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The Australian Labour Market

Year of the Flip-Flop: the Australian Labour Market in 2001

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The run-up to last year's federal election saw politicians accusing one another of a number of policy manoeuvres ranging from the inelegant 'flip-flop' to the more daring 'double pike with twist'. Such pirouettes were not confined to the political stage. Media commentators and market economists also vacillated about the state of the Australian economy: was it destined to follow the United States into recession, or was it to be the 'miracle economy' of the OECD? No-one seemed to know, or at least they didn't seem to know for very long.

Frequently, it was the same person who shifted positions as they read the latest runes emerging from the Bureau of Statistics or commented on other 'leading indicators'. To take an example, in February 2001, Mr Saul Eslake of the ANZ Bank was of the view that 'while the Australian economy is undoubtedly slowing, it is not in recession' and predicted an unemployment rate of 6 per cent by June.¹ One month later, this 'tentative optimism' had been reversed and unemployment was now predicted to rise to 7 per cent by May. By the following month, the prognosis was even gloomier; it was now evident that 'we may not yet have seen the trough in employment'. A 1.1 per cent upturn in newspaper job advertisements in May seemed to buck the trend, but to Mr Eslake it did 'not constitute proof that an upturn in employment is yet at hand'. This more cautious position appeared validated a month later when the number of newspaper job advertisements fell once more, which suggested 'that the labour market is still weakening'. The unemployment rate was now predicted to peak at between 7.25 and 7.5 per cent before the end of the year. There was, of course, no mention of the prediction made just a few months earlier that the unemployment rate would be down to 6 per cent by June—neither by Mr Eslake, nor by the journalists who faithfully reported his remarks. Such is what passes for quality analysis these days, a failing most pronounced in the over-emphasis given to the 'latest batch of numbers'.²

What did happen with the Australian labour market in 2001? Can a more sober and medium-term perspective allow us to understand whether the long

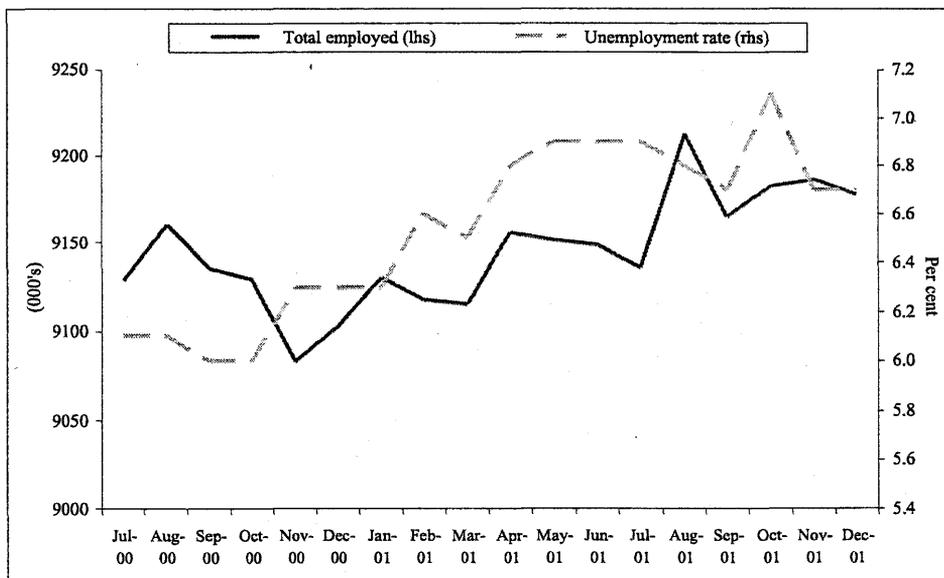
boom of the 1990s had finally peaked, or was it, as it proved to be in 1997 in the wake of the 'Asian crisis', only a minor hiccup before returning to an upward trend once more?

Aggregate Employment and Unemployment

2001 was a roller-coaster year for the Australian labour market. As can be seen from Figure 1, total employment on a seasonally-adjusted basis appeared to peak around the time the Olympic Games were held. It declined over the following three months, and then hovered a bit below the August 2000 level for the first half of 2001, before rising above it in the second half of the year. Over the same period the unemployment rate fell to its lowest level for more than a decade in September 2000. It then progressively ratcheted up to 6.9 per cent in May of 2001 before easing off to 6.7 per cent by the year's end, with the exception of a single month (October) where it flitted above seven per cent.

There was a fair degree of volatility in these two series, itself an indication that a turning point—in this case a downturn—may have been reached. After thirteen months of consistent growth in total employment up to August 2000,

Figure 1: Total Employment, and Unemployment Rate, July 2000 to December 2001



Source: *Labour Force, Australia*, Cat. No. 6202.0, seasonally adjusted data.

there were then nine months up to the end of 2001 where employment rose after falling, or fell after rising, the preceding month. Similarly, the unemployment rate also fluctuated. After falling or remaining stable in seven consecutive months, it rose in November 2000 and then alternated between rising or falling in five of the following thirteen months. Seasonally adjusted series rarely show a smooth trend, so some volatility is to be expected, but it is the extent of volatility which has been particularly marked over 2001. Doubtless, it is this which has caused the commentators to first flip, then flop, in making assessments on the basis of monthly changes.

In Table 1 we show how the aggregate composition of the adult population changed over 2001. The civilian population aged 15 or more increased by a net 206.2 thousand people between December 2000 and December 2001. When divided into the three main labour force status categories of employed, unemployed and not in the labour force, it is the last of these which in absolute terms grew the most, by 88.5 thousand people. Employment grew by 73.3 thousand people, but in percentage terms at only a bit above half the rate that the adult population did. By definition, this means that the differential spilled over into an above-proportional increase among those *not* in employment—thus, unemployment increased by 7.2 per cent over the year and those not in the labour force by 1.6 per cent.

The two standard measures of aggregate employment performance were, therefore, worse at the end of 2001 than they were at its start: the employment to population ratio fell from 60.4 to 60.0 per cent, and the unemployment rate rose from 6.3 per cent to 6.6 per cent.

The uncertainty on the part of commentators about how to interpret monthly changes in the Labour Force Survey and other labour market data may have been due to uncertainty about the performance of the Australian economy in general, or it may have been due to changes in how the labour market adjusts to fluctuations in economic activity. Our contention is that both of these state-

Table 1: Labour Force Status, December 2000 and December 2001

	December 2000 (000s)	December 2001 (000s)	Net change (000s)	Percentage change
Civilian population aged 15 years and over	15310.3	15516.5	206.2	1.3
Employment	9241.1	9314.4	73.3	0.7
Unemployment	617.1	661.5	44.4	7.2
Not in the labour force	5452.1	5540.6	88.5	1.6

Source: *Labour Force, Australia*, Cat. No. 6202.0, original data.

ments are true, but that traditional recourse to the first of these factors has 'clouded' an adequate assessment which might also encompass the second.

There is no doubt that, even prior to the terrorist attacks in the United States last September, there was a good deal of uncertainty about the state of the macro-economy. Forecasters found it difficult to model the likely impact of a number of extraordinary events during 2000, such as the introduction of the Goods and Services Tax (and associated changes in income tax schedules) and the Olympic Games. It was, apparently, unforeseen that the new tax arrangements would severely reduce demand for new housing, which precipitated the introduction of an enhanced First Home Owners Grant scheme (which itself appears to have since had an over-corrective effect).

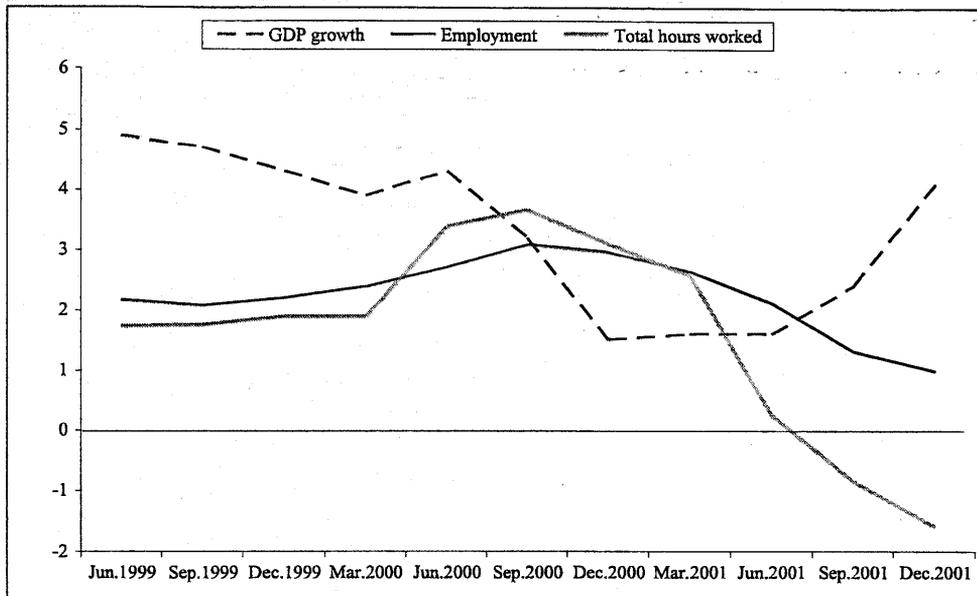
Between October 1999 and August 2000 the Reserve Bank progressively raised the cash interest rate from 4.75 to 6.25 per cent to stem off what it believed to be a rise in inflationary pressures and then—flip-flop again?—it began to cut rates in February 2001 such that by November last year they had fallen to 4.5 per cent (i.e. *below* the level they had been two years previously before rates were raised). This increase in rates undoubtedly contributed to the slowdown in economic activity which first became evident in the September 2000 quarter.

When the national accounts for the September 2000 quarter were released they showed a modest increase of 0.6 per cent in real GDP from the previous quarter, a slowing to be sure but a considerable way from a recession. The December 2000 quarter national accounts not only saw a fall in GDP of 0.6 per cent, but a downwards revision of the previous quarter's growth so that close to one per cent had been shaved off what had been the published September 2000 high. The economy had flopped, GDP was below the level it had been two quarters previously—now did *that* constitute a recession?³ Then, flip once more, as the March 2001 quarter saw all those losses reversed with a 1.1 per cent upturn. Since then, GDP has grown solidly each quarter, with an overall increase during 2001 of 4.1 per cent, and a rise in GDP per capita of 3.0 per cent.

That a downturn of sorts had occurred sometime around the middle of 2000 is plainly evident in Figure 2—and, as always, it proved to have ramifications for the labour market. GDP growth on an annual basis fell to below 1.5 per cent for the December 2000 and March 2001 quarters which, even after allowing for a lull in labour productivity, was well below the rate required to accommodate new entrants (and re-entrants) to the labour force.

It can be seen from Figure 2 that changes in employment growth 'lag' changes in GDP growth. Employment growth on an annual basis peaked at around 3

Figure 2: Annual Growth in GDP, Persons Employed and Hours Worked, June 1999 to December 2001 (per cent)



Sources: *National Income, Expenditure and Product*, ABS Cat. No. 5206.0, *Labour Force Australia*, ABS Cat. No. 6202.0, *Hours Worked*, ABS Cat. No. 6291.0.40.001.

per cent in September 2000, and since then declined steadily to be below 1 per cent by December 2001. More variable is the change in total hours worked. From being fairly stable at around 2 per cent in the second half of 1999, growth in hours worked rose sharply in the first half of 2000 to peak at 3.7 per cent in September of that year, after which it fell rapidly and by the end of 2001 was showing a year-on-year decline of 1.6 per cent.

What is most revealing about Figure 2 is the stability of the persons employed series relative to the variation in the two other series. Indeed, allowing for a six month lag, there is a tighter fit between changes in GDP and in total hours worked (a correlation of 0.80) than there is between changes in GDP and persons employed (a correlation of 0.71). There is a strong hint here that a focus on persons employed has been obscuring something more fundamental in the performance of the labour market. We now examine working hours in more detail.

Composition of Employment: Working Hours

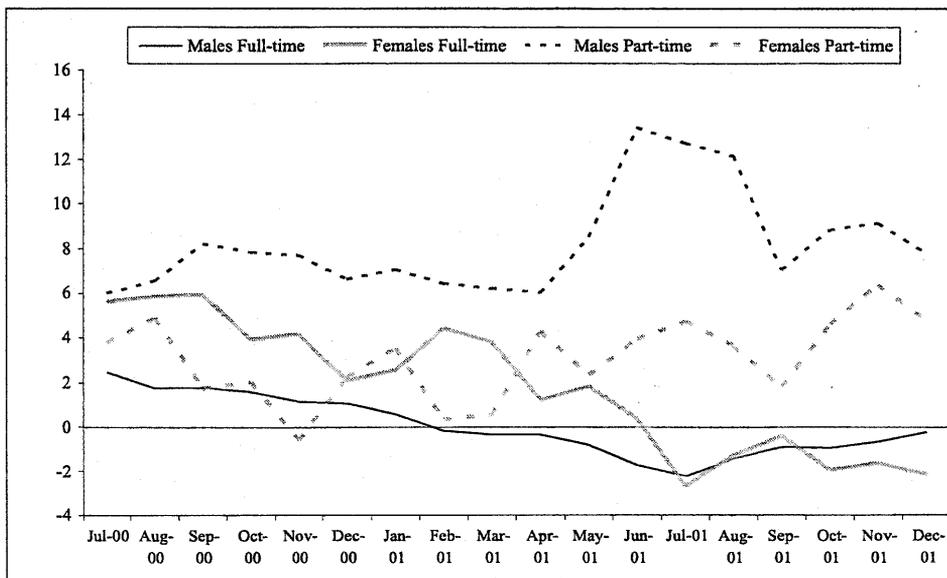
As is well-known, to be defined as 'employed' for the purposes of the Labour Force Survey, a person must have worked for pay for only one hour (or more) in the 'reference week',⁴ while to be 'unemployed' a person must not have

worked but have been actively seeking paid work. These definitions are in keeping with international conventions.

We deal with the adequacy of the unemployment measure below, but for the moment we will confine our attention to those in employment. The definition of employment clearly encompasses a very wide range of people's engagement with the labour market, from those who do a small, if not trivial, amount of paid work through to those who work very long hours indeed. It is conventional to divide the employed into a part-time group and a full-time group, the division point being at 35 hours.⁵

In Figure 3 we follow this convention, and show growth in employment of full- and part-time work, further sub-divided by men and by women. It is very clear from this that full-time employment growth began to slow in the second half of 2000, with net job shedding of full-time jobs for men beginning in the first quarter of 2001 and continuing throughout, though the rate of decline eased by the end of 2001. Growth in full-time jobs for women went below zero in the second half of 2001 and remained there. Part-time employment growth, for women, was lower than full-time employment growth until the middle of the year, after which it rose to around 4 per cent. Most remarkable of all, however, was the double-digit growth in part-time employment for men, in the exact same period when net full-time jobs for men were disappearing.

Figure 3: Year-on-year Growth in Employment, by Full-time/Part-time and by Sex, July 2000 to December 2001 (per cent)



Source: *Labour Force*, Cat. No. 6202.0, seasonally adjusted data.

Table 2: Employment by Full-time/Part-time and by Sex, December 2000 and December 2001

	December 2000 (000s)	December 2001 (000s)	Net change (000s)	Percentage change
Male full-time	4436.2	4425.0	-11.2	-0.3
Female full-time	2246.8	2198.3	-48.5	-2.2
<i>All full-time</i>	<i>6683.0</i>	<i>6623.3</i>	<i>-59.7</i>	<i>-0.9</i>
Male part-time	670.2	722.2	52.2	7.8
Female part-time	1749.6	1832.7	83.1	4.7
<i>All part-time</i>	<i>2419.8</i>	<i>2554.9</i>	<i>135.1</i>	<i>5.6</i>
Total employed	9102.9	9178.2	75.3	0.8

Source: *Labour Force, Australia*, Cat. No. 6202.0, seasonally-adjusted data.

When we decompose employment change over the course of 2001 into these categories we can see (from Table 2) that all of the gain, plus some, in employment was in part-time jobs: there were 135,100 additional part-time jobs and 59,700 fewer full-time jobs. The number of female full-time jobs fell by more than it did for males. As Borland, Gregory and Sheehan (2001) have documented, there has been almost no net growth in full-time jobs over the past decade.

As Table 2 is only illustrating changes in stocks, we cannot say from it if some full-time jobs became part-time ones as hours fell below 35 per week or if newly created jobs were mostly part-time and jobs that disappeared were mostly full-time. Denniss (2001) has argued that labour statistics should take much more cognisance of hours worked (and hours of work desired) in assessing the state of the labour market. Our ability to do this is constrained because the monthly Labour Force Survey does not ask sufficient questions on working time and people's preferences. Moreover, what flow data are published show changes only on a month-to-month basis rather than over a longer duration.

It is possible to divide the number of employed into finer divisions of working time, and also to examine the total number of hours worked. We look at both in turn.

Because of seasonal fluctuations in weekly working hours, notably in taking account of peak trading hours (e.g. Christmas) and also patterns of annual leave and sick leave, we have averaged the composition of employment by working hours over the full calendar year. Table 3 shows how the composition altered between 2000 and 2001. There is a striking similarity in the changes that took place for both men and women, despite their very different patterns in working time arrangements. First, the percentage of people employed on

Table 3: Change in the Composition of Weekly Hours Worked, 2000 to 2001, by Sex (per cent employed)

	2000 Average	2001 Average	Net change
Men			
0 hours	6.0	7.0	0.9
1-15 hours	6.6	6.9	0.3
16-29 hours	7.8	8.4	0.6
30-34 hours	6.8	8.3	1.5
35-40 hours	31.5	29.9	-1.6
41-48 hours	14.7	14.5	-0.2
49 hours or more	26.6	25.0	-1.6
Total	100.0	100.0	0.0
Women			
0 hours	7.1	8.3	1.3
1-15 hours	18.8	18.2	-0.6
16-29 hours	19.2	20.0	0.8
30-34 hours	9.6	11.0	1.3
35-40 hours	27.9	26.0	-1.9
41-48 hours	8.7	8.4	-0.3
49 hours or more	8.7	8.1	-0.6
Total	100.0	100.0	0.0

Source: *Labour Force, Australia*, Cat. No. 6203.0).⁶

zero hours increased by around a full percentage point for both men and women. Zero hours are reported for those who have an employment 'attachment' but who did not work any hours in the reference week—it includes those taking annual leave or sick leave, those who work casually or on their own account and did no hours that week, and those who have been 'stood down' by their employer.⁷ As leave entitlements do not fluctuate from year to year, two possible explanations for the upturn in zero hours employment are that more people took more sick leave during 2001 than they did during 2000 or, as is more likely, that there was a diminution in the demand for labour.

The second main change in the composition of hours worked, for both men and women, occurred at the cusp of the part- and full-time threshold of 35 hours. The proportion of men working 30-34 hours per week rose by 1.5 percentage points, and women doing the same by 1.3 percentage points. On the full-time side of the divide, those working 35-40 hours in a week fell by 1.6 percentage points for men and 1.9 percentage points for women. The change we observe is a net one, taking into account job 'destruction' and 'creation' as well as individual changes in hours worked, and it is not possible to be definitive about how it arose. Nonetheless, the data are, at a minimum, highly suggestive that a number of previously full-time workers saw their hours cut during 2001 and as a result were re-classified as part-time workers.

Third, the number of people working long hours (49 per week or more) fell substantially for both men and women. This decrease is after many years of sustained increase in long hours working during the 1990s (ACIRRT 1999). It remains to be seen whether the 2001 downturn is a short-term cyclical effect, or whether the heightened awareness of the deleterious effects of long working hours (Pocock et al. 2001), including many high-profile union campaigns, has encouraged a change in employer (and employee) behaviour.

Across the economy as a whole, total hours worked declined in 2001 by 1.6 per cent. To put this into context, it was the first year-on-year decline in aggregate working hours for five years. The decline in aggregate hours worked was the outcome of two changes already discussed which work in opposite directions: a rise in total employment which has the effect of increasing aggregate hours if all else is constant, but which was more than offset by changes in the composition of employment toward fewer hours. In fact, average hours worked per person employed declined by 2.7 per cent between the two years, from 34.6 to 33.6 hours per week. This is the most significant indicator of a dampening in demand—average hours worked (spread over the course of the year) has never previously been below 34 hours per week.⁸

We can speculate but not definitively answer with these data, as to whether adjustments in employment at the margin are being made in hours, more so than in persons. Certainly the data are consistent with some individuals working fewer hours than they had been a year before, which, if correct, would partly account for the apparent 'resilience' of the employed persons series. Another clue that this may be so are changes in under-employment.

The definition of employment, and of unemployment, is activity based. It counts as employed people who would define their primary activity in other ways, such as university students in full-time study who supplement their income from part-time work. More to the point, it does not take into account peoples' working time preferences and the circumstances where these are not synchronous with actual hours worked. That is, a person can be thought of as being partly employed and partly unemployed if they want and are willing to work more hours in a week than employers are able to provide them with. It is this mix that is called under-employment.

For measurement purposes, the under-employed are defined as those who usually work full-time but worked part-time hours (or zero hours) in the reference week because of 'economic' reasons, and those who (usually) work part-time and wanted to work more hours than they did in the reference week. On the basis of this definition, after declining since 1998, the number of under-employed persons rose dramatically in 2001. Over the whole year, there

were an average 729,700 under-employed persons, compared with 633,200 in the previous year, a jump of 15.2 per cent. Most notably, in August 2000 a landmark of sorts was realised as, for the first time since records have been kept, the number of under-employed persons exceeded the number who were unemployed.⁹ By November 2001, the latest month for which we have figures, there were over 200,000 more persons under-employed than were unemployed. It is conceivable, if not highly probable, that part of this dramatic rise in under-employment is accounted for by people who had previously been full-time workers reluctantly falling under the cusp of the 35 hours threshold.

Which Types of Jobs have been Most Affected by the Downturn?

It is clear from the preceding analysis that 2001 saw a substantial shift away from full-time towards part-time employment. This was greater than in many preceding years as the number of full-time jobs fell for both men and women, the first time it had done so (on a trend basis) since 1997, while part-time employment continued to grow strongly. In Table 4 we show how the occupational composition of persons employed by full- and part-time status altered between November 2000 and 2001. It can be seen from this that the share of full-time employment (i.e. as a fraction of total employment) declined by 1.69 per cent, while the share of part-time employment rose by a corresponding amount. While this was the pattern at the aggregate level, in which areas was this change most marked?

The most striking finding from Table 4 is that there was a decline in the share of full-time jobs for seven of the nine major occupational groups while, correspondingly, the same seven occupations saw a relative growth in part-time jobs. In other words, with the exception of managers and of associate professionals, most of the jobs lost and gained were at the broad intra-occupation level. The two, of course, do not neatly cancel out, and it is evident that total job opportunities diminished substantially in three of the nine major occupations—namely, for tradespersons, intermediate clerical, sales and service workers, and labourers and related workers.

A similar exercise can be undertaken at the industry level, where the findings are consistent (though not as striking as for occupation). Table 5 shows that in nine of the seventeen industry 'divisions' there was a relative decline in full-time employment. For two of these industries—manufacturing and property and business services—there was also a relative decline in part-time employment, albeit small. In thirteen industries the share of part-time employment rose. There were only four industries—construction, government administration and defence, cultural and recreational services and personal and other services—where the relative gain in full-time employment exceeded

that in part-time employment. Retail trade and health and community services grew strongly, though four in five of the net new jobs were part-time. The industries which suffered the largest relative decline overall—manufacturing, accommodation, cafes and restaurants, and property and business services—were also those where the declines in full-time employment were the most severe.

Table 4: Change in the Occupational Composition of Employment, 2000 to 2001, by Full-time/Part-time (per cent)

	<i>Full-time</i>	<i>Part-time</i>	<i>Total</i>
Managers and administrators	0.82	0.11	0.93
Professionals	-0.24	0.37	0.14
Associate professionals	0.21	0.20	0.41
Tradespersons & related workers	-0.49	0.16	-0.33
Advanced clerical & sales	-0.43	0.27	-0.15
Intermediate clerical, sales & service	-0.66	0.16	-0.51
Intermediate production & transport	-0.02	0.04	0.02
Elementary clerical, sales & service	-0.35	0.27	-0.09
Labourers & related workers	-0.52	0.10	-0.42
Total	-1.69	1.69	0.00

Source: *Labour Force, Australia*, Cat. No. 6203.0, November figures used.

Table 5: Change in the Industrial Composition of Employment, 2000 to 2001, by Full-time/Part-time (per cent)

	<i>Full-time</i>	<i>Part-time</i>	<i>Total</i>
Agriculture, forestry, and fishing	0.03	0.08	0.11
Mining	-0.04	0.04	0.00
Manufacturing	-0.44	-0.05	-0.49
Electricity, gas and water	-0.01	0.00	-0.01
Construction	0.08	0.07	0.15
Wholesale trade	-0.21	0.09	-0.12
Retail trade	0.11	0.36	0.47
Accommodation, cafes and restaurants	-0.38	0.08	-0.30
Transport and storage	-0.02	0.02	0.00
Communication services	-0.23	0.01	-0.23
Finance and insurance	0.04	0.13	0.16
Property and business services	-0.89	-0.07	-0.96
Government administration and defence	0.12	0.04	0.16
Education	-0.14	0.34	0.20
Health and community services	0.06	0.45	0.51
Cultural and recreational services	0.03	-0.03	0.00
Personal and other services	0.20	0.14	0.34
Total	-1.69	1.69	0.00

Source: *Labour Force, Australia*, Cat. No. 6203.0, November figures used.

Taken together, these two tables suggest ongoing structural change such as the continuing shift towards service employment and an apparent 'upskilling' in jobs, but overlaid on top of that is a move towards shorter hours jobs (and, perhaps, shorter hours working) which has taken place *within* occupations and *within* industries. This is most likely a cyclical phenomenon prompted by the general slowdown in economic growth in the second half of 2000.

Five Years of the *Workplace Relations Act*: A Comparison with the Accord

If it is true, as this article has intimated, that the labour market has become more responsive to changes in the macro-economy than flexibility, at least of the numerical kind, may well have arrived. This would be a development that would gladden the hearts of those who advocate labour market 'reform'. It is now five years since the passing of the *Workplace Relations Act 1996*. The Act was one of the landmark achievements of the first Howard government, and five years seems a suitably long enough time span from which to reflect on the impact the Act may have had on the workings of the labour market. And, to be only slightly mischievous, in making this assessment we might hark back to an altogether different era, that of the Accord between the Australian Labor Party and the Australian Council of Trade Unions which was central to the operations of the labour market from its introduction in March 1983. In contrast to the earlier part of this article, we now extend our remit to earnings and labour productivity movements, as well as covering changes in employment.

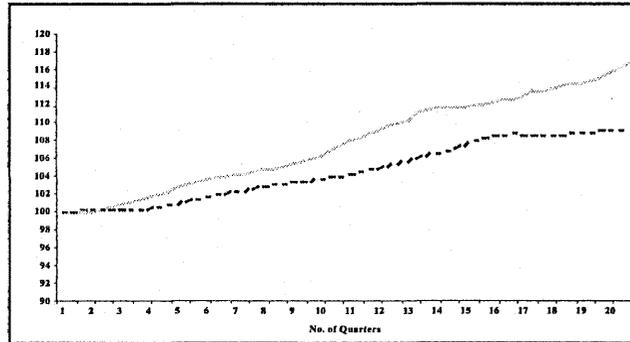
The following page shows, across a series of four graphs (Figure 4), the path that key economic aggregate indicators—employment, real average earnings, labour productivity and real unit labour costs—took over the five year period commencing in March 1983 and December 1996, labelled 'Accord' and 'WRA' as appropriate.

Employment grew by considerably more under the period of the Accord than it has done under the WRA, a difference of 7.5 percentage points over the five years. While not shown in the graph, it is not without interest to note that two-thirds of the 16.8 per cent growth under the Accord was in full-time jobs, compared with less than half of the 9.3 per cent growth under the WRA.

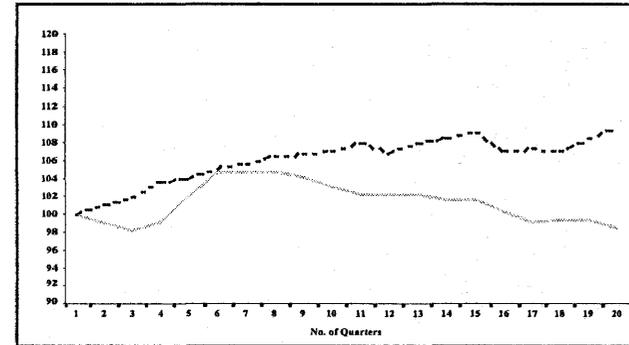
After initially dipping then rising quickly, real average wages fell from September 1984 such that by the end of the five year period under consideration they were *below* the level they had been in March 1983.¹⁰ By contrast, real average wages have risen more or less steadily (except in the immediate aftermath of the introduction of the Goods and Services Tax) under the WRA—in total, by around 10 per cent over the full five years.

Figure 4: Five Years of the Accord and the Workplace Relations Act 1996

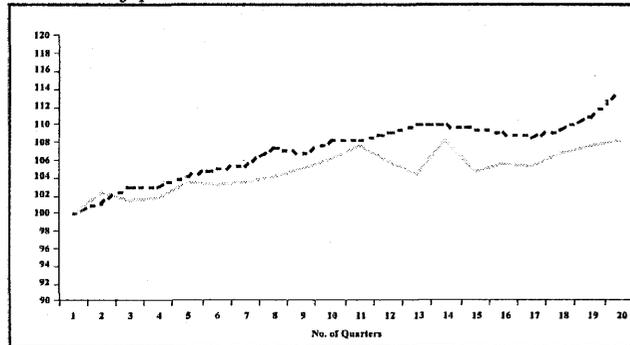
Employment



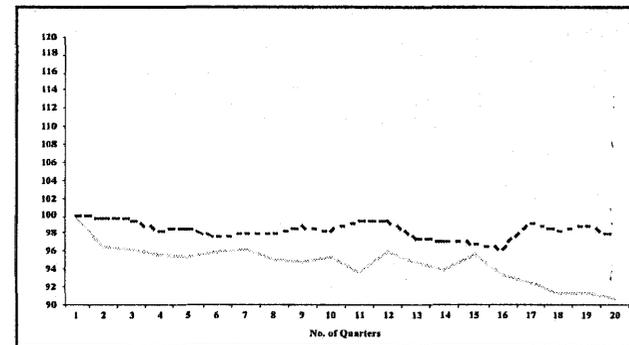
Average Weekly Earnings



Productivity per Hour Worked



Real Unit Labour Costs



Accord ----- WRA

Note: Each indicator indexed to 100 in March 1983 (Accord) and December 1996 (WRA).
Source: NILS calculations based on ABS Ausstat Time Series and Treasury Unit Labour Cost Series.

Labour productivity (on an output per hour worked basis) has clearly grown faster under the WRA than under the Accord. However, for most of the five year comparison period the differences were narrow and the differential of 5.5 percentage points is in large part attributable to the 5 percentage point growth in the last year of the WRA which may well be, as pointed out earlier, a cyclical phenomenon.

Finally, real unit labour costs fell dramatically under the first five years of the Accord to be almost 10 percentage points lower than they were at the start, compared with a fall of about a quarter of that magnitude under the WRA. This is the product of the changes in real earnings and labour productivity. Essentially what this shows is that the productivity gains under the WRA have mostly been taken in the form of rising average real wages, so as to keep real unit labour costs more or less constant. In contrast, the first five years of the Accord saw *all* of the productivity gains go towards lowering real unit labour costs and *none* to increasing average real wages. No doubt, the substantial cut in real unit labour costs provides much of the explanation for the superior employment performance of the Accord relative to the WRA. What this comparison also yields is that labour market flexibility did exist under the Accord, in the shape of adjusting average incomes to macro-economic circumstances.

In Table 6 we shift focus from these aggregates to examine changes in earnings relativities, this time over a four year period (as 2001 figures are not yet available). Once more the comparison is illuminating. Analysts usually confine themselves to relativities within the same distribution. We add to that here by incorporating data on 'minimum wages'—the minimum rate payable to a full-time adult at classification 14 of the Metal Industry Award¹¹—and on managerial earnings.

Under the first five years of the Accord, the minimum wage fell relative to mean earnings (which, as shown above, also fell in real terms). There has been no such fall under the WRA, which we interpret to mean that the Safety Net Review has been a more effective vehicle for preserving living standards at the bottom of the earnings distribution than were National Wage Cases (where regard had to be given to the flow-on effects across most of the distribution). This is partly supported by earnings distribution data which shows a 2.4 percentage point decline under the period of the Accord for low-wage earners (i.e. at the 10th percentile) relative to the median, compared with a 1.5 percentage point fall under the WRA. For the more recent period, the contrast between what has happened to those at the minimum and those on the 10th percentile might also imply that the so-called 'bite' of the minimum wage, at least for full-time employees, may not be as pronounced as the Commonwealth has argued in recent years (e.g. Safety Net Review 2000-01).¹²

Table 6: Full-time Earnings Relativities, 1983 to 2000 (selected years, per cent)

	1983	1987	1996	2000
'Minimum wage' / mean	59.8	56.9	51.2	51.1
Managerial / mean	129.5	131.1	134.3	136.1
Median / mean	92.6	92.4	91.6	91.5
10 th percentile / median	74.8	72.4	68.9	67.4
90 th percentile / median	152.6	153.6	157.7	160.5

Sources: *Employee Earnings and Hours, Australia*, Cat. No. 6306.0. May figures for full-time adult, non-managerial employees (except managerial earnings which, for 1983 and 1987, are for full-time adult male employees in the private sector, and for 1996 and 2000 are all full-time adult employees). The minimum wage figures are the rates for a full-time adult employee at classification 14 of the Metal Industry Award in May of that year.

At the top end, managers (who largely stand outside the industrial relations system) have outstripped growth in mean earnings in both periods, somewhat more so in the more recent period. Once again, this is supported by the earnings distribution data which show a gain of 2.8 percentage points for the top-income earners relative to the median, compared with a one percentage point gain between 1983 and 1987.

The explanation for many of these changes lies outside the formal systems used for determining wages—that is, many of the forces which drive change are exogenous to it, such as the changing occupational composition of employment which has hollowed out so much of the earnings distribution. Borland, Gregory and Sheehan show that the number of Australians earning between \$700 and \$1,400 per week fell by 8 per cent during the 1990s—'this is not so much the disappearing middle' they say, 'as the disappearance of growth in the whole top half of the earnings distribution, other than for very high income earners' (2001: 15).

The widening inequality in earnings which first became apparent in the early 1980s has continued largely unabated for the whole of the period since that time—under the Accord, under the WRA, and under the transition period to enterprise bargaining. In 1983 a full-time non-managerial employee on the 90th percentile of the earnings distribution earned twice that of the person on the 10th percentile. By 2000, that had blown out to around two and a half times as much. Workers at the bottom end of the earnings distribution contributed more than others to the substantial decline in real unit labour costs under the period of the Accord, and have helped to deliver the productivity gains which have underpinned their relatively modest gains in real earnings under the WRA. It is difficult to see how a renewed erosion in those earnings, such as suggested by the self-styled 'Five Economists', would represent anything other than a 'low-road' solution to lowering unemployment.¹³ At any rate, to

overlay an incomes policy on top of a decentralised and uncoordinated bargaining system would not work: the two are incompatible. Far better would be an approach which bolstered bargaining coverage in areas where it is presently weak.

Conclusion

We began this review by calling to mind the 'flip-flop', as a metaphor for the equivocation of commentators and, by extension (if they were right), the state of the Australian labour market in 2001. Our findings are unequivocal: the labour market peaked at around the time of the Sydney Olympics in September 2000, began to worsen thereafter and entered into a slump in 2001. This slump was more severe than most commentators allowed for, because of a pre-occupation with monthly changes and with the headline series of employed persons and the unemployment rate. Examined at this level, one would note that employment was volatile but growing, though not by enough to provide jobs for most of those newly entering or re-entering the labour force. As a consequence, the unemployment rate, which was also volatile, edged up over the course of the year, having not done so (on a trend basis) since 1996. Insofar as it goes, this account is accurate but, probing a little deeper into the pile of official statistics, we found three indications that matters were a good deal worse than they seemed at the headline level. These were:

- (i) a net decline in full-time jobs for both men and women over the course of the year;
- (ii) a fall in aggregate hours worked, principally driven by a 2.7 per cent cut in average weekly hours worked, which fell below 34 hours for the first time ever; and,
- (iii) a dramatic rise of 15.2 per cent in the number of under-employed persons with the result, for the first time since records began, that the level exceeded the number who were (wholly) unemployed.

In short, a better characterisation of labour market performance during the year might be a belly-flop. It is likely that 2002 will see a recovery of sorts following the upturn in GDP in 2001, though that will be attenuated if labour productivity continues to grow rapidly.

Even if the 2001 slump proves to be temporary, it will remain notable because of the way the burden of adjustment fell. Typically, a slump in the demand for labour is followed by a quite rapid up-turn in the unemployment rate. In 1982 the trend unemployment rate rose by three percentage points during the space of a calendar year, and in 1990/91 it did the same. During 2001 it rose by just 1 percentage point. The adjustment this time has been by way of shorter hours

much more so than by lengthening dole queues. This can be illustrated simply as follows. Aggregate hours worked can be thought of as constituting the total demand for labour. Had average weekly hours worked remained at its 20 year average of 34.6—a level from which it had barely deviated over that entire period—then at the end of 2001 there would have been around 250,000 fewer persons employed than was the case to fill those hours.

It has become commonplace in accounts of the future of work (e.g. Rifkin 1995) to argue that it will involve less paid work (on average). If that is so, the argument runs, we need to find ways of distributing work which preserves living standards and which reconciles the positions of 'insiders' and 'outsiders', between those with too much work and those with none. The market delivered such a solution during 2001. Debates about measuring progress are hotly contested, but one which many might accept is *rising GDP per capita while working fewer hours*. To be sure, the adjustment was not equally distributed, and many of the growing ranks of the under-employed have probably suffered some decline in their living standards. Nonetheless, is this not better than the alternative of a double-digit unemployment rate? Those who find themselves unavoidably concurring with this sentiment might also reflect on the irony of a deregulated labour market delivering social justice.

Endnotes

- 1 This quote (as with others in the paragraph) is taken from the ANZ Bank's monthly media release which herald the latest change in their job advertisement series. (This can be found at http://www.anz.com/australia/support/LibraryMedia/library_media.asp?G=G=aj).
- 2 There was not much sign of improvement as we ventured into 2002. In the first week of the New Year, the *Australian Financial Review* announced that it was to be a 'Tough new year for jobless' (7 January, p.3) followed four days later by 'Hopeful signs on job front' (11 January, p.7). Meanwhile, Mr Eslake was still flip-flopping: in January 2002 'the underlying trend [in the labour market] was still downwards' and unemployment would average 7 per cent over 2001-02 (implying an average rate of 7.2 per cent for January to June 2002), but in February an increase in newspaper job advertisements was seen to 'genuinely signal a significant improvement in employers' hiring intentions' and there was now 'a good chance' that unemployment would fall below 7 per cent by the June quarter.
- 3 It has become conventional to define a recession as a decline in growth for two consecutive quarters. This is not the same as a cumulative decline in growth over two consecutive quarters, but it did prompt the question.
- 4 It also includes those who have an employment attachment but did not work any hours in the reference week—for example, people on paid leave.

- 5 Strictly speaking, full-time workers are those who usually work 35 hours or more per week (in all of their jobs, if they have more than one) plus those who usually work less than 35 hours per week but happened to go above the threshold in the reference week. Part-time workers are all other employed persons.
- 6 For reasons that are unfathomable, the time series on weekly working hours provided by the Australian Bureau of Statistics on their web site is truncated at 44 hours, thereby excluding around a quarter of men and a tenth of women in employment. Analysts are forced to compile their own series from keeping back copies of the relevant catalogue.
- 7 This might include, for example, former Ansett workers. When the airline was initially placed into the hands of the administrators, workers were not made redundant but were stood down pending the sale of the airline to another operator.
- 8 Indeed, as both Hancock (2002) and Jordan (2001) show, average working hours have been remarkably stable—around the 34 hour mark for the past 20 years—despite the very substantial changes in the composition of employment by hours worked.
- 9 Changes were introduced to the Labour Force Survey questionnaire in April 2001 which may have had the effect of increasing the estimated number of under-employed persons, as the range of possibilities for seeking extra hours was widened. In outlining the changes the ABS stated that 'the size of the increase is expected to be small' (ABS 2001).
- 10 The measure of real wages used is average weekly ordinary time earnings for full-time employees deflated by the Consumer Price Index.
- 11 This is a surrogate minimum wage, at least for the 1983-87 period, as minimum award rates varied across awards and jurisdictions. It now has a more formal status as the Federal minimum wage. We thank Grant Belchamber of the Australian Council of Trade Unions for providing us with the historical time series.
- 12 The minimum wage rose by 14.6 per cent between May 1996 and 2000, compared with a 12.1 per cent rise at the 10th percentile of the full-time non-managerial adults earnings distribution. Had those at the lower end of the earnings distribution been covered by awards, then one would have expected the increases to be of the same magnitude.
- 13 For the most recent pronouncement by the group, see 'Just the Way to Cut Unemployment', *The Australian*, 6 March 2002.

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