been determined by legislated minimum wages and conditions. This is particularly the case in the private sector, in which women's wage increases have been comparatively low.

As indicated at the start of this article, the AFPC decision was based on available economic forecasts, combined with its role and objectives as defined under the *WorkChoices* legislation. The AFPC's role emphasised the economic function of wages, particularly the fact that wages are a cost factor for employers. But the significance of wages extends beyond that of economic cost. Wages also reflect our social values and institutions and are an important factor determining the living standards of employees. Our wage structures continue to give a low economic value to important roles in the community services, hospitality, accommodation and other service sectors. The arguments that are used to defend relatively low wages in these sectors are varied and complex but it is difficult not to identify a gendered dimension. The economic argument that a badly paid nurse is likely to be a good nurse is rarely applied to roles dominated by men such as, for example, medical specialists or advertising executives (Heyes 2005).

With redefined roles and objectives, the social and institutional aspects of wages received substantially more attention in FWA's first decision. The role of minimum wages as not only a safety net but also a means of maintaining earnings relativities

and promoting social inclusion constituted more than one-quarter of the 319 paragraphs of reasoning leading to the announcement of the decision to increase minimum wages by \$26 per week. This is a welcome development, but there is room for considerably further attention to be paid to the gender dimension of wage determinations. It should be noted that the Women's Electoral Lobby's call for a \$49 increase was noted by FWA with the comment that 'this would set the weekly rate at \$592, a figure relative to average weekly earnings of 48.5 per cent, just short of the pre-AFPC era' (FWA 2010, p. 10).

The argument for ensuring gender wage equity extends beyond social values and inclusion. Women's participation in paid work will be crucial to Australia's economic growth prospects and to its ability to meet basic community needs in the future. Wages are a crucial determinant of participation rates. The historical undervaluation of work performed by women has discouraged their participation in paid work. It has also reduced the incentive for individuals to acquire skills in fields, such as social and community service work, traditionally associated with women's work.

### **Has Fair Work Australia Jeopardised Employment Opportunities in the 'Slower' Lanes of Australia's Economy?**

Within Australia and internationally, there remains remarkably little evidence that increases in minimum wages cause a net loss of jobs. Extensive research in the United Kingdom following the introduction of new minimum wage regulations in 1999 suggests that while 1.2 million workers had their wages increased, there was little or no evidence of employment effects' (Metcalfe 2008). Increasing wage rates to redress a historical undervaluation of work in the feminised sectors of the workforce, particularly social and community service work, will not adversely impact on employment. Rather, wage increases in these sectors are likely to have positive impacts on economic efficiency by helping to encourage workforce participation, promoting investment in skills required to meet key needs, improving labour utilisation and promoting an efficient and equitable allocation of household labour.

The *Fair Work Act* enables FWA to make orders to ensure that there will be equal remuneration for work of equal or comparable value. Inclusion of the words 'and comparable value' is significant and should improve the effectiveness of the provisions. It allows for comparisons to be carried out between different but comparable work, thereby assisting women in feminised occupations and industries, and removes the requirement to demonstrate discrimination in setting

wages historically. FWA's first minimum wage decision is a promising start. FWA has the authority, however, to deal with deep-seated gender inequities within Australia's wages structure, and the forthcoming equal remuneration case will provide an important opportunity to consider further the gender slow track in Australia's labour markets.

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Invited Paper

## An American Perspective on the 2010 Increase in the Australian Minimum Wage

Richard V. Burkhauser

The minimum wage provisions of the *Fair Labor Standards Act* of 1938 have been repealed by inflation. Many voices are now taking up the cry for a higher minimum. Economists have not been very outspoken on this type of legislation. It is my fundamental thesis that they can and should be outspoken, and singularly agreed. The popular objective of minimum wage legislation—the elimination of extreme poverty is not seriously debatable. The important questions are rather (1) Does such legislation diminish poverty? and (2) Are there efficient alternatives? The answers are, if I am not mistaken, unusually definite for questions of economic policy. If this is so, these answers should be given. Some readers will probably know my answers already ("no" and "yes," respectively); it is distressing how often one can guess the answer given to an economic question merely by knowing who asks it. But my personal answers are unimportant; the arguments on which they rest are... (Stigler 1946).

As part of its decision making process, the Australian Fair Pay Commission sponsored a Minimum Wage Forum of economists and policymakers in October 2008 to consider the consequences of a 2009 increase in the Australian minimum wage. I was asked to give a keynote speech on the topic of how the U.S. experience, with our federal and state minimum wage laws, could inform this debate. In that address (Burkhauser and Sabia 2008), I urged Commission members not to raise the Australian minimum wage again until they could respond to the questions contained in the preamble of Stigler's seminal American Economic Review article quoted above: (1) 'Does such legislation diminish poverty?' and (2) 'Are there efficient alternatives?' While fully recognizing the difference between correlation and causation, I was pleased to see that in the Commission's final year, the Australian minimum wage remained frozen at 2008 levels.