



**Centre of Full Employment and Equity**

**Working Paper No. 01-02**

**The Impact of New Forms of Wage Setting on Wage Outcomes in  
Australia**

Ellen Carlson, William Mitchell, and Martin Watts

May 2001

Paper to be presented at the Employment Studies Centre Special Conference  
*Ten Years of Enterprise Bargaining*, May 2001

Centre of Full Employment and Equity  
The University of Newcastle, Callaghan NSW 2308, Australia  
Home Page: <http://e1.newcastle.edu.au/coffee>  
Email: [coffee@newcastle.edu.au](mailto:coffee@newcastle.edu.au)

## 1. Introduction

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Relations Commission, determined by principles based on cost of living and national productivity indicators, has been replaced by a new decentralised approach” (Mortimer, 2000: 175).

In this paper, we use published and unpublished data from the latest ABS survey of *Employee Earnings and Hours* (ABS, 2001) held in May 2000 to examine the extent to which agreement making has become the dominant form of pay setting in Australia. Also 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 WRA was introduced.

The ABS *Earnings and Hours* data shows that at May 2000 the most common method of setting pay was unregistered individual agreements (38.2%) (ABS, 2001: 7). This important result, which is supported by other evidence (NILs, 1999b, DEWRSB, 2000b), 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 a range of questions both legal and economic. In this paper we consider some of these economic issues, including the changing view towards labour as a commodity and the relationship of the wage determination system to the conduct of macroeconomic policy.

The paper is set out as follows: Section 2 briefly considers the wage-setting framework under the WRA and summarises the major trends in wage setting revealed by ABS (2001). Section 3 considers some economic impacts of shifting labour relations predominantly to the common law domain. Section 4 examines the macroeconomic trends in the labour market that have accompanied the increasing decentralisation of labour relations in Australia. We show that the major distributional shifts in factor shares occurred during the early days of the Accord and that the WRA has not had a major impact in this regard. Section 5 focuses on the impact of the WRA on the level and distribution of earnings. We show that in general, collective agreements have delivered higher average wage outcomes for part-time and full-time employees. Full-time adult males and females enjoy higher mean wages and less inequality under collective agreements than individual agreements. Concluding remarks follow.

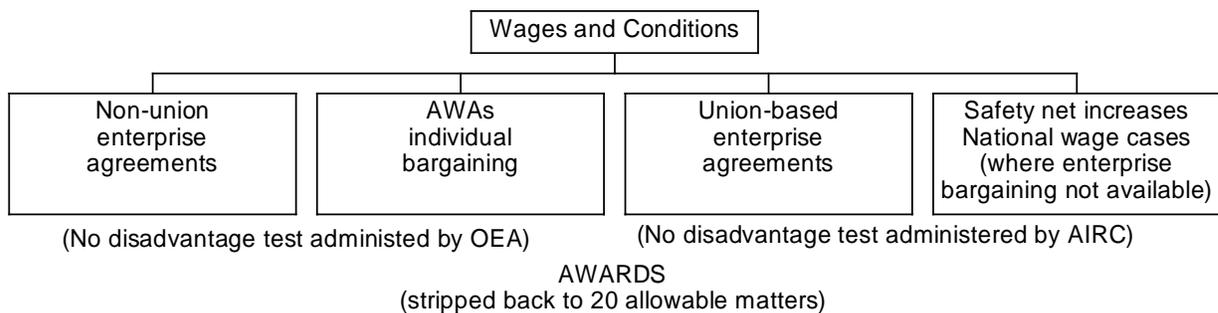
## **2. Wage-setting under the Workplace Relations Act 1996**

### **2.1 The major changes**

The WRA formalised the decentralisation of wage setting started by the Labour government under the Accord process. Many Coalition State governments (for example, Victoria and Western Australia) who had already implemented similar or more far-reaching reforms. Underpinning the WRA 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 to 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 the 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 present in the economy 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) provide a good summary of the changes and refer to 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 1 (reproduced from Figure 6 of Wailes and Lansbury) shows the range of bargaining modes that are now available under the WRA. The introduction of the Australian workplace agreements (AWAs) shifted the regulative role away from the AIRC and placed it in the hands of a statutory body called the Office of the Employment Advocate (OEA). The award, which remains the effective minimum conditions of work and pay and is regulated by the AIRC under the strict 20 allowable conditions rules provided by the WRA, becomes ineffective once the AWA is ratified by the OEA.

Figure 1 Wage and conditions under fragmented flexibility



Source: Wailes and Lansbury (2000), Figure 6

The WRA and related legislation introduced individual contracts into the federal system, reduced the scope of awards and restricted the influence of the AIRC to a small number of "allowable matters" (see Appendix 1). The WRA forced the AIRC to simplify all federal awards so that they only include a "safety net" of minimum wages and conditions. The AIRC was confined to setting minimum rates and arbitration was allowed in "special and isolated circumstances" (Commonwealth DIR, 1997). 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. There is a global no-disadvantage test, which compares the overall package of provisions of the agreement with those of the relevant award and any other law considered relevant to ensure that there is not a reduction in an employee's terms and conditions of employment.

Table 1 A taxonomy of federal enterprise agreements

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	<ol style="list-style-type: none"> <li>1. Negotiated with employees on a collective basis and each employee must sign-off on the agreement.</li> <li>2. Negotiated with employees on an individual basis</li> </ol>	<ol style="list-style-type: none"> <li>1. Collective agreement made between an employer and a valid majority of employees.</li> <li>2. Collective agreement made between an employer and a union or unions representing employees</li> <li>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.</li> </ol>
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
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.

In addition, the role of unions has been reduced because enterprise bargaining may now exclude trade union involvement. Some of the features of these Federal agreements under the WRA are summarised in Table 1 (see also Birmingham 1997; OEA (a); 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 in a workplace and applied as accepted practice in the workplace, even though they are never formalised. The intent and outcome of the WRA has been to shift labour relations away from specialised tribunals into the common law domain that governs any contract. 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) argues that the non-registration of agreements in the relevant industrial tribunal makes their enforcement difficult and they may be found to be unenforceable if challenged. We examine the shift to common law within the Australian labour relations system in Section 3.

## 2.2 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 in Australia.

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 2 Methods of setting pay by sector

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

Registered individual agreements in the public sector (3.0%) cover twice the share of employees as compared to the private sector (1.5%). 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.

Male and female part-time employees are more likely to be subject to awards (39.9% 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 highly associated with management preferences, rather than employee preferences. The registration of agreements was more common at workplaces with 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).

### **3. Economic implications of the shift to common law**

The introductory 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? There are many legal issues that arise that are not the purview of this paper (see for example, McCallum, McCarry, and Ronfeldt, 1994) In this section we consider some of the economic issues involved in the shift to common law labour relations.

### 3.1 Labour as a Commodity

Krugman (1998) argues that at the heart of capitalism's inhumanity is the fact 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 labour is at least a special commodity, because the employer consumes the use values of the exchange (in the work process) during rather than after the exchange. Also the worker relies on employment for sustenance and social identity. The fundamental shifts in labour relations since the WRA 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 wage and conditions setting helped to provide the protections for unionised workers.

The clear intent of recent legislation is for wage and conditions to be determined by market forces and equity and social justice issues to be picked up by other legislation. The question is whether the negotiation of individual contracts is appropriate for labour relations. Australian legal practice until recently has not regarded the labour market relations to being best regulated by commercial law. Contract law was not considered an appropriate means of accomplishing the relevant goals under a variety of international law models. 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 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. It seems the ultimate goal of the current push for decentralised outcomes is to completely abolish 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 government has foreshadowed its desire to remove the industrial relations power of the Constitution, having employment regulation covered predominantly by the Corporations power. Other issues such as union deregistration would be formally linked to misconduct in the Trade Practices Act (Teicher and Van Gramberg, 1999). Moore (2000: 141) reflects the logic of this approach:

In the light of the trend towards unregistered individual agreements, there is a need to reconsider the relative benefits of AWAs. AWAs provide more protection to employees (and employers) than common law. More than 40 per cent of the workforce is on unregistered individual agreements now 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 with the rapid decline in union membership in Australia.

The downside of on-going 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 WRA to renegotiate an AWA and cut the benefits captured in a prior agreement. Further, there is on-going pressure for workers to trade in non-wage entitlements for cash rewards which is not necessarily consistent with a rising quality of life.<sup>1</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% of all employees who are low paid continues to be provided through Safety Net rises determined by the AIRC (see Table 2). Since 1996 annual adjustments to the minimum wage have been made, all of them being higher than that desired by employers. In the 1997-98 decision it was specified that the increases were to be fully absorbable against all above award payments, including those contained in certified agreements and Australian workplace agreements (AWAs), and informal over-award payments. Thus employees reliant or largely reliant on the safety-net increases can expect no wage increase if they received over-award payments. In the 1998-99 decision the Full Bench also outlined a new principle, amending the “Economic Incapacity Principle”, such that increases were to be available no sooner than 12 months after an award is varied. (DEWRSB, 1999 and DEWRSB, 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).

### **4. 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) and decompose these movements into their constituent parts. We also examine the changes in the trade-off between inflation and unemployment over the period since the 1970s. It is shown that the recent period of pay determination appears to have been associated with a shift inwards of the relation between inflation and unemployment.

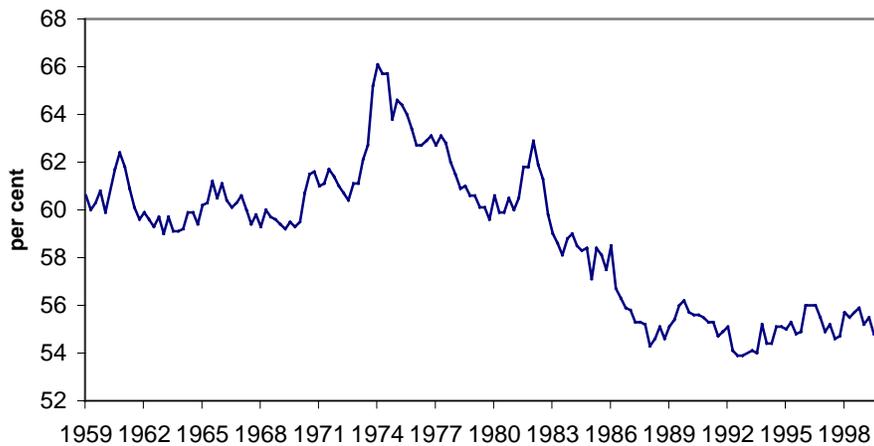
#### 4.1 The wages share

During the 1970s, the distribution of income shifted sharply in favour of the wages share (Green, Mitchell and Watts, 1998). 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 aimed to reverse the wage share gains of the 1970s and was very successful in this regard. Similarly, the increased emphasis among policy makers on both sides of politics since the late 1980s on more decentralised wages bargaining has its roots in the belief that wages must be matched to plant productivity outcomes if sustained employment growth is to be achieved.

The correlation between the rising wage share and the 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 and 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 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 1983-2000 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, 1998).

Figure 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 the 1984. Up until the beginning of the Accord, there appears to be a modest increasing trend. Two notable rises occurred in the mid 1970s and in 1982/83. 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 has now appeared to stabilise around this lower level.

Figure 2 Share of wages in non-farm GDP (per cent)



Source: ABS AUSSTATS Database

A series of recursive regressions were run to test for significant breaks in the wage share time series over the 1959-2000 period. 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 1974-75 period. From 1983(3) the series exhibits a significant negative trend. There is not a statistically significant break attributable to the introduction of the Workplace Relations 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. Table 3 shows the results of the preferred regression based on the likelihood ratio tests.

A simple test of means results for the two samples reinforces the regression results with the null hypothesis of zero difference between the periods being easily rejected. The mean of the wage share from 1959(1) to 1983(2) was 61.05 (variance of 2.61), while the mean was 55.75 (variance of 1.95) after that point. The *t*-statistic for the test was 22.45, an emphatic rejection.

Table 3 Segmented trend analysis for the wage share, 1959:3 to 2000:3

Regressor	Coefficient	<i>t</i> -statistics
Constant	60.09	227.96
TREND1	0.020476	4.24
TREND2	-0.033710	14.46
R-squared	0.81	
SE. as % mean WSHARE	2.28	

Ordinary Least Squares regression using TREND 1 (a linear trend up to 1983(2) and zero thereafter, and TREND 2 (a linear trend from 1983(3) and zero otherwise).

Given the significant shifts in factor shares that we have detected above, the next issue is to decompose the movements into their constituent parts<sup>2</sup> Table 4 shows the growth rates for various periods of the components of the non-farm wage share and thus allows us to decompose the overall movements in the wage share.

It is clear that in the recent period (1995-2000), real output growth relative to employment growth has been such that labour productivity growth (measured as output per person employed) has exceeded the growth in real wages. The 1995-2000 period resembles the 1960s more than any more recent period. Low inflation has been accomplished at the expense of subdued employment growth. The only period that real wages fell was during the heyday of the Accord. The data also suggests that productivity movements are only partially being passed on in the form of lower prices and/or higher nominal wage outcomes, so that businesses are using the productivity gains to expand their margins.

Table 4 Average annual growth rates for non-farm wage share components

Period	GNFP	Deflator	Employment	AWE	Chg WS	Chg W/P	Chg LP
1960-1969	5.32	3.22	2.88	5.27	-0.39	2.04	2.43
1970-1975	3.60	12.11	1.90	16.48	2.67	4.37	1.70
1975-1980	3.20	9.88	1.40	10.60	-1.08	0.71	1.80
1980-1985	3.11	8.79	1.36	9.76	-0.78	0.97	1.75
1985-1990	3.56	7.02	3.15	6.77	-0.66	-0.25	0.41
1990-1995	2.89	1.60	1.07	3.44	0.02	1.84	1.82
1995-2000	4.40	1.66	1.83	3.84	-0.38	2.18	2.56

Source: ABS AUSTATS.

GNFP is Real Gross Non-Farm Product, Deflator is the GNFP deflator, Employment is Non-Farm Employment, AWE is average weekly non-farm wage and salary earners, W/P is the real wage, and LP is labour productivity in persons.

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.

#### 4.2 The Phillips Curve Perspective

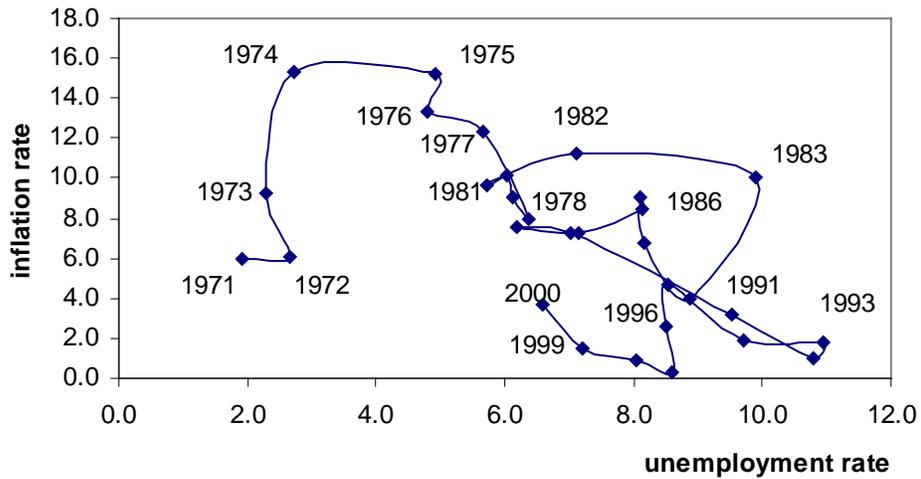
The relationship between the rate of inflation and the unemployment rate has long been a topic of debate. While the proponents of the non-accelerating inflation rate of unemployment (NAIRU) paradigm reject the idea that policy makers can exploit a long run trade off between inflation and unemployment, 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, and Perry, 2000; Fair, 2000; Mitchell, 2001). The Phillips curve does provide us with information about the cost of running disinflation policies. In the context of the current conduct of monetary policy where unemployment has become a policy instrument rather than a policy target, this is of some importance.

Under the Accord macroeconomic wage outcomes were managed via the specialised tribunals, principally via the National Wage Cases (Mortimer, 2000). After the Accord was abandoned, the wages system becoming increasing decentralised making the timing

and size of wage increases less predictable. In 1996 the Reserve Bank commented that: “to achieve the banks 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, December 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. Such a policy challenges the logic of decentralised wage determination. Cannot the employers settle on wage bargains, which reflect productivity? Why should the Reserve Bank concern itself with enterprise bargains? If wage outcomes can inflict macroeconomic damage to the overall economy what logic is there in promoting a system, which now has very little scope to moderate wage outcomes short of generating unemployment through the crude use of interest rate policy? Ironically with awards being adjusted through Safety Net Cases, award recipients who are the lowest paid bear the brunt of wage restraint (Watts, 2001).

Figure 3 shows the Australian Phillips Curve for the period 1971 to 2000. There are three distinct periods that are captured in the relationship. 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 1982-83. The Accord largely prevented that shift from occurring and allowed the economy to grow without further wages outbreaks (see Mitchell, 1987, 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. The trade-off has not worsened but lower levels of unemployment are now associated with each inflation rate. The shift corresponded to the virtual elimination of inflationary expectations in the early 1990s and the highly persistent behaviour of unemployment over the same period (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 and Carlson, 2000) and a rise in inflation due to the GST.

Figure 3 Australian Phillips curve 1971-2000



Source: ABS AUSSTATS. Authors' own calculations.

## 5 Wage outcomes under different methods of pay setting

The main sources of contemporary data employed to examine wage outcomes under enterprise bargaining have been the Workplace Agreements Database collected by the Department of Employment, Workplace Relations and Small Business (DEWRSB) and the ADAM (Agreements Database and Monitor) Report which is assembled by ACIRRT at the University of Sydney. These data typically report wage increases based on registered collective and individual agreements and awards, so that unregistered agreements are neglected.<sup>3</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 agreements. Highly detailed enterprise level data is required which not only captures the essence of the bargain but also identifies the status of those employees who are party to the agreement.

The analysis in this section will be mainly confined to the consideration of a snapshot of wage outcomes across the economy in May 2000 drawing on ABS (2001), so that the dynamics of pay setting through time 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 time and full-time status, occupation, industry and gender.

### 5.1 Registered and unregistered agreements

Males have a lower AWTE under registered collective agreements (\$850.40) than their male contemporaries who are 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 5). 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 individual registered 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).

Table 5 Average weekly total earnings (\$) by methods of setting pay by sector

	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	761.80	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	562.60	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

## 5.2 Public and private sectors

Table 2 reveals 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 5). 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.

## 5.3 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 6).

The published data combines registered and unregistered collective agreements and registered and unregistered individual agreements.<sup>4</sup> 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 (47.0%) as compared to collective agreements (37.8%), whereas 34.6% of part-time employees are subject to collective agreements as compared to 25.5% under individual agreements. These different weights explain the disparity between collective and individual agreements for all employees.

Table 6 Average weekly total earnings by methods of setting pay by sector

	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	\$1,023.40	\$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

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).

#### 5.4 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.

Individuals agreements (both registered and unregistered) predominate in some of the high skill, high paid occupations, notably managers and administrators, associated 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, 20001: 47). Awards predominate in the lower paid occupations. Except for advanced clerical and service workers and intermediate production and transport workers, awards are less than 80% 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.

#### 5.5 Pay setting across industries

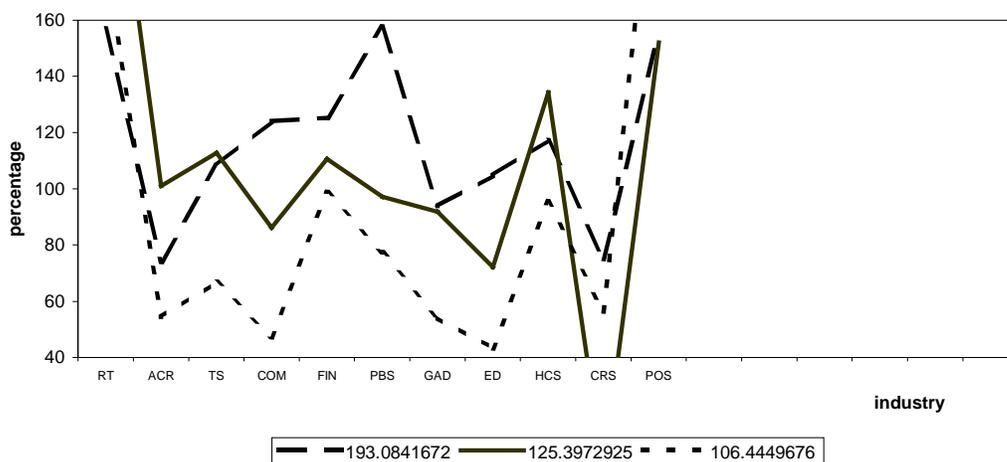
We now turn to an analysis of wage outcomes across industries with reference to gender. This analysis is more germane to the analysis of different forms of pay setting, given the focus of bargaining at the enterprise level. Again registered and unregistered agreements are combined.

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 4 and 5 depict for males and females 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 worse under the three forms of pay setting.

Figure 4 Male AWTE ratios by industry and type of pay setting, May 2000



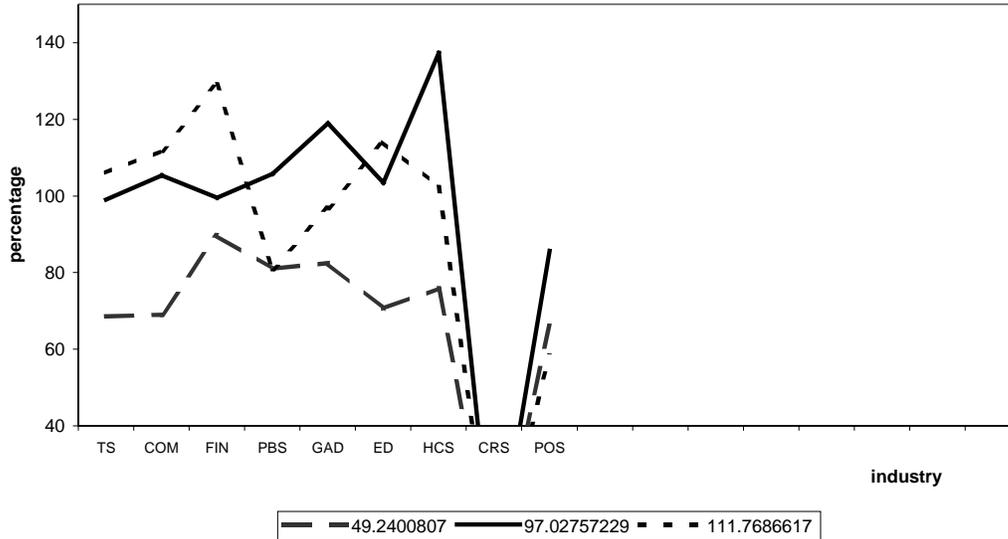
Source: ABS, *Employee Earnings and Hours*, 2001 Table 25, p.46.

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 & other services.

Average pay for males under collective agreements exceeds corresponding average wages under individual agreements in all industries and mining, manufacturing, construction, transportation and storage, education and personal and other services. On

the other hand, females do better under collective agreements in all these industries, but in addition, Health and Community Services.

Figure 5 Female AWTE ratios by industry and type of pay setting, May 2000



Source: ABS, *Employee Earnings and Hours*, 2001 Table 25, p.46.  
 Notes: For key to industries, see Figure 4.

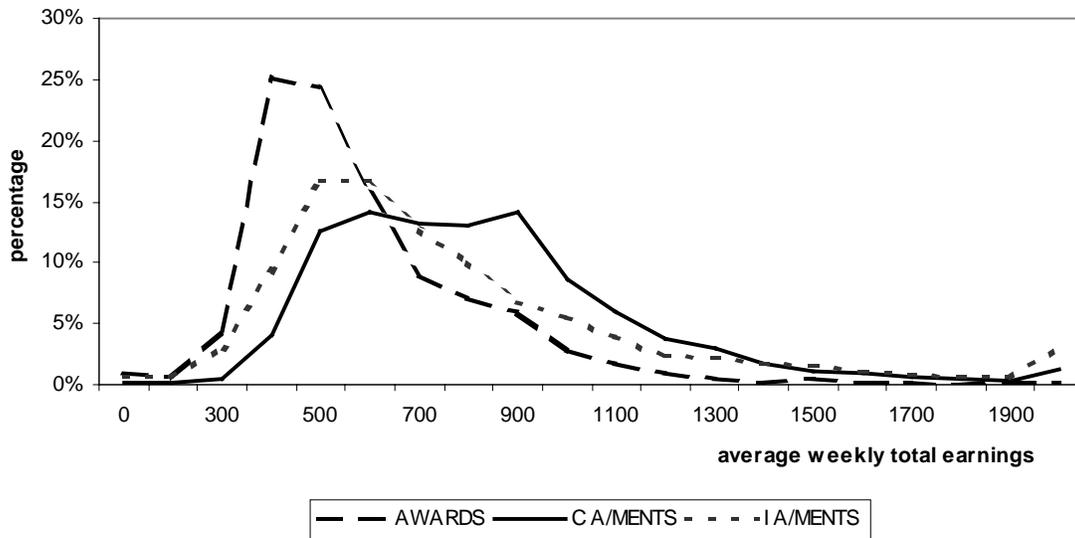
### 5.6 Wage inequality

Rising wage inequality has been experienced in most industrialised countries, including Australia, the USA, Canada and Britain (Watts, 2000, Watson, 2001). Orthodox explanations tend to focus on skill biased technical change and the impact of growing volume of international trade (Borland 1999). Institutional change is being increasingly scrutinised by US researchers including Thurow (1998) and Fortin and Lemieux (1997). Borland (1999:194) acknowledges that further research in Australia is required to demonstrate the relationship between changes in the industrial relations system and growing wage inequality.

Wooden (2000: 145) notes that inequality grew steadily over the period 1975-98, a period characterised by both highly centralised and decentralised bargaining systems (see also Watts and Mitchell, 1990). He found that there was a marked increase in dispersion after

1994, at a time when enterprise bargaining was accelerating. Given that one of the objectives of enterprise bargaining was to increase the diversity of wage outcomes, he argues that it is reasonable to conclude that there is a link between enterprise bargaining and growing wage inequality.

Figure 6 Distributions of average weekly total earnings for full-time adults, May 2000



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

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>5</sup> and in total for May 2000<sup>6</sup>. Unpublished data are also available by gender and industry, but a significant number of the entries for the different wage ranges exhibit unacceptably high standard errors, so that interpretation of these data requires caution.<sup>7</sup>

Figure 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 the agreement 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). As noted in the previous section, once full-time employment is isolated, collective agreements are shown to yield higher mean wages than individual agreements.

Table 7 Gini ratios, means and medians for full-time adult employees by different methods of pay setting

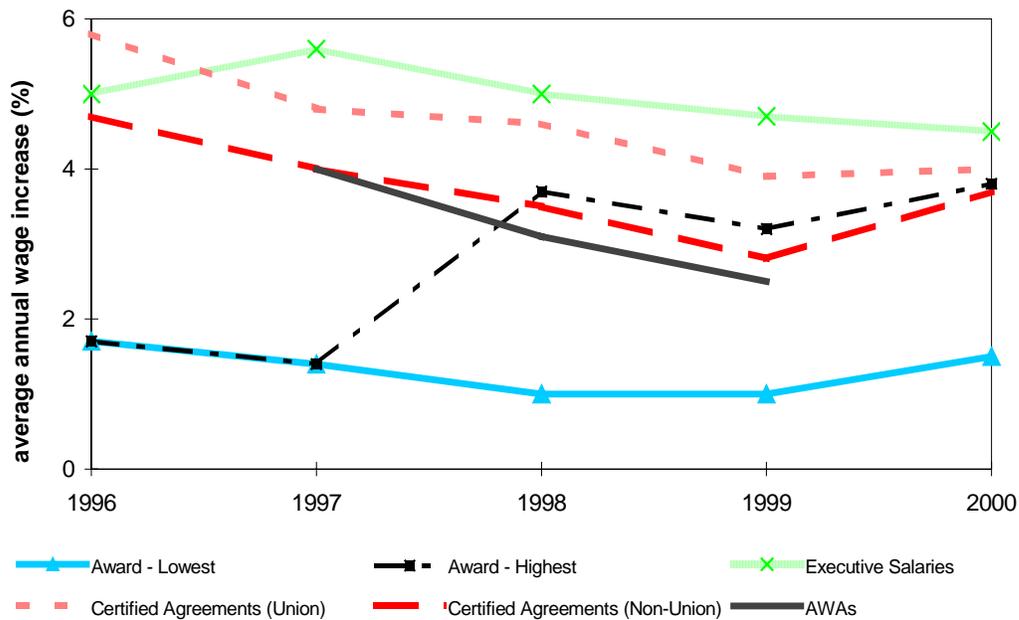
	Total		Awards		Collective Agreements		Individual Agreements	
	Gini	Mean Median	Gini	Mean Median	Gini	Mean Median	Gini	Mean Median
Total (managerial & non-managerial) full-time adult earnings								
Total	0.237	\$837.80 \$746.37	0.187	\$637.30 \$577.87	0.194	\$890.90 \$839.69	0.263	\$852.70 \$725.00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

We have already demonstrated that women are typically relatively better off under collective agreements, but high wage inequality amongst women would be undesirable. Accordingly, we compute the Gini ratios of inequality for males, females and in total (see Appendix 2). The results are conclusive (see Table 7). Collective agreements for males, 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 directly provide 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 6, the distributions overlap. Also we only have a snapshot of wages under different wage setting arrangements at a point in time, so that simple comparisons of wages across different forms of wage setting can be misleading.

Figure 7 Wage increases by awards, collective agreements, AWAs and executive salaries, 1996-2000



Source: ACIRRT (2001:8).

However Figure 7 demonstrates that wage growth under certified collective agreements, whether union or non-union, exceeded wage growth under Australian Workplace Agreements, that is certified individual agreements over the period 1996-2000. Again it should be noted that the significant wage increases paid to some groups may be in exchange for non-wage benefits.

## 6 Conclusion

In this paper we have shown that the implementation of the Accord heralded a long term decline in the wage share. This trend has not been significantly affected by the Workplace

Relations 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. We note that there is a contradiction between decentralisation under industrial relations reform and exhortation by the Reserve bank to employers and employees to moderate wage outcomes. Examination of the recent ABS publication, *Employee Earnings and Hours*, reveals the significance of unregistered individual agreements. The paper explores the repercussions of employees being subject to the common law, when agreements are unregistered. It is shown that full-time employees earn higher mean and median wages with correspondingly less inequality under collective agreements than individual agreements. Finally it is noted that employees receiving awards only are subject to relatively low wages, as compared to other employees in the same occupation or industry. As a consequence the award system is becomingly increasingly irrelevant in specifying minimum wages for different job classifications.

## Appendix 1

The allowable award matters prescribed by the 1996 WRA are as follows (AIRC 2001):

1. Classifications of employees and skill-based career paths;
2. Ordinary time hours of work and the times within which they are performed, rest breaks, notice periods and variations to working hours;
3. Rates of pay generally (such as hourly rates and annual salaries), rates of pay for juniors, trainees or apprentices, and rates of pay for employees under the supported wage system;
4. Piece rates, tallies and bonuses;
5. Annual leave and leave loadings;
6. Long service leave;
7. Personal/carer's leave, including sick leave, family leave, bereavement leave, compassionate leave, cultural leave and other like forms of leave;
8. Parental leave, including maternity and adoption leave;
9. Public holidays;
10. Allowances;
11. Loadings for working overtime or for casual or shift work;
12. Penalty rates;
13. Redundancy pay;
14. Notice of termination;
15. Stand-down provisions;
16. Dispute settling procedures;
17. Jury service;
18. Type of employment, such as full-time employment, casual employment, regular part-time employment and shift work;
19. Superannuation; and,
20. Pay and conditions for outworkers, but only to the extent necessary to ensure that their overall pay and conditions of employment are fair and reasonable in comparison with the pay and conditions of employment specified in a relevant award or awards for employees who perform the same kind of work at an employer's business or commercial premises.

## Appendix 2

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 jth range and  $\bar{w}$  denotes the overall mean wage (Dagum, 1997).

## References

ABS (2001) *Survey of Employee Earnings and Hours*, Cat No. 6306.0.

ACIRRT, *Developments In Enterprise Agreements - AWAs Redefining Standards on Wages and Conditions of Work*, <http://www.econ.usyd.edu.au/acirrt/>

ACIRRT (2001) ADAM Report, No. 28, March, ACIRRT, University of Sydney.

AIRC (2001) Award Simplification, available from the AIRC WWW site at the following address t [http://www.airc.gov.au/my\\_html/award\\_simplification.html](http://www.airc.gov.au/my_html/award_simplification.html)

Akerlof, G.E., Dickens, W.T., and Perry, G.L. (2000) 'Near-Rational Wage and Price Setting and the Long-Run' *Brookings Papers on Economic Activity*, 1: 1-61.

Birmingham A. (1997) 'A Guide to the Workplace Relations Act 1996' *Australian Bulletin of Labour*, 23(1): 33- 47.

Borland, J. (1999) 'Earnings Inequality in Australia: Changes, Causes and Consequences' *Economic Record* 75(229): 177-202.

Commonwealth DIR (1997) 'What Awards Cover and How they will be simplified' Federal Workplace Relations Factsheet Number 3.

Dagum, C. (1997) 'A New Approach to the Decomposition of the Gini Income Inequality Ratio' *Empirical Economics* 22: 515-531.

Dawkins, P. (1999) 'A Plan to Cut Unemployment in Australia', *Mercer – Melbourne Institute Quarter Bulletin of Economic Trends*, 1(99): 48-59.

DEWRSB (1999) *Workplace Relations Act Monitor - June 1999*, available at <http://www.dewrsb.gov.au/workplaceRelations/legislation/wrAct/monitor/June1999.htm>

DEWRSB (2000a) *Workplace Relations Act Monitor - June 2000*, available at <http://www.dewrsb.gov.au/workplaceRelations/legislation/wrAct/monitor/june2000/>

DEWRSB (2000b) *Award and Agreement Coverage Survey*, July.

DEWRSB (2000c)

Fair, R. (2000) 'Testing the NAIRU Model for the United States' *The Review of Economics and Statistics*, 64-71.

Fortin, N.M. and Lemieux, T. (1997) 'Institutional Change and Rising Wage Inequality: Is There a Linkage?' *Journal of Economic Perspectives* 11(2): 75-96.

Giudice, Justice (2000) 'Dealing with Labour Disputes in Australia', *Employment Law Bulletin*, 6(5): 36-42.

Golden J. (2000) "Contracts of Employment, Awards and Agreements", Legal Access Services, <http://www.legalaccess.com.au/news/99081001.shtml>

Hancock K. (2000) 'Trends in Australian Industrial Regulation' *Australian Bulletin of Labour*, 26(2): 83-96.

Krugman, Paul (1998) *The Accidental Theorist*; London, Penguin Books.

McCallum, R., McCarry, G., Ronfeldt, P., (1994) *Employment Security*, Sydney, The Federation Press.

Mitchell, William F. (1987) 'The NAIRU, Structural Imbalance and the Macroequilibrium Unemployment Rate' *Australian Economic Papers*, 26: 101-118.

Mitchell, William F. (2000) 'Modelling the Impact of the Accord on Wage Inflation', in Kenneth Wilson, Joanne Bradford, and Maree Fitzpatrick (eds.) *Australia in Accord*, Melbourne, South Pacific Publishing: 215-230.

Mitchell, William F. (2001) 'Non-NAIRU Dynamics in the OECD', Working Paper No. 4, *Centre of Full Employment and Equity*, The University of Newcastle.

Mitchell, W.F. and M. J. Watts (1997) 'The Path to Full Employment' *Australian Economic Review*, 30(4): 436-44.

Mitchell, William F. and Carlson, E. (2000) 'Beyond the Unemployment Rate – Labour Underutilisation and Underemployment in Australia and the USA' Working Paper No. 6, *Centre of Full Employment and Equity*, The University of Newcastle.

Moore D. (2000) 'An Alternative to the Industrial Relations Commission' *Australian Bulletin of Labour*, 26(2): 128-146.

Mortimer D (2000) 'Back to the Future? Australian Wage Fixation in the 1990s' *International Employment Relations Review*, 6(1) :175-189

NILS (1999a) 'The Role and Significance of Individual Agreements in Australian Industrial Relations', *National Institute of Labour Studies Discussion Paper* Number 6, March.

NILS (1999b) 'The Changing Nature of Bargaining Structures and the Consequences for Management and Trade Unions' *National Institute of Labour Studies Discussion Paper* Number 7, June.

Office of the Employment Advocate (OEA (a)) 'What is the role and function of the OEA?' at <http://www.oea.gov.au/FAQ/FaqStudent.html#how>.

Standing, Guy (1999) *Global Labour Flexibility: Seeking Distributive Justice*, New York: St.Martin's Press.

Teicher and Van Gramberg (1999) 'A Brave New World of Workplace Relations: A Review of the Ministerial Implementation Discussion Paper and Other Documents' *International Employment Relations Review*, 5(1): 75-87

Thurow, L. C. (1998) 'Wage Dispersion: "Who Done It?"' *Journal of Post Keynesian Economics* 21(1): 25-37.

Wailles, M. and Lansbury, R.D. (2000) 'Collective bargaining and flexibility: Australia' *International Labour Office, InFocus Programme on Strengthening Social Dialogue*, <http://www.ilo.org/public/english/dialogue/infocus/papers/australia/index.htm>.

Waring, P. and Lewer, J. (2001) 'The No Disadvantage Test: Failing Workers'. Paper presented at the Employment Studies Centre Conference, *Ten Years of Enterprise Bargaining*, Newcastle, May.

Watson, I. (2001) 'Kennett's Industrial Relations Legacy: The Impact of Deregulation On Earnings in Victoria', ACIRRT Working Paper No.62, University of Sydney.

Watts, M.J. and W.F. Mitchell (1990). 'The Impact of Incomes Policy in Australia on the Male Inter-Industry Wage Structure', *Journal of Industrial Relations*, 353-69.

Watts, M.J. (2000) 'The Accord and Wage Polarisation in Australia: Some Evidence and Tentative Explanations', in K. Wilson, J. Bradford & M. Fitzpatrick (eds.) *Australia in Accord*, Melbourne, South Pacific Publishing.

Watts, M.J. (2001) 'Wages and Wage Determination in 2000', *Journal of Industrial Relations*, 43(2): 177-95.

Wooden, M. (2000) *The Transformation of Australian Industrial Relations*, Sydney, The Federation Press.

---

<sup>1</sup> A similar shortcoming applies with respect to the no-disadvantage test (see Waring and Lewer, 2001: 10-11).

<sup>2</sup> The decomposition is based on the definition of the wage share as the ratio of the real wage to labour productivity. In terms of growth rates, 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>3</sup> In DEWRSB (2000b: 5) average weekly wages for full-time employees on awards only, overawards/unregistered agreements, registered collective agreements and other pay agreements are provided.

<sup>4</sup> It is a moot point whether the ABS should differentiate between registered and unregistered agreements in aggregate, rather than collective versus individual agreements.

<sup>5</sup> Both individual and collective agreements include both registered and unregistered agreements.

<sup>6</sup> Hourly earnings data would be preferable, but the ABS does not collect hours data for managers and administrators.

---

<sup>7</sup> Comparisons of wage distribution data by method of pay setting across individual industries cannot be undertaken.