

The Wages Safety Net of the Australian Industrial Relations Commission, 1993-2005

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Abstract

Unlike other developed countries which regulate a single adult minimum wage, Australia maintains a more complex wages ‘safety net’ with multiple, skill-based minima. In 2006, one in five Australian employees had their pay set directly by this wages safety net. This thesis investigates the purposes of the safety net. Its particular focus is on the recipients of safety net wage adjustments provided by the Australian Industrial Relations Commission between 1993 and 2005. The thesis develops new information about these employees, including their jobs, hourly wages and advancement prospects, living standards relative to the broader community, and household needs. The answers to these questions are essential to an understanding of why the wages safety net exists and whether it should be preserved. The thesis argues that the main purpose of the wages safety net is the protection of employees who lack the effective capacity to bargain their pay directly with employers. This includes many women in part-time and casual employment, but also a significant number of men in industries with low union membership. The safety net is less successful in preventing poverty, because most of its beneficiaries are employees in middle-income households whose wages have fallen relative to the outcomes achieved in the bargaining system.

Declaration

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

.....

Joshua G. Healy

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I thank the members of the Australian Industrial Relations Commission who spoke with me about their experiences in hearing and deciding the safety net wage cases. These conversations provided me with many valuable insights which helped direct the inquiry into new and interesting areas.

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List of Abbreviations

ABS	Australian Bureau of Statistics
ACAC	Australian Conciliation and Arbitration Commission
ACCER	Australian Catholic Commission for Employment Relations
ACCI	Australian Chamber of Commerce and Industry
ACOSS	Australian Council of Social Service
ACTU	Australian Council of Trade Unions
AFPC	Australian Fair Pay Commission
AIG	Australian Industry Group
AIRC	Australian Industrial Relations Commission
ALP	Australian Labor Party
AWOTE	Average Weekly Ordinary Time Earnings
BCA	Business Council of Australia
BSL	Brotherhood of St Laurence
CPI	Consumer Price Index
CURF	Confidentialised Unit Record File
DEWR	Department of Employment and Workplace Relations
EEH	(Survey of) Employee Earnings and Hours
FMW	Federal Minimum Wage
FT	Full Time
FWA	Fair Work Australia
GDP	Gross Domestic Product
GST	Goods and Services Tax
HDI	Household Disposable Income
HES	Household Expenditure Survey
HILDA	Household Income and Labour Dynamics in Australia survey
HPL	Henderson Poverty Line
LPC	Low Pay Commission
LPI	Labour Price Index
NATSEM	National Centre for Social and Economic Modelling
NMW	National Minimum Wage
NWC	National Wage Case
OECD	Organisation for Economic Co-operation and Development
PN	Paragraph Number
PT	Part Time
RBA	Reserve Bank of Australia
REP	Restructuring and Efficiency Principle
SEP	Structural Efficiency Principle
SET	Survey of Education and Training
SEUP	Survey of Employment and Unemployment Patterns
SIH	Survey of Income and Housing
SNA	Safety Net Adjustment
SWTA	Survey of Working Time Arrangements
WCI	Wage Cost Index
WR Act	Workplace Relations Act 1996

CHAPTER ONE: Thesis Introduction

In English-speaking countries, there has been a renaissance in scholarship and popular interest in the topic of minimum wages since the early 1990s. This renewed attention has been due to several developments in the research literature, in labour markets and in the political environment. Academic interest has been spurred by the availability of new data, and the design of innovative research methods that challenged conventional thinking about the effects of minimum wages. The ensuing debate over the validity of this ‘new economics’ evidence has led to the publication of books with an audience much wider than the typical academic readership (especially Card and Krueger, 1995).

In the labour markets of many industrialised countries, there has been a trend towards wider earnings inequality, with growth in the proportion of employment that is done for low pay. There has been corresponding interest in the plight of low-wage workers, and whether minimum wages prevent their exploitation (in the United States: Ehrenreich, 2001; in Britain: Toynbee, 2003; and in Australia: Masterman-Smith and Pocock, 2008). At the same time, there has been falling demand (in industrialised countries) for workers to do the types of repetitive production and administrative tasks that can be performed easily by computers. This process, known as ‘skill-biased technological change’, has prompted discussion of whether labour market institutions, including minimum wages, imperil the employment prospects of less educated persons by preventing wages from falling to levels at which all job-seekers can find work. The notion that high inequality in ‘deregulated’ labour markets and high unemployment in ‘regulated’ markets are ‘two sides of the same coin’ (the so-called ‘Unified Theory’) has exerted a strong influence on macroeconomic policy in industrialised countries (Howell, 2002; Di Prete, 2005).

There have also been sharply contrasting political views on the need for regulation in the low-wage labour market. In the United States, the Federal Minimum Wage (FMW) set by Congress was unchanged for a decade (1997 to 2007) and thus falling in real terms by comparison with the cost of living

(Bernstein and Shapiro, 2006; Filion, 2009). The Labour government in the United Kingdom instead established in 1997 a Low Pay Commission to advise on the level of a new National Minimum Wage (NMW). Since its introduction in 1999, the NMW has increased ahead of consumer prices and, since 2003, average earnings (Brown, 2009). The Australian system resembles more closely that of Britain than the United States. But, since 1997, Australian wage-fixing authorities have come under increased pressure from the Commonwealth government to slow the rate of minimum wage growth, so as to increase employers' willingness to hire the unemployed (DEWR, 2005, pp.1-2).

The growing interest in minimum wages reflects their potential impact on a multitude of economic and social outcomes. On the positive side, minimum wages can prevent the exploitation of employees who lack bargaining power in the labour market, reduce earnings inequality and reduce working poverty. The issue of whether these effects operate in practice is discussed in Chapter Three. Other potential benefits of minimum wages include providing incentives: for labour force participation, by ensuring a level of employment income above social welfare entitlements; and for workplace training, by encouraging employers to increase labour productivity (Arulampalam, Booth and Bryan, 2004; McLaughlin, 2009). On the negative side, minimum wages might represent an obstacle to employment of less educated persons. If obtaining a low-wage job is a step to future advancement in the labour market, this employment effect will have long-term implications for inequality, economic immobility and, perhaps, intergenerational disadvantage. Minimum wage increases might also prompt employers to raise prices. If they do so on goods and services that are purchased mostly by low-wage workers, the benefits of a rising minimum wage, in terms of higher employee income, will be offset by a rising cost of living (Neumark and Wascher, 2008, Chapter 7).

New research and longer practical experience have improved our understanding of the 'trade-off' involved in setting minimum wages, between the benefits of redistributing income to low-wage workers and the costs of higher unemployment and prices. The central question in minimum wage determination is therefore one of magnitudes: how large are the observed benefits, relative to the observed costs?

This simple question entails large research challenges. There is an ongoing need for data and methods that reliably elucidate the costs and benefits, allowing wage-fixers to draw inferences from what is found. But even the best empirical research methods do not eliminate their task of judgment. At some point, those responsible for fixing minimum wages must decide whether the empirically observed benefits are large or small, relative to the observed costs. To appraise a minimum wage system, we thus require an insight into how those responsible for it reach their decisions. There is a long tradition of this type of inquiry in Australia, but there has been much less in the recent period examined in this thesis (Gahan and Hearn-MacKinnon, 2005).

The study presented in this thesis is about one aspect of the minimum wages system maintained by the Australian Industrial Relations Commission (AIRC) between 1993 and 2005. The aspect of interest is the *benefits* side of the cost-benefit trade-off noted above. These ‘benefits’ relate to the effects of minimum wages on employee earnings, living standards and needs. The reasons for taking this particular focus are explained later in the chapter, under ‘Aims and scope’.

Numerous features make the Australian system distinctive and useful as a case study of the benefits from setting minimum wages. First, the system is much broader in its coverage than minimum wages in other developed countries. In 2006, nearly one-fifth of Australian employees (19 per cent) were employed on rates of pay set by the AIRC (ABS, 2007a, p.25). For this reason, the Australian system is said to constitute a wages ‘safety net’, rather than a single ‘minimum wage’. While the safety net has included a Federal Minimum Wage (FMW) since 1997, there were many other higher minimum rates of pay also under the control of the AIRC in the period that this thesis examines. Its breadth of coverage means that the Australian wages safety net reaches further into the determination of earnings and living standards than minimum wages in other countries. If there are benefits of setting a minimum wage for the ‘fairness’ of labour market outcomes, they are arguably more likely to be found in Australia than elsewhere.

Australian minimum wages are also set at a high level. In 2004, the Australian FMW was the highest among 13 developed economies, according to data maintained by the Organisation for Economic Co-operation and Development

(OECD). As a percentage of full-time median earnings, the Australian FMW was 59 per cent, compared to 43 per cent for the British NMW and 32 per cent for the US FMW (DEWR, 2005, p.1; LPC, 2005, Table A4.2, p.237). The minimum wage thus ‘bites’ deeper into the Australian wage structure than its equivalents in other countries. Whether this high wage floor is a benefit or drawback of the Australian system will depend on the balance between its poverty-reducing and employment-reducing effects.

A third novelty of the Australian minimum wage system – at least for the time period studied here – is its method of adjustment. Unlike the US system, which relies on the legislative process, or the British system, in which the government takes advice from an independent Commission whose members are from union, employer and academic backgrounds, Australian minimum wages were set primarily through arbitration until 2005.¹ Since then, the Australian system has moved much closer to the British model.

The nature of the arbitration process has important consequences for the evidence that this thesis develops. It is a process in which the various industrial parties made claims and presented supporting evidence on which the AIRC based its judgments. Through written submissions, and in oral hearings, the parties were able to critique and defend their evidence and related arguments to Commission members and each other. The Commission’s decisions give extensive reasons and, in many cases, reflections on the evidence presented. The arbitral process thus generated a large volume of material that can be used to interrogate the reasons for minimum wage adjustment. Arbitration has been criticised for encouraging the parties to take extreme, or ‘ambit’, positions in their wage claims (Wooden, 2005), but such positions, if they exist, require supporting evidence to be persuasive. The transparency of the arbitral process means that this evidence is ‘on the record’ and available for evaluation. One of the contributions of this thesis is to review the major parties’ submissions to safety net wage cases and compare their arguments with new evidence from an independent analysis, to see how well the Commission was informed.

¹ Arbitration was not the only method of minimum wage determination in this period, but it was by far the most important in terms of coverage. Another approach was the minimum wage set by legislation in the State of Western Australia from 1993 (Plowman and Preston, 2005).

Motivation for the study

The impetus for the current study comes from three directions. First, there is a need for detailed, country-specific studies into the effects of industrial relations ‘institutions’, to accompany the growing international comparative literature. The smaller developed economies, including Australia, have been seen as potentially more informative, as case studies of how wage-setting institutions affect labour market outcomes, than further studies comparing Europe and the United States (Freeman, 1998, 2006). The Australian system of minimum wage determination is especially worthy of attention, because of its unique reliance on an industrial tribunal setting multiple, skill-based minima at arm’s length from elected governments. This process is quite different from other countries’ methods of setting minimum standards, as noted above.

A second motivation for the study is the dearth of contemporary evidence about how the safety net is adjusted, and what the outcomes of its adjustment have been. This gap is one part of a larger problem of underdevelopment in the Australian research on arbitration and its labour market effects. In a recent review of two books marking the centenary of arbitration in Australia, Richard Mitchell, a distinguished labour law scholar, observed that:

...with few exceptions, there has been a noticeable lack of serious scholarly works on the operation and practices of the tribunals, on their awards and orders, and on how these shaped and regulated labour markets (Mitchell, 2005, p.194).

This thesis is a contribution to improving the state of current evidence on these issues. It builds on a small body of recent research examining how the Australian Industrial Relations Commission has dealt with issues such as the fairness of the safety net and the needs of the low paid (Hancock, 1998; Peetz, 1998a). This study also adds to a growing international literature about how the authorities charged with minimum wage fixation reach their decisions (Neumark and Wascher, 2008, Chapter 8; Brown, 2009).

There is also a need for better information about who benefits from the wages safety net in Australia. This provides a third rationale for the current inquiry. Several recent academic articles make a case for further empirical research in this area. One set of authors noted that ‘there has been limited research on the

changing demography and characteristics of low-paid workers in Australia’ (Masterman-Smith and Pocock, 2008, p.33). Another author observed that ‘relatively little has been written about the relationship between minimum wages and family incomes in Australia’ (Leigh, 2007, p.433). These themes – the characteristics of low-paid workers and their family circumstances – are both taken up in this thesis.

The Australian Industrial Relations Commission also drew attention to the limitations of existing evidence about how many workers (and what types of workers) benefit from safety net wage adjustments. In its 2005 decision, the Full Bench of the AIRC referred to the ‘lack of reliable data on the needs of the low paid’. The Commission expressed its frustration with the state of the available evidence, saying:

This lack of data was forcefully brought home again in this case. We requested the Commonwealth [government] to provide data concerning the proportion of the workforce to which the safety net adjustments applied in 1997 and in 2004. The Commonwealth was unable to do so. We also asked the Commonwealth to provide data concerning the proportion of the workforce to which the minimum wage adjustment applied in 1997 and 2004. Again, the Commonwealth was unable to supply the information. It is a matter of significance that... the most basic of information about safety net adjustments and the minimum wage—how many people are affected by them—is apparently not available to the Commonwealth (AIRC, 2005, PN 415, pp.111-112).²

We agree with the Commission that this lack of information is a matter of concern. Its urgency is underlined by the fact that the Commission made this observation in 2005, after a decade of safety net decisions, rather than at the start of the adjustment period. By providing more detailed information about the recipients of safety net adjustments, this thesis helps to fill an important void, not only in the academic literature, but also in the evidence on which the authorities responsible for maintaining the wages safety net base their decisions.

Aims and scope

The aim of this thesis is to understand the purposes of the wages safety net. From this aim comes a number of subsidiary questions: What functions does the safety net perform? What are its limitations? Should it be preserved?

² The abbreviation ‘PN’ indicates the paragraph number within the Commission’s decisions.

We approach these questions from two directions. First, we examine the *process* of maintaining the safety net. We are interested in how the AIRC interpreted the legislation conferring its wage-fixing powers. What did the Commission make of the requirements that the safety net be ‘fair’ and that it be adjusted by reference to social considerations, such as ‘living standards generally prevailing’ and ‘the needs of the low paid’? We are also interested in the quality of evidence and argument presented to the Commission by the industrial parties and other interest groups appearing in safety net review cases. Unlike its successor, the AIRC did not commission any independent research to guide its decisions (although it did, on some occasions, recommend directions for research). The Commission saw its role as that of an independent arbiter of the parties’ claims. For this reason, the very nature of the safety net was determined by the calibre of the parties’ submissions. An assessment of those submissions, and the Commission’s uses of them, constitutes the first element of this study.

The second element is a new empirical analysis of *who benefits* from safety net wage adjustments. We develop detailed information about the characteristics of employees affected by the Commission’s decisions, in terms of their: personal attributes; forms of employment (e.g., industry sector, hours of work, trade union membership); hourly wages and prospects of upward wage mobility; living standards relative to changes in community-wide outcomes (e.g., average earnings and per capita incomes); and the overall needs of their households (e.g., sources of income and incidence of hardship). We undertake these analyses both to expand the existing evidence about the recipients of safety net adjustments, and to determine whether an independent assessment gives broadly the same picture as that conveyed to the Commission by the industrial parties in their submissions. By comparing the parties’ submissions with the new evidence, we explore whether the safety net was maintained on sound advice, and add to the information that is available to guide future decisions.

There are two major limitations to the scope of the current inquiry. First, we restrict attention generally to the time period from 1993 to 2005, when the wages safety net was under the control of the AIRC. (One exception is our use of more recent earnings data, from 2006.) We focus on the 1993-2005 period for several

reasons, including the dearth of information about this particular period (discussed earlier), the need to keep the study to a manageable size, and our desire to avoid the complications associated with the establishment of the Australian Fair Pay Commission (AFPC) in 2005 (see Chapter Two).

The AIRC provided special access to its records and its staff, as part of a ‘Linkage’ project that supported this research. Under this arrangement, the AIRC made available archives of its case files, which contain the parties’ submissions, and facilitated discussions with Commission members who participated in safety net cases. Although the study does not evaluate specifically the period of safety net adjustment following the replacement of the AIRC by the AFPC, our results provide information that will be of continued relevance while the safety net remains similar to that which operated between 1993 and 2005.

A second limitation on the study’s scope relates to our interest in the beneficiaries of safety net decisions. Any exploration of the effects of minimum wage regulation must recognise that there are both ‘equity’ benefits and ‘efficiency’ costs associated with this intervention in the labour market (Buchanan and Callus, 1993). This study addresses the benefits, rather than the costs, because this is the way to comprehend the ‘upside’ to minimum wages, and thus the reasons why they are set. We take as our starting point the assumption that minimum wages are ‘a redistributive tool’ (Freeman, 1996). While their maintenance may impose serious and quantifiable costs – such as for the employment of low-skilled people, and for the prices of goods and services that minimum wage recipients produce – these are *consequences* of minimum wages rather than the *purposes* of their existence.³ We accept that the equity and efficiency outcomes are equally important, but heed the advice that ‘a full assessment of each of these aspects is a large and difficult task’ (Borland and Woodbridge, 1999, p.87).

Data sources

As suggested by the preceding aims and scope, this thesis combines qualitative and quantitative data. The principal source of *qualitative* data is the documents generated during the safety net cases, which are stored in the Commission’s case

³ Chapter Three discusses further the literature on employment effects of minimum wages.

files. These contain a wealth of useful material, including the published ‘reasons for decision’ given by the Commission, the submissions of the parties appearing in safety net cases (trade unions, employers’ associations, Commonwealth and State governments, social welfare organisations, other interest groups), exhibits in support of the written submissions, transcripts of oral testimony presented before the Commission, and related correspondence. We draw on all this information to describe the parties’ opinions about how the safety net should function, to critique their evidence of its effects, and to understand how the Commission responded to the arguments and the evidence presented.

Interviews with eight AIRC members who heard and decided the safety net cases were also undertaken during the course of the research. These were conducted in two sets, three in early 2005 when the AIRC was still responsible for the safety net, and the remaining five in June 2007 after this responsibility had passed to the Australian Fair Pay Commission. The interviews were ‘semi-structured’, being led by questions drafted beforehand but allowing issues outside of the prepared list to be discussed. All but one of the interviews was conducted face-to-face, in Melbourne (the other was via phone).

At the request of the Commission members, and as a condition of their participation, none of the interviews were recorded, and no direct quotations are reproduced in this thesis. For this reason, none of the substantive claims that are made here rest on the interviews alone. It was possible, however, to make detailed notes immediately after each interview on the Commission members’ views about a range of issues, including the interpretation of legislative criteria, the quality of evidence submitted by the participants in safety net cases, and the reasons behind some of the Commission’s approaches. These notes were then used to direct the search for relevant information in the safety net case files mentioned above. Through this process, the interviews helped to shape the research agenda and data collection by highlighting the key issues in minimum wage determination which, from the perspective of individual AIRC members, were most worthy of further investigation.

The *quantitative* data used in this thesis come largely from surveys conducted by the Australian Bureau of Statistics (ABS). We draw most heavily on the biennial

Survey of Employee Earnings and Hours (EEH), a large survey of employers, because it has information on payment methods and detailed wage data which can be disaggregated reliably for specific industries and occupations. In addition to this primary source, we use data from other key ABS surveys, such as the Survey of Education and Training (SET), the Survey of Income and Housing (SIH) and the Household Expenditure Survey (HES). Much of the new statistical evidence presented in this thesis about the workers affected by safety net adjustments and their living standards is based on data from these surveys.

In some cases, we reproduce estimates from published reports issued by the ABS. In other cases, we use unpublished estimates from data either provided on request by the ABS or extracted from ‘Confidentialised Unit Record Files’ (CURFs) that contain the original survey data with identifying information removed. The exact sources and the uses to which they are put are explained in the relevant chapters.

Economic and labour market context

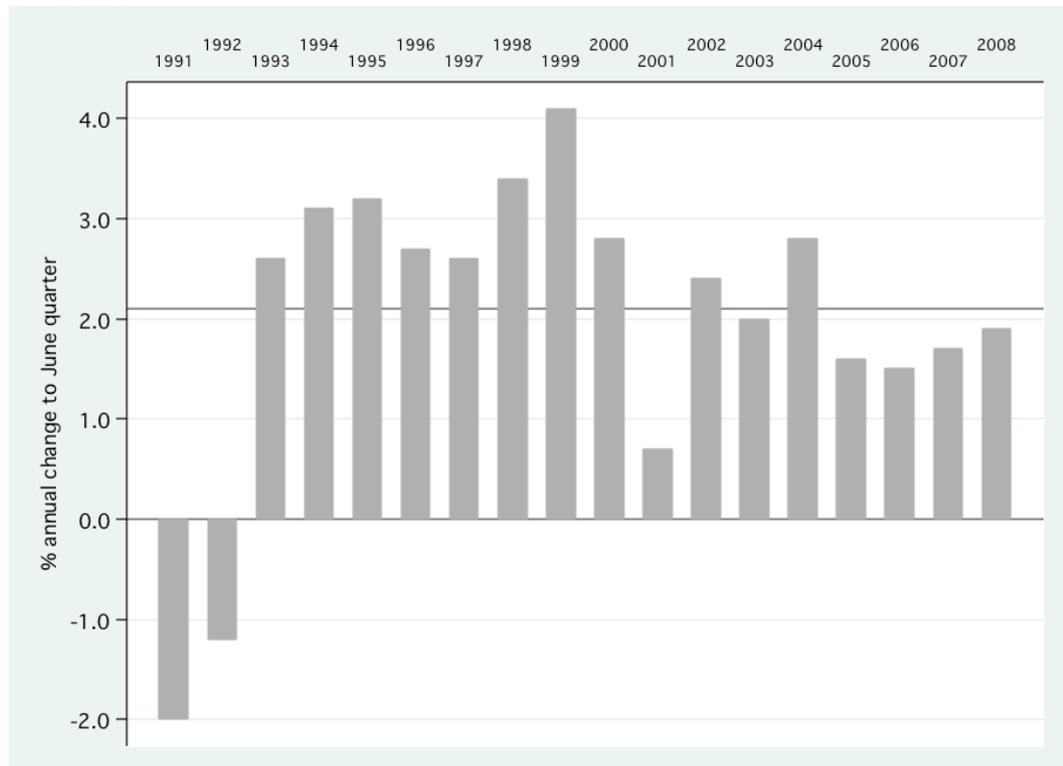
In the next chapter, we discuss the origins and evolution of the wages safety net. As a background to that discussion, this section highlights briefly some of the changes in the Australian economy and labour market that are pertinent to the role of minimum wages. All of the data come from collections of the ABS.

Until the recent downturn precipitated by the crisis in US financial markets, the safety net era was one of unbroken economic growth for Australia. Real Gross Domestic Product (GDP) per capita, a population size-adjusted measure of economic growth, has grown for every year since 1992. This represents the longest period of economic expansion since the 1960s, following recessions in the 1970s, early 1980s and early 1990s (1991-92). GDP growth has also been high in recent years by comparison with historical trend.

Figure 1.1 shows the annual changes in real GDP per capita, beginning in 1991 (the estimates are to June of each year). A horizontal line on the Figure, at 2.1 per cent, represents average real GDP per capita growth for the preceding thirty years (1960 to 1990). In 10 of the recent 16 years, growth exceeded the historical trend. The major expansion phase of 1993 to 2000 was followed by a year of weak but still positive growth (2001), which appears to be a result of the demand effects of

the Goods and Services Tax (GST) introduced in July 2000.⁴ After 2001, the GDP growth series in Figure 1.1 returned to approximately long-term trend.

FIGURE 1.1 – GROWTH IN REAL GROSS DOMESTIC PRODUCT (GDP) PER CAPITA: 1991-2008



Source: ABS 'Australian National Accounts: National Income, Expenditure and Product', Time series workbook, Table 30 'Key Aggregates and analytical series, Annual', catalogue no. 5206.0. For further information on the measurement of GDP per capita, see ABS (2000, p.364).

The Australian labour market has changed in important ways. Table 1.1 looks at one dimension of change: the percentage of the population (aged 15 to 64 years) in paid employment between 1978 and 2008 (the 'employment-population ratio'). To measure changes in work intensity, we distinguish between employment that is full-time (35 hours or more per week) and part-time (less than 35 hours).

Three major developments are apparent from Table 1.1. First, there has been a steady increase in women's participation in the paid workforce over the past thirty years. In 1978, 47 per cent of 15-64 year old females were employed. By 2008, the proportion had risen to 66 per cent. Second, there has been a decline and gradual recovery in male employment rates. The proportion of 15-64 year old men in paid work fell to 74 per cent in 1993, immediately after the recession of the

⁴ For further discussion of the GST effect, see the section on economic conditions in the May 2001 *Safety Net Review – Wages* decision (AIRC, 2001, pp.9-14).

early 1990s (see Figure 1.1). The ratio recovered to 80 per cent by 2008, but remained below the 1978 level.

More importantly, perhaps, there has been a reduction in *full-time* employment among men. The reduction has most affected ‘unskilled’ men – those without qualifications beyond secondary school. Gregory (2005) calculated that the full-time employment rate of unskilled men aged 25-59 years declined from 75 to 59 per cent between 1981 and 2001. He showed further that many of the men displaced from employment have become dependent on government income support payments, such as the Disability Support Pension (Gregory, 2005, pp.213-217).

The third trend evident in Table 1.1, closely related to the loss of male full-time employment, is the growth in part-time employment rates for both sexes. The proportion of working-age Australians in part-time jobs doubled to 20 per cent between 1978 and 2008. While most part-time jobs are still held by women (72 per cent in 2008), men employed part-time represent a growing proportion of all employed men (14 per cent in 2008). The Australian labour market has therefore changed from one in which the prototypical worker was a man in a full-time job to one in which women and part-time jobs are increasingly prevalent.

TABLE 1.1 – EMPLOYMENT TO POPULATION RATIOS, BY FULL-TIME/PART-TIME AND SEX, PERSONS AGED 15-64 YEARS: 1978-2008 (SELECTED YEARS)

(%)	Males		Females		Persons	
<i>Year</i>	<i>Full-Time</i>	<i>Part-Time</i>	<i>Full-Time</i>	<i>Part-Time</i>	<i>Full-Time</i>	<i>Part-Time</i>
1978	78	4	31	16	55	10
1983	72	4	30	17	51	10
1988	73	5	33	21	53	13
1993	67	7	33	23	50	15
1998	67	9	34	26	51	17
2003	66	11	34	29	50	20
2008	69	11	37	29	53	20

Source: ABS ‘Labour Force, Australia’, Time series workbook, Table 18 ‘Labour force status by Sex – Persons aged 15 to 64 years – Trend, Seasonally Adjusted and Original’, catalogue no. 6202.0.

Alongside the increasing part-time share of total employment has been a trend toward casualisation. A ‘casual’ employee is defined for most analytical purposes as one who receives neither paid holiday leave nor paid sick leave. In most cases,

wage ‘loadings’ are paid to casual workers to compensate for the absence of permanency entitlements, although their value and coverage varies (as we discuss in later chapters). Casual jobs are insecure, in that they provide no *contractual* assurance of continuing employment. However, there is an unsettled debate in the Australian literature about whether there exists a class of ‘long-term casuals’ who, by virtue of their earnings and expectations of future work, can be regarded as having *de facto* ‘permanent’ positions (Campbell and Burgess, 2001; Murtough and Waite, 2001).

Table 1.2 uses the standard ABS definition of a ‘casual’ employee as one who is not entitled to paid holiday or paid sick leave to calculate the share of casual employment for the period 1992 to 2008. We define as ‘non-casual’ employees those who have an entitlement to one or both of these two types of paid leave, irrespective of whether their employment contract is permanent or fixed-term. We continue the distinction from Table 1.1 between full-time and part-time jobs and between the two sexes. However, the focus of Table 1.2 is narrower than Table 1.1 because it excludes employed persons who are not *employees* (mainly the self-employed, or ‘own account workers’) and also excludes employees who run their own limited liability businesses (‘owner-managers of incorporated enterprises’).

The main change in Table 1.2 is the reduction in the total share of employment that is done full-time on a non-casual basis. This type of employment accounted for 71 per cent of Australian employees in 1992 and 64 per cent in 2008. The main loss of full-time non-casual employment share was for men, although this remains by far the most common type of male employment in 2008. Around one in five male employees was in a casual job in 2008, and both full-time casual and part-time casual jobs have become more prevalent in the male labour market since 1992. Women have a higher probability of casual employment than men. But, since 1992, and in contrast to men’s experience, there has been a slight decline in the share of female employment that is done on a casual basis. The main growth in female employment share has been the 5 percentage point increase in part-time non-casual employment (to 21 per cent) since 1992.

TABLE 1.2 – SHARE OF EMPLOYEES AGED 15-64 YEARS, BY CASUAL STATUS, SEX AND FULL-TIME/PART-TIME: 1992-2008 (SELECTED YEARS)

%	1992	1996	2000	2004	2008
			<i>Males</i>		
FT Non-casual	84	79	77	76	77
PT Non-casual	2	2	3	3	3
FT Casual	6	9	10	10	9
PT Casual	8	9	10	11	10
			<i>Females</i>		
FT Non-casual	54	53	51	50	51
PT Non-casual	16	16	18	20	21
FT Casual	4	6	6	6	5
PT Casual	26	25	25	24	23
			<i>Persons</i>		
FT Non-casual	71	67	65	63	64
PT Non-casual	8	8	10	11	12
FT Casual	5	8	8	8	7
PT Casual	16	16	17	17	16

Source: ABS, 'Australian Labour Market Statistics', July 2009, Data cubes, Table 2 'Employment type 1992-2008', catalogue no. 6105.0. All estimates are for the month of August.

Trade unions' influence in Australian workplaces has waned since the start of the safety net period. In terms of *density* (the proportion of employees who are union members), this represented the continuation of a longer-term decline. Cooper (2005) shows that density had fallen steadily in Australia since at least 1976, when 51 per cent of all employees were union members. However, it is only since 1990 that the *absolute number* of trade union members has also declined. Australian unions lost a total of 1 million members between 1990 and 2008, and are facing a 'crisis' in membership (Cooper, 2005, pp.96-97).⁵

Table 1.3 presents evidence of the losses in trade union density since the early 1990s. The proportion of Australian employees in unions halved, from 40 per cent in 1992 to 19 per cent in 2008. There were large declines for both sexes and for both full-time and part-time employees. The sharpest reduction occurred for men in full-time jobs, in part because of the changes in male labour force participation and employment shown in earlier Tables, but also because of changes in industry and occupation composition. Despite these large falls, men in full-time jobs accounted for exactly half of all union members in 2008. One reason for the crisis

⁵ This membership decline was halted briefly by a small increase in 2005, presumably in response to the 'Your Rights at Work' campaign mounted by the Australian Council of Trade Unions against the *Work Choices* legislation passed that year by the Howard Coalition government (see Chapter Two). In 2008, however, there were 150 thousand fewer union members than in 2005.

in membership noted by Cooper is that unions have been largely unsuccessful in recruiting new members from the part-time labour market, where employment has expanded. As Table 1.3 shows, employees are less likely to be union members if they work part-time.⁶

TABLE 1.3 – TRADE UNION DENSITY, BY SEX AND FULL-TIME/PART-TIME: 1992-2008 (SELECTED YEARS)

(%)	1992	1996	2000	2004	2008
			<i>Males</i>		
Full-time	46	36	29	25	21
Part-time	22	18	14	12	10
Total	43	33	26	24	19
			<i>Females</i>		
Full-time	41	32	27	25	21
Part-time	26	23	18	18	16
Total	35	28	23	22	19
			<i>Persons</i>		
Full-time	44	35	28	25	21
Part-time	25	22	17	17	15
Total	40	31	25	23	19

Source: ABS, 'Employee Earnings, Benefits and Trade Union Membership', Time series workbook, Table 5 'Employees in main job by Sex, Trade union membership, Sector, Full-time or part-time, 1990-2008', catalogue no. 6310.0. All estimates are for the month of August.

A final labour market trend relevant to the wages safety net is the widening dispersion of earnings in Australia. We know from earlier research that the trend towards greater earnings inequality preceded the safety net era. In one of the first studies of this issue, King, Rimmer and Rimmer (1992) showed that the shares of employment held by 'low' and 'high' wage employees had increased between 1975 and 1989 for both sexes, producing a 'shrinking middle' of the distribution.⁷ Another way of measuring inequality is to calculate the change in earnings at different points of the distribution over time. Between 1975 and 1997, the growth in full-time earnings at the top of the distribution was substantially greater than at the bottom for both sexes (Borland, 1999, p.184). Yet another analytical approach is to calculate the change in the *ratio* of earnings at different points of the distribution over time.

⁶ This difference also reflects employment status. Casual employees, who make up the bulk of the part-time workforce (see Table 1.2), are significantly less likely to be trade union members than permanent employees, who make up the bulk of the full-time workforce (Peetz, 1998b, p.6).

⁷ 'Low' wages were defined as below 75 per cent of median earnings and 'high' wages as above 175 per cent of median earnings (King, et al., 1992, pp.394-395).

Table 1.4 uses this approach to evaluate the changes in weekly earnings inequality for full-time employees between 1994 and 2006.⁸ Three earnings ratios are shown. When earnings are ranked, 10 per cent of employees earn less than the 10th percentile of the distribution (P10), half earn less than the median (P50) and 90 per cent earn less than the 90th percentile (P90). The ‘P90/P10’ ratio thus compares an employee near the top of the earnings distribution to an employee near the bottom. Similarly, the ‘P50/P10’ ratio compares the middle to the bottom, and the ‘P90/50’ ratio compares the top to the middle.

Table 1.4 confirms that full-time earnings inequality has increased since 1994, for both sexes, and in both the bottom and top halves of the distribution (below and above the median). An employee at the 10th percentile lost ground relative to the median, and an employee at the median lost ground relative to the 90th percentile. There is greater earnings inequality among men than among women. The major sex difference relates to where inequality increased most significantly between 1994 and 2006. For men, the main change was in the top half of the distribution, with slower change below the median. For women, the opposite was true. The advantage of a woman at the median of the distribution, relative to a woman at the 10th percentile, increased from 34 per cent in 1994 to 47 per cent in 2006.

TABLE 1.4 – WEEKLY EARNINGS INEQUALITY AMONG FULL-TIME EMPLOYEES, BY SEX: 1994-2006 (SELECTED YEARS)

Ratios	1994	1998	2002	2006
<i>Males</i>				
P90/P10	2.29	2.48	2.49	2.74
P50/P10	1.45	1.52	1.52	1.55
P90/P50	1.58	1.63	1.64	1.77
<i>Females</i>				
P90/P10	2.03	2.09	2.15	2.34
P50/P10	1.34	1.39	1.42	1.47
P90/P50	1.51	1.50	1.52	1.59
<i>Persons</i>				
P90/P10	2.21	2.36	2.41	2.63
P50/P10	1.42	1.47	1.48	1.53
P90/P50	1.55	1.60	1.63	1.72

Source: ABS, ‘Employee Earnings and Hours’, catalogue no. 6306.0. Data for 1994, 1998 and 2002 are from published reports. Data for 2006 are from the ‘Data cube’, Table 4 ‘Weekly total cash earnings, Distribution of Full-time non-managerial adult employees – Industry’. All estimates are for the month of May.

⁸ The estimates refer to ‘adult, non-managerial’ employees – those paid at adult, rather than junior, rates, who are not in supervisory positions. See Chapter Four for further discussion of this group.

Summary

There has been growing interest in minimum wages, as a result of new research and important labour market developments that potentially affect their costs and benefits. In Australia, changing forms of employment, falling union membership and rising earnings inequality have altered the environment in which the wages safety net is set and its purposes. While there is a substantial body of Australian research describing the low-wage workforce, much less attention has been paid to the *process* by which the safety net is adjusted and the *outcomes* of its adjustment. This thesis provides such a study.

The next chapter discusses in detail the political and legislative changes that led to the creation of the wages safety net and that shaped its evolution since 1993. In Chapter Three we review existing literature about the benefits of minimum wage regulation and how these benefits were pursued in safety net cases. Chapters Four through Seven explain the safety net's coverage and how it related to earnings, living standards and household needs. Chapter Eight discusses the findings of the thesis and suggests directions for further research.

CHAPTER TWO: Origins and Evolution of the Safety Net

Introduction

For much of the 20th century, the wages and conditions of Australian employees were shaped by the actions of tribunals established to prevent and settle industrial disputes. ‘Awards’ embodying the decisions of these tribunals came gradually to provide basic working entitlements for most employees and, for those organised in trade unions, a starting point for collective bargaining during favourable economic periods. In the late 1970s and early 1980s, deteriorating economic conditions, marked especially by high inflation, led the Australian Conciliation and Arbitration Commission to impose wage indexation as a mechanism for controlling escalating wage claims and settlements.⁹ In the late 1980s, this centralised system yielded to an increasingly decentralised system, based on enterprise-level bargaining. To aid and encourage this transition, successive Australian governments introduced legislative changes, in the 1990s, to reposition the arbitrated awards system as a ‘safety net’ for workers unable to bargain.

This chapter chronicles the evolution of the wages safety net in the Federal industrial jurisdiction from 1986 to the present day. Its focus is on the various forces – political, economic, industrial and legislative – that created and redefined the safety net. The methods and effects of its adjustment are the subjects of later chapters. This chapter is organised around four phases in the evolution of the wages safety net. The first phase, from 1986 to 1991, involved ‘restructuring’ initiatives adopted by the Commission in National Wage Cases and the emergence of widespread support for an ‘enterprise bargaining’ system to replace centralised wage fixation. The second phase, from 1992 to 1995, involved the steps taken by the Keating Labor government, via its ‘Accord’ arrangement with the Australian Council of Trade Unions, to introduce a version of enterprise bargaining with awards acting as a safety net. The third and longest phase, from 1996 to 2007, involved changes to the role of the safety net under the Howard Coalition government, beginning with the *Workplace Relations Act 1996* and ending with

⁹ In 1988, the name of the Federal tribunal changed to the Australian Industrial Relations Commission (Isaac and Macintyre, 2004, p.355). We refer in this chapter to ‘the Commission’.

the *Work Choices* legislation and the initial decisions of the Australian Fair Pay Commission. The final phase involved the election of the Rudd Labor government in 2007 and the changes introduced in the *Fair Work Act 2009*, which will determine the content of the safety net for the immediate future.

The shift to enterprise bargaining: 1986-1991

Although the first legislative reference to an award ‘safety net’ did not appear until 1993, the ‘forces for change’ were building from the late 1980s (Hancock, 1999, p.39). For much of the period between 1975 and 1986, the Commission maintained a highly centralised wages policy, involving the indexation of award wages to increases in consumer prices. After an earlier aborted effort (1975-1981), wage indexation was restored in 1983 under a prices and incomes ‘Accord’ negotiated between the Hawke Labor government and the Australian Council of Trade Unions (ACTU) (Hancock and Isaac, 1992, pp.217-220). The Accord required trade unions to exercise wage restraint, by committing to ‘no extra claims’ beyond arbitrated increases, in exchange for other ‘social wage’ improvements in areas such as taxation, superannuation, education and social welfare policy.

Indexation succeeded, for a time, in preventing a recurrence of the union wage campaigns that had derailed earlier efforts to control aggregate price inflation (ACAC, 1986, p.9). Between 1982-83 and 1985-86, award rates of pay grew less quickly than the Consumer Price Index due to ‘partial’ indexation in some National Wage Cases (Hancock and Isaac, 1992, p.220). Indexation was abandoned in 1986 in part because of renewed trade union support for bargaining outside the centralised system, but also because of the need to address other economic problems aside from domestic inflation. Since the decision to ‘float’ the Australian dollar on international currency markets in 1983, its depreciation led to reduced prices for key Australian exports and increased foreign debt (Hancock and Isaac, 1992, p.220; Belchamber, 1994, pp.233-236). The urgency of these problems motivated a search for broader policy initiatives, including wages policies, that would help Australian industries to become more efficient and ‘internationally competitive’ (Hancock and Isaac, 1992, p.221).

The Commission responded to these pressures with a series of novel alterations to the wage adjustments determined in National Wage Cases. The first of these innovations was a ‘Restructuring and Efficiency Principle’ (REP), announced in March 1987. The REP provided an incentive for unions to negotiate directly with employers changes to working practices that would increase labour productivity (or reduce labour costs), in order to obtain a conditional supplementary wage increase (the ‘second-tier’ increase) (Deery and Plowman, 1991, p.411; Hancock and Isaac, 1992, p.222). The REP was not an unqualified success. Some unions agreed to cosmetic changes with negligible, or potentially negative, productivity effects (such as shorter meal breaks) in return for the second-tier payment (Belchamber, 1994, p.239). The major achievement of the REP was to demonstrate that the centralised wage-fixing system could accommodate, and even lead, the pursuit of labour ‘flexibility’.

The REP made possible the next step: a ‘Structural Efficiency Principle’ (SEP) aimed at correcting ‘the more fundamental, institutionalised elements that operate to reduce the potential for increased productivity and efficiency’ (ACAC, 1988, p.5). The SEP initiated a programme of award ‘restructuring’, with the intention of tidying up some of the complexities and inconsistencies in the award system, so ‘that existing structures are relevant to modern competitive requirements of industry and in the best interests of both management and workers’ (ACAC, 1988, p.6).

In the February 1989 National Wage Case decision, the Commission considered an ACTU ‘blueprint’ for award restructuring, which proposed that wage rates in minimum rates awards be reviewed and, where necessary, lifted to an ‘equitable base’ (AIRC, 1989b, p.3). The motivation, which the Commission had highlighted in earlier decisions, was the destabilising ‘leap-frogging’ in wage claims that occurred when workers were paid at different rates for doing essentially similar jobs. Over opposition from the major employers’ groups, the Commission undertook to review minimum award rates to ensure they had ‘a proper relationship’ to each other, noting that ‘there is no doubt that the current award wage system contains irregularities in rates of pay which must be dealt with’ (AIRC, 1989b, pp.6-7). In August 1989, the Commission finalised its ‘Minimum

Rates Adjustment' (MRA) process, adopting a minimum rate for tradespersons in the metals and construction industries of \$407 per week (a base rate of \$356.30, plus a supplementary payment of \$50.70). Wages for other workers were set proportional to the tradespersons' rate 'on the basis of relative skill, responsibility, and the conditions under which the particular work is normally performed' (AIRC, 1989a, p.13).

The Commission was endeavouring in these transitional phases to influence enterprise efficiency while keeping control over aggregate wage outcomes. It sought to bring the groundswell of pressure for 'flexibility' into the framework of the centralised system. To the extent that there was decentralisation in this period, it was 'managed' by the Commission's wage-fixing principles and its monitoring of the changes that occurred (McDonald and Rimmer, 1989; Plowman, 1990).

The major source of tension and debate in this period was over how far, and how fast, the Commission should cede authority over wage outcomes to an evolving system of localised pay-setting known as 'enterprise bargaining'. At one extreme of the opinion spectrum was the H.R. Nicholls Society, whose founders and supporters advocated an expansion of employer prerogative through 'deregulation of the labour market' and a much reduced role for trade unions and arbitration (Dabscheck, 1995, pp.27-28; Hancock, 1999, p.44). The Society provided a forum and source of intellectual ammunition for conservative thinkers and politicians arguing for greater 'flexibility' in wage determination and working practices (Burgess and Macdonald, 1990; Buchanan and Callus, 1993).¹⁰

The major employers' associations were cautious in their attitudes to decentralisation. Until 1991, none proposed abandoning the arbitration system entirely. The Business Council of Australia (BCA) – 'an association of some seventy of the chief executives of the largest commercial enterprises' – was the most active proponent of enterprise bargaining (Hancock and Isaac, 1992, p.221). In contrast to the confrontational style of the H.R. Nicholls Society, the BCA pursued decentralisation through a long-term agenda of research and attitudinal

¹⁰ One of the Society's founders, Peter Costello, later became Treasurer of the Commonwealth (1996-2007). John Howard, who later became Prime Minister of Australia (1996-2007), was a Guest of Honour at the Society's annual conference held in Sydney in March 1990 (see Howard, 1990a).

change (O'Brien, 1994). The BCA had been arguing for a shift to an 'enterprise based' bargaining system since the late 1980s, but it was not until 1993 that it supported the outright replacement of awards by such a system (Hilmer, Angwin, Layt, Dudley, Barratt and McLaughlin, 1993; Campbell, 1996, p.297).

Two other important employers' associations supported the centralised system until the early 1990s, but for essentially pragmatic reasons. For the Metal Trades Industry Association (MTIA) – forerunner of the Australian Industry Group (AIG) – there was the danger that decentralisation would strengthen the already powerful metals unions. This 'industrial reality' should prevail over 'economic' imperatives for change. Until 1994, the MTIA supported gradual changes within the framework of the centralised system, along the lines of the REP and SEP (Thorntwaite and Sheldon, 1996, p.172).

For the Confederation of Australian Industry (CAI) – forerunner of the Australian Chamber of Commerce and Industry (ACCI) – the award system had a useful function in setting wage relativities that defused wages competition between its members (Campbell, 1996, p.300-302). CAI's support for the traditional system was withdrawn in September 1991, when its Chief Executive, Ian Spicer, announced his preference for an end to compulsory arbitration and National Wage Cases, without the 'hybrid' (combining awards with new forms of agreements) proposed as an interim step by the BCA (Spicer, 1991). This announcement appears to have been made in anticipation of a change of government at the 1993 Federal election. There were strong similarities between Spicer's proposals and the industrial relations policy taken to the previous election by the Liberal-National parties (Howard, 1990b).

With employers' opinions divided and a Federal Labor government, it is unlikely that momentum would have swung behind the idea of enterprise bargaining without the change in the stance of the ACTU that came in 1990. An earlier resolution of the peak union body, to 'strenuously resist the attempts by conservative forces to establish de-centralisation of wage fixation based on so-called "free labour market" criteria', was absent from the Accord statement of February 1990 (referred to as Accord 'Mark VI') (ACTU, 1989; ACTU and ALP, 1990). Instead, the 'no extra claims' commitments that had underpinned aggregate

wage restraint since 1983 would be varied, ‘to provide the opportunity for claims based on achieved increases in productivity and profitability’ in individual enterprises (ACTU and ALP, 1990; Hancock, 1999, p.41). There would be little or no requirement for restraint in the interests of macroeconomic stability; union claimants would be ‘off the leash’ (Peetz, 1998a, p.535).

This change of policy was prompted by several factors. First, the rapid inflation that motivated the earlier Accords and necessitated wage indexation was no longer present in the economy (Mitchell, 1991, p.115). Second, there was a desire among some stronger unions to rebuild the bargaining capacities that they had held at bay since the beginning of the Accord period in 1983, in anticipation of a conservative government (Peetz, 1998a, p.535). Third, there was the aim of swinging the decentralisation process in workers’ favour while the political alliance with the Labor government was still intact (Campbell and Brosnan, 1999; Briggs, 2001). Finally, but to an unknowable extent, there was the animosity that the Secretary of the ACTU, Bill Kelty, felt personally towards members of the AIRC, highlighted by a public feud over Commission members’ salaries in 1990 (Dabscheck, 1995, p.63-67; Rimmer, 2004, p.308).

In a National Wage Case that began in December 1990, the Commission was asked to consider the future of award restructuring under the Structural Efficiency Principle, in light of Accord Mark VI and the limited adoption of ‘enterprise bargaining’ in selected industries. With the exception of the MTIA (for reasons already noted), the major parties to the Case characterised enterprise bargaining as an evolution from the wages policy innovations of the late 1980s. They asked the Commission to determine principles for a system founded upon enterprise-based wage determination.

In a well-known and much-criticised decision issued in April 1991, the Commission declined to do so (Dabscheck, 2001, p.283). It perceived that the parties, notwithstanding their written submissions, had yet to reach any agreement over how a wages structure mainly determined at enterprise level would operate. The Commission maintained that enterprise bargaining risked inducing an inflationary wages ‘break-out’ and, in an inflammatory passage, noted that the parties lacked the ‘maturity’ needed to support the system they envisaged (AIRC,

1991a, p.38).¹¹ In the absence of guiding mechanisms for wage restraint and the distribution of national productivity growth, weaker groups would be deprived their share of rising living standards. The benefits of the centralised system would be sacrificed for the dubious benefits of flexibility, with the likelihood that better organised groups in more prosperous industries would reach generous mutual agreements, while others faced little hope of genuinely ‘bargaining’. Postponing a final decision on enterprise bargaining, the Commission made available a 2.5 per cent wage increase to unions prepared to complete the SEP restructuring process started in 1988 (AIRC, 1991a, p.59).

The Accord partners treated this outcome with disdain. Their contempt derived partly from the fact that the Commission had failed simply to give its imprimatur to their own settlement recorded in Accord Mark VI. Bill Kelty, ACTU Secretary, incensed by the rebuff of the pre-arranged package of wages, bargaining and superannuation, expressed his scorn in infamous, petulant hyperbole: the result for unions was ‘a rotten egg’ and ‘vomit’ (Dabscheck, 1995, p.72). The immediate outcome was that the ACTU resumed efforts to bargain ‘in the field’ and resolved at a later Congress formally to reject the decision (Davis, 1992, p.94-5). Efforts to resume bargaining were constrained, however, by an economic downturn. Its severity encouraged a growing number of unions to apply for the 2.5 per cent wage increase made available in the April 1991 decision (Jamieson, 1992, p.168).

The issue of enterprise bargaining returned to the Commission in October 1991. Again the parties used the forum of a National Wage Case to press for changes to the wage-setting principles. None of the misgivings that the Commission raised in April had been allayed in the interim months. This time, however, the Commission, seeing the futility of further opposition to enterprise bargaining, indicated its preparedness to certify fixed-term agreements consistent with the thrust of the previous SEP, provided that these were confined to single enterprises and based on genuine efforts to further the productivity agenda. The Commission reserved the power to rescind agreements contrary to this ‘public interest’ test, including in cases where agreed wage increases were unrelated to workplace efficiency or likely to generate ‘catch-up’ claims in other firms (Hancock and

¹¹ While the Commission may not have intended to inflame tensions, the fact that it did so is clear from the parties’ hostile reactions to the decision.

Isaac, 1992, p.224). The Commission's reservations about the changes were clear from its prediction that enterprise bargaining would 'lead to inequity and, ultimately, to a distorted and unsustainable wage structure' (AIRC, 1991b, p.4).

Reconfiguring awards as a safety net: 1992-1995

The concessions to enterprise bargaining in the October 1991 decision did not relieve the Accord partners' mounting impatience with the Commission. Changes introduced by the *Industrial Relations Legislation Amendment Act 1992* weakened further the Commission's position, by removing from it the capacity to reject single-enterprise agreements on public interest grounds.¹² The amended *Industrial Relations Act 1988* unseated the Commission from its previously prominent role in guiding the decentralisation process. Single-enterprise agreements that satisfied a limited set of new statutory requirements, including a test of 'no disadvantage' to employees, would be certified irrespective of their impact on aggregate wage costs or productivity (Ludeke, 1992, p.600; McCallum, 1993, p.65).

The Keating Labor government purported still to see 'a role for public institutions, notably independent industrial tribunals, to provide social protections through the safety net provided by an effective award system' (Cook, 1992). But this commitment to the preservation of an award safety net was arguably due as much to its need to win support from the union movement, prior to the 1993 Federal election, as to an inherent concern for vulnerable workers.

The government hoped, in the main, to distinguish its position from the Coalition parties' *Jobsback!* policy statement, which had declared that a Liberal-National government would accelerate the shift away from compulsory arbitration by introducing a stream of statutory individual agreements (Stegman, 1993; Stewart, 1994, p.140). Labor's attachment to the notion of an 'effective' award safety net became an important part of the rhetorical arsenal deployed to show the government as more attentive than the Opposition to the human costs of economic reform and 'less antagonistic toward the Commission and the ACTU' (Rowse, 2004, p.50). For the ACTU, the award 'safety net' was a natural counterpart to the 'safety valve' that enterprise bargaining had opened for stronger unions (Rowse,

¹² The test still applied to multiple-enterprise agreements and to National Wage Case decisions.

2004, p.42).¹³ The safety net would provide a base for enterprise-level negotiations by locking in the gains from award restructuring and encouraging workers to join unions so that they might benefit from bargaining (Belchamber, 1994).¹⁴

There was early tension between the Accord partners over how – and for whom – the safety net should be adjusted. While it was agreed that any increase in wages should be confined to workers who had not yet moved into the bargaining system, the ACTU favoured an increase for all such workers, rather than just for the lowest paid. Keating preferred a narrower role for the safety net. In a meeting with Secretary of the ACTU, Bill Kelty, he asked:

Are you out in the jungle or not? You can't have arbitration and enterprise bargaining too. You are walking back from Accord Mark VI. But you can't walk back – you are in danger from a conservative government. To fall back on arbitrated increases for the higher paid is crazy (Edwards, 1996, p.506).

The wording of the subsequent Accord statement ('Mark VII') was ambiguous on the above issue. The safety net would be 'primarily for lower paid workers' but would also ensure that 'all workers are protected' (ACTU and ALP, 1993). The Commission would be responsible for 'determining the timing and extent' of any safety net wage increase, but would have little discretion over its size. The statement makes clear the Accord partners' preference for an \$8 per week initial increase, with two further increases, of similar size, in July 1994 and July 1995 (ACTU and ALP, 1993). The government and the ACTU '[took] for granted that the AIRC would approve their proposals if called upon to do so' (Hancock and Rawson, 1993, p.502).

The Keating government was returned to power in the March 1993 Federal election, prompting 'euphoria and concussion' within the Labor party (Watson, 2002, p.370). The Prime Minister admitted to his closest advisors a feeling of invincibility: 'in the next five months, we can do anything' (Edwards, 1996, p.518). A speech to the Institute of Company Directors, in April 1993, contained

¹³ The reference to a 'safety valve' first appeared in Singleton's account of industry-based wage campaigns in the 1970s (Singleton, 1990, p.57).

¹⁴ The term 'safety net' originated with the ACTU, but the idea of reconfiguring awards to provide one came from the Minister for Industrial Relations, Ralph Willis (Lewis and Spiers, 1990, p.55; Deery and Plowman, 1991, p.349; Edwards, 1996, pp.490-491).

‘a vigorous statement of the government’s intentions for Australian workplaces’ (Watson, 2002, p.366). In it, Keating declared that while there would continue to be a safety net kept ‘in good repair’ by the AIRC, the award system ‘would not be intended to prescribe the actual conditions of work for most employees, only to catch those unable to make workplace agreements with employers’ (quoted in Watson, 2002, p.388). Over time, the safety net would be simplified – ‘fewer awards, with fewer clauses’ – and agreements would become ‘full substitutes’ for awards, rather than addenda (Isaac, 2005, p.10).

John Edwards, one of Keating’s economic advisers, claimed that key elements of the speech were settled in advance with Iain Ross, former ACTU assistant secretary (and later Vice President of the AIRC) (Edwards, 1996, p.518). But the speech was seen by others as a betrayal of the ACTU. In giving it, Keating had ‘dismayed his Accord partners’ (Rowse, 2004, p.50). Don Watson, Keating’s speechwriter, described the speech more colourfully as ‘an abscess on the brain of the old alliance’. Keating, he recalled, had:

...calculated that unions would quickly judge it wise to accept the changes on the more favourable terms of a Labor government...[but] the passage on industrial relations would be read as mugging our most loyal allies (Watson, 2002, p.369-370).

The legislative embodiment of the aims outlined in Keating’s speech to the Institute of Company Directors was the *Industrial Relations Reform Act 1993*, which received the Royal Assent on 22 December 1993. The *Industrial Relations Act 1988*, as amended by the 1993 legislation, stipulated that ‘employees are protected by awards that set fair and enforceable minimum wages and conditions of employment that are maintained at a relevant level’ (s.88A(a)). Awards – other than the ‘paid rates’ awards that set actual wages for a small subset of the workforce – would ‘act as a safety net of minimum wages and conditions of employment underpinning direct bargaining’ (s.88A(b)). The amended *Act* further directed the Commission to ‘ensure, so far as it can, that the system of awards provides for secure, relevant and consistent wages and conditions of employment’ (s.90AA(2)(a)). A new review of award content would be undertaken to expunge any remaining discriminatory provisions (s.150A) (MacDermott, 1995).

In determining the minimum entitlements of employees, including minimum wages, the Commission was instructed to ‘have regard, so far as possible and appropriate in relation to Australian practice and conditions’, to two criteria:

- (a) the needs of workers and their families, taking into account the general level of wages in Australia, the cost of living, social security benefits and the relative living standards of other social groups; and
- (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.¹⁵

When read alongside the Accord Mark VII proposals for three annual safety net wage increases, the above minimum wage provisions of the 1993 *Act* were seen as having ‘the potential to enable the Commission to determine what might become regarded as a basic wage for workers’ (Dabscheck, 1995, p.112). With hindsight, however, it is apparent that the minimum wage provisions had little impact on the two safety net adjustment and review decisions given by the Commission under the 1993 legislation. Neither decision mentions ‘the needs of workers and their families’ (s.170AF), though there are numerous references to the ‘needs’ of particular industries, as required by s.88A(c) (AIRC, 1994b, pp.28-29; 1995, p.30). And, while both decisions discuss economic evidence, this reflected mainly the requirement that the Commission have regard to ‘the state of the national economy’ (s.90(b)), not the ‘economic factors’ specified in s.170AF (AIRC, 1994b, pp.7-17; 1995, pp.52-62).

Between 1993 and 1995, the Commission awarded three safety net wage increases, of \$8 per week each. In a review of the wage-fixing principles decided in October 1993 (before the amendments introduced by the *Industrial Relations Reform Act 1993* took effect), the Commission said that the main priorities in adjusting the safety net were to: 1) protect lower paid employees; 2) ‘maintain the integrity’ of the award classification structure; and 3) ‘not detract from the trend towards enterprise agreements’ (AIRC, 1993a, p.24). In a supplementary decision, the Commission confirmed that the first safety net wage adjustment of \$8 per week would be accessible from 1 December 1993, noting that ‘if it is properly implemented, the impact of the adjustment on employment and inflation should be minimal’ (AIRC, 1993b, p.4).

¹⁵ Section 170AF of the *Industrial Relations Reform Act 1993*.

The Commission outlined the basis and timing for two further increases, each of \$8 per week, in a second ‘safety net adjustments and review’ decision of September 1994 (AIRC, 1994b). Unions could apply for the second increase from no earlier than 22 September 1994, provided that at least six months had elapsed since employees received the first increase, and provided that ‘there is no likelihood that... further conciliation or negotiation will result in an agreement covering the employees concerned’ (AIRC, 1994b, p.20). The third \$8 adjustment was available on application from 22 September 1995, subject to similar conditions (AIRC, 1995, pp.64-65).

The Coalition government’s vision: 1996-2007

The Liberal-National (Coalition) parties, led by John Howard, won the March 1996 Federal election. In the run-up to the election, the Coalition parties did not attempt to revive the *Jobsback!* package from 1993. Instead, they took a ‘more muted’ approach, proposing the retention of an award safety net maintained by the Commission and the continuation of a ‘no-disadvantage test’ for agreements departing from award terms (Hancock, 2000, p.85). The key differences with Labor’s policy were the proposals to limit award content to certain ‘allowable matters’ and to make ‘low paid’ employees the exclusive beneficiaries of safety net adjustment cases.

On 23 May 1996, the Minister for Industrial Relations, Peter Reith, commended to the House of Representatives the *Workplace Relations and Other Legislation Amendment Bill 1996*, which he described as ‘a break with a system of industrial relations that has been based on a view that conflict between employer and employee is fundamental to the relationship’ (Reith, 1996). The Howard government had, he said, drafted laws that rejected the ‘monopoly’ of unions and cast off the ‘highly paternalistic presumption’ that workers cannot defend their own interests without intervention from ‘third parties’ (Bray and Waring, 1998, p.66-67). The government would ‘ensure that all employers and employees with federal award coverage have the choice of remaining on their awards’, while ‘reinforcing [awards’] role as a genuine safety net’. This new system would allow co-operative workplace relations, previously stifled by overly prescriptive awards, to flourish:

With simplified awards, employers and employees will find themselves talking to each other more about how they would like to organise, to their mutual benefit, matters that, until now, have been dictated to them by the award (Reith, 1996).

The *Workplace Relations and Other Legislation Amendment Bill 1996* was subjected to extensive scrutiny by the Senate Economic Committee, which received in excess of a thousand submissions and deliberated for six months. Despite ‘intense negotiations’ over parts of the Bill with the Australian Democrats (who held the balance of power in the Senate), the provisions affecting the award safety net were passed into law with few amendments (Quinlan, 1998, p.82). The government’s initial list of eighteen ‘allowable matters’ was expanded by the addition of a further two matters (superannuation and the pay and conditions of ‘outworkers’) and an option for the AIRC to arbitrate on non-allowable matters in ‘exceptional’ circumstances. Under the new system, the no-disadvantage test for agreements would be made by reference to a ‘stripped back’ award system. While this change expanded the range of matters open to negotiation, it also increased the risk that, for workers with limited bargaining power, conditions deleted from awards would not be recovered in agreements (Bray and Waring, 1998, p.74).

Among the Objects of the *Workplace Relations Act 1996* was ‘providing the means... to ensure the maintenance of an effective award safety net of fair and enforceable minimum wages and conditions of employment’ (s.3(d)(ii)). The Australian Industrial Relations Commission was to ‘ensure that a safety net of fair minimum wages and conditions of employment is established and maintained’, having regard to:

- (a) the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
- (b) economic factors, including levels of productivity and inflation, and the desirability of attaining a high level of employment; and
- (c) when adjusting the safety net, the needs of the low paid.¹⁶

Other considerations relevant to the maintenance of the safety net included: upholding the principle of ‘equal pay for work of equal value’; preventing discrimination (except in relation to minimum wages for disabled employees and

¹⁶ Section 88B(2) of the *Workplace Relations Act 1996*.

trainees); and ‘the need for any alterations to wage relativities between awards to be based on skill, responsibility and the conditions under which work is performed’ (s.88B(3)).

The Commission made nine *Safety Net Review – Wages* decisions under these criteria. These decisions, and the evidence that supported them, are the foundation for much of the analysis in this thesis. The April 1997 decision, brought on by the ‘Living Wage’ claim of the Australian Council of Trade Unions, and the first based on the *Workplace Relations Act 1996*, produced a split in the Commission. The Full Bench was divided between the majority, which gave a \$10 per week increase in minimum award rates of pay, and the minority opinion of Vice President Ross, who would have given a \$15 increase.¹⁷ This was the first time in 20 years – and the only time in the safety net era – that the Commission failed to reach a unanimous decision (Dabscheck, 1997, p.132).

The majority decision of April 1997 also established a new Federal Minimum Wage (FMW), equal to the lowest rate of pay in the ‘Metal Industries Award’.¹⁸ Figure 2.1 charts the evolution of the FMW over the period 1997 to 2005. It shows the dollar increase awarded each year by the AIRC, compared with the increases claimed by the ACTU and proposed by the Commonwealth government. While the story of the safety net’s evolution is broader than the increases at the FMW, because other higher rates were also under the Commission’s control, this focus offers a useful summary of how AIRC decisions affected low-paid workers, compared with an alternative, hypothetical scenario in which the Commonwealth government set minimum wages directly.

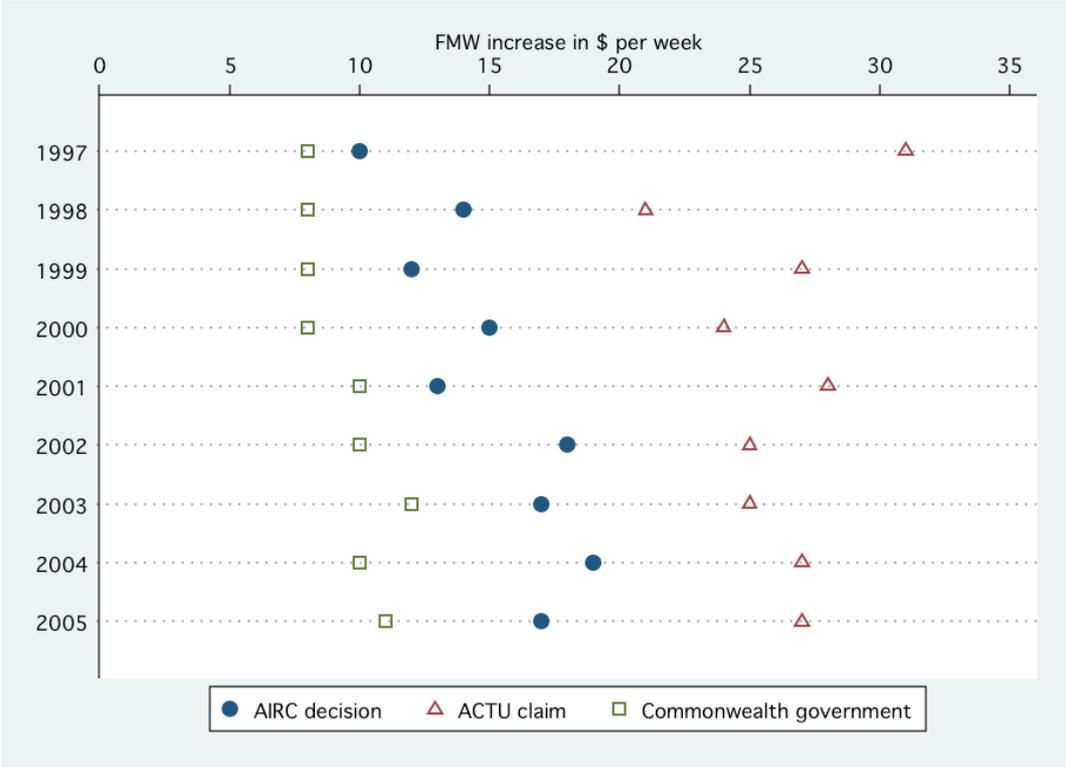
The minimum wage increases of the AIRC were always below the amounts claimed by the ACTU, and above the amounts suggested by the Commonwealth government, between 1997 and 2005. Including the April 1997 decision, the AIRC increased the nominal value of the FMW by \$135 per week in this period (from \$349.40 to \$484.40 per week). The ACTU claimed total increases of \$233,

¹⁷ The majority awarded a \$10 per week increase in all rates. Ross VP proposed a \$15 increase up to the ‘C7’ award rate, and 2.5 per cent above it (AIRC, 1997, pp.74-75; Ross, 1997, p.107).

¹⁸ This is the short title of the award. The full name is the Metal, Engineering and Associated Industries Award 1998 [AW789529 – Fed].

and the government proposed increases of \$85.¹⁹ The Howard government argued repeatedly that the FMW was set ‘too high’, with adverse employment effects, but its submissions on this issue proved unpersuasive to the Commission (Waring, de Ruyter and Burgess, 2005; Cowling and Mitchell, 2007). Over the period shown in Figure 2.1 there was a convergence between the increases claimed by the ACTU, supported by the Commonwealth and granted by the AIRC.

FIGURE 2.1 – ACTUAL AND PROPOSED INCREASES IN THE FEDERAL MINIMUM WAGE: 1997-2005



Source: Adapted from O’Neill (2005a).

The Howard government nonetheless sought to slow the rate of increase in the FMW, by amending the wage-fixing criteria of the AIRC. In February 2003, the Minister for Employment and Workplace Relations, Tony Abbott, introduced to the House of Representatives the *Workplace Relations Amendment (Protecting the Low Paid) Bill 2003*. This Bill proposed to amend the *Workplace Relations Act 1996*, by repealing section 88B(2)(c), which referred to ‘the needs of the low paid’, and replacing it with the following three criteria for adjusting the safety net:

- (i) as a primary consideration, the needs of the low paid, including their need for employment;

¹⁹ This is intended only as a guide to the parties’ positions. The addition of the amounts supposes that if the decision of the AIRC had been different, the claims would not have also been different.

- (ii) the employment prospects of the unemployed; and
- (iii) the capacity of employers to meet increased labour costs.

The changes were intended to limit the impact of safety net adjustments in two ways: by reducing the amounts awarded by the Commission, and by denying these increases to employees reliant on the safety net who were not 'low paid'. From the standpoint of the government, the restriction to the 'low paid' meant that employees above the tradespersons' minimum award rate would be ineligible for safety net adjustments. (See further discussion in Chapter Four.)

Lacking a Senate majority, the Howard government was unable to enact its vision of the wages safety net into law without support from the Labor Opposition or the minor parties. This support was not forthcoming, and the *Protecting the Low Paid Bill 2003* lapsed in the 40th Parliament, along with a number of other legislative amendments in the workplace relations portfolio (O'Neill, 2005b).

The balance of power shifted to the government in the 2004 Federal election, with the Coalition parties controlling a majority of Senate seats from 1 July 2005. Viewing this shift as a 'once in a generation opportunity' to reshape Australia's labour laws, the government began drafting what would become the *Workplace Relations Amendment (Work Choices) Bill 2005* (O'Neill and Kuruppu, 2007).

In a statement made in the House of Representatives on 26 May 2005, the Prime Minister described the changes variously as 'one of the great pieces of unfinished business in the structural transformation of the Australian economy', 'the next logical step towards a flexible, simple and fair system of workplace relations', and the end of 'the era of the select few making decisions for the many in Australian industrial relations' (Howard, 2005). The *Work Choices Bill 2005* was eventually introduced to Parliament on 2 November 2005, passed with minor amendments on 7 December 2005, and given the Royal Assent on 14 December 2005 (O'Neill and Kuruppu, 2007). The date of commencement for most provisions of the amended *Workplace Relations Act 1996* was 27 March 2006, but the changes discussed below took effect with the Royal Assent.

The major change affecting the minimum wages component of the safety net was the creation of the Australian Fair Pay Commission (AFPC), to take over the

wage-fixing role of the AIRC. The responsibilities of the new Commission were similar to those of its predecessor.²⁰ The AFPC would set the Federal Minimum Wage and adjust other higher award rates of pay (now known as ‘Pay Scales’) by reference to criteria specified by the Parliament. The new Commission also shared the limitations of its predecessor. Neither had a power over unemployment benefit levels or other welfare entitlements that might influence labour force participation rates (Wooden, 2005, pp.86-88).

In other important respects, *Work Choices* transformed the Australian system of minimum wage determination. Members of the AFPC would not be drawn from the ranks of the AIRC, but would be individuals with experience in the broad areas of ‘business, economics, community organisations or workplace relations’ (Howe, Mitchell, Murray, O'Donnell and Patmore, 2005, p.206; May, 2005). The AFPC Chair, Professor Ian Harper, was an economist by training but not an expert in labour economics. The other four Commissioners were from academic, union, business management and welfare policy backgrounds.

The process of setting minimum wages would be markedly different from that of the AIRC. Where the Australian Council of Trade Unions had instigated the previous *Safety Net Review* cases in the AIRC, by applying for award variations, the timing of wage reviews in the new system would be determined by the AFPC. The practice of taking evidence in Court-like sessions, at which claimants and respondents gave oral testimony and challenged each other’s evidence, was also abandoned. The AFPC would have the capacity to determine the scope of any inquiry, to inform itself about the evidence outside the boundaries of material submitted to it by the various parties, and to commission new research on topics relevant to its decisions. These features of the new system were very different from the old system in which the AIRC arbitrated on the ‘merits of the case’ presented by the parties. While some commentators viewed these changes as an improvement from the ‘highly adversarial judicial system’ of the AIRC (Wooden, 2005, p.84), others lamented the loss of transparency, ‘public scrutiny’ and standards of ‘evidentiary proof’ associated with *Safety Net Review – Wages* cases

²⁰ However, where the AFPC was limited to a wage-setting role, the AIRC was not. For a broader discussion of changes affecting non-wage elements of the safety net, see Owens (2006).

(Briggs, Buchanan and Watson, 2006, pp.20-21; Cowling and Mitchell, 2007, p.748).

In addition to the above changes in role and operation, the AFPC would set minimum wages with a new set of adjustment priorities. Perhaps the most noted aspect of the changes was the absence of a specific requirement that the safety net enshrine ‘fair’ minimum wages. The *Work Choices* legislation removed the requirements that the safety net be maintained by reference to ‘living standards generally prevailing in the Australian community’ and ‘the needs of the low paid’. In place of these criteria were four parameters to guide the AFPC in ‘promoting the economic prosperity of the people of Australia’:

- (i) the capacity of the unemployed and the low paid to remain in employment;
- (ii) employment and competitiveness across the economy;
- (iii) providing a safety net for the low paid; and
- (iv) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.²¹

These criteria were widely seen as abandoning the ‘social’ functions of the safety net for strictly ‘economic’ aims (Waring, et al., 2005, pp.135-136; Cowling and Mitchell, 2007, p.749; Isaac, 2008, p.298). The long-standing Australian arbitral tradition of ‘fair and reasonable’ minimum wages ‘finds no resonance in the post *Work Choices* Act wage-setting parameters’ (Owens, 2006, p.172). The social objectives of wage regulation were not being replaced entirely, but re-interpreted as a function of economic outcomes such as the ‘competitiveness’ of low-skilled persons. Under *Work Choices*, the notion of fairness in wage rates ‘means no more than the possibility of getting a job; of not being prevented from taking employment by having low skills; of not being priced out of the labour market’ (Fenwick, 2006, p.103). The debate over whether minimum wages reduce employment opportunities was circumvented, by making this outcome ‘effectively a matter of legislative presumption’ (Fenwick, 2006, p.102).

²¹ Section 7J of the *Workplace Relations Amendment (Work Choices) Act 2005*, and Section 23 of the amended and re-numbered *Workplace Relations Act 1996*.

Between 2006 and 2009, the Australian Fair Pay Commission completed four reviews of the wages safety net. These decisions increased the value of the Federal Minimum Wage from \$484.40 per week, when the AFPC took over from the AIRC in December 2005, to \$511.86 per week in December 2006 (AFPC, 2006, p.63), \$522.12 per week in October 2007 (AFPC, 2007, p.9) and finally to \$543.78 per week in October 2008 (AFPC, 2008, p.8). These decisions amounted to a 12 per cent increase in the nominal value of the FMW. The Commission's final decision, made in the context of the global economic downturn, was to leave the FMW and all other Pay Scales unchanged (AFPC, 2009, p.9).

It is beyond the scope of this thesis to assess fully how the absence of specific 'social' criteria affected the fairness of AFPC decisions. But it is relevant to note that between the December quarter 2005 and the June quarter 2009, a time period that corresponds almost exactly to the wage-fixing period of the AFPC, the Federal Minimum Wage increased by 12 per cent and consumer prices increased by 11 per cent (as measured by the Consumer Price Index).²² The lowest-paid employees thus received a marginal improvement in real wages as a result of AFPC decisions.²³ This outcome challenges early predictions that the AFPC would seek to reduce real wages for the lowest-paid (Waring, et al., 2005, pp.142-143; Cowling and Mitchell, 2007, p.752).

The contemporary system: 2008-

The Australian Labor Party won the November 2007 Federal election, a victory which has been seen as at least partly due to voters' antipathy towards *Work Choices* (and a successful 'Your Rights at Work' campaign by the ACTU) (Hall, 2008). The new Rudd government began quickly repealing parts of the *Work Choices* legislation and implementing its own policy, known as 'Forward with Fairness' (Cooper, 2009).

The major change relevant to the wages safety net is the creation of a new authority, Fair Work Australia (FWA), which replaces both the dispute resolution

²² Australian Bureau of Statistics, 'Consumer Price Index, Australia', June 2009, Time series workbook Tables 1 and 2. ABS catalogue no. 6401.0. These were the latest data available at time of writing.

²³ Note that this calculation excludes the effects of the wages 'pause' announced in the 2009 decision, which will operate from 1 October 2009.

functions of the AIRC and the wage-setting functions of the AFPC (Hancock, 2008, p.12). From 2010, minimum wages in the Federal system will be determined by a specialist 'Minimum Wage Panel' within FWA, comprising its President, Justice Giudice (formerly President of the AIRC) and six other members. A review of the wages safety net will begin in January 2010, with a decision to take effect by 1 July 2010.²⁴ The replacement of the AFPC by FWA has reversed the previous emphasis on 'competitiveness' as the major criterion for the safety net. While the Minimum Wage Panel is obliged to consider economic factors in adjusting the safety net, it will also take into account 'relative living standards and the needs of the low paid'.²⁵

The safety net continues to evolve in other important ways. In April 2008, following an instruction from the Minister for Employment and Workplace Relations, Julia Gillard, the AIRC commenced an ambitious program of 'award modernisation' that aims to consolidate existing pay structures and reduce the total number of awards. Once this process is completed, at the end of 2009, wage structures within 'modern awards' will become the basis for review decisions undertaken by the Minimum Wage Panel of Fair Work Australia.

Non-wage components of the safety net are increasingly being set by legislated minimum standards, rather than award terms. This process has continued with the ten 'National Employment Standards' provided in the *Fair Work Act 2009*, including standards related to leave, termination and redundancy payments, and the circumstances in which employees may refuse to work 'unreasonable' additional hours (Cooper, 2009, p.288). The recent practice of setting minimum conditions through direct legislation represents a sharp break from the past, when the AIRC and its forebears conducted periodic 'test cases' to reflect changing community expectations and needs in awards. While this new legislative mode of regulation has the benefit of strengthening some existing components of the safety net, it carries a risk that minimum standards, in the hands of the Parliament, will be less responsive to changing circumstances than the arbitration process of the AIRC (Murray, 2005; 2008, pp.46).

²⁴ Details in this paragraph are based on information taken from the Fair Work Australia website on 25 July 2009. See <http://www.fwa.gov.au/index.cfm?pagename=minhow>

²⁵ Section 284 of the *Fair Work Act 2009*.

Conclusion

Since the mid-1980s, the broad political and popular consensus that existed in support of arbitral wage determination has weakened and disappeared. It has been replaced by a new consensus, in which the enterprise – and, to a lesser extent, the individual employee – is the primary locus of wage determination. In reinforcing the shift toward enterprise bargaining, Australian governments of both major political persuasions have seen an ongoing role for the award system in maintaining a safety net of minimum wages and employment conditions for non-bargaining employees. Whereas basic conditions have been removed gradually from this safety net by confining it to ‘allowable matters’, or replaced by legislated standards, the *wages* component of the award system remains more or less intact. There has been a presumption that minimum wages should be maintained by an independent body with broad direction from government, and that this is necessary to protect the special needs of low-paid workers.

To what extent does the Australian wages safety net perform this protective function? Does it have other effects that could be counted as benefits, and which might serve as a justification for its preservation? Or would the removal of the wages safety net, and its replacement by a more narrowly focused (and, perhaps, legislated) minimum wage, have trivial impacts on actual wages, living standards and needs? In the next chapter, we review the existing literature, looking for preliminary answers to these questions.

CHAPTER THREE: The Case for Minimum Wage Regulation

Introduction

Why are minimum wages set? In this chapter, we review the empirical literature about three reasons that are used to justify minimum wage regulation. Our aim is to assess what is currently known about whether the claims made in favour of minimum wages are supported by the evidence of their actual labour market effects. We discuss studies that sustain, and others that challenge, the case for state intervention in the low-wage labour market. To draw a connection with the safety net, we also review the ‘wages policy’ literature since 1993, to assess how the reasons for minimum wage regulation were reflected in the decisions of the Australian Industrial Relations Commission.

The first three sections of this review are structured around three major reasons given by proponents of minimum wages. These reasons are to: (1) protect groups of workers that would be vulnerable to exploitation in an unregulated labour market; (2) narrow the dispersion of earnings, by raising wage rates at the bottom of the distribution; and (3) reduce or eliminate the incidence of poverty at the household (or family) level.

We focus on these issues because they are closest to the legislated criteria that guided the safety net decisions of the AIRC, especially the criteria of ‘fairness’ and ‘needs’. Other potential benefits from minimum wages, such as for training in the workplace, are outside the scope of this review, and this thesis (Arulampalam, et al., 2004; McLaughlin, 2009).

This chapter does not discuss either the substantial literature concerned with the ‘costs’ of minimum wages, especially their impact on employment. There is a lively debate on this topic in many developed countries. The literature from the United States is divided between studies that support the standard hypothesis of an adverse employment effect and others that challenge this conclusion (for competing perspectives, see Card and Krueger, 1995; Neumark and Wascher, 2008). In the United Kingdom, the weight of evidence suggests that there have not

been adverse employment effects from the introduction of the National Minimum Wage (Stewart, 2004; Dickens and Draca, 2005; Metcalf, 2007). The Australian literature is less developed, but reflects the same concerns about data sources, measurement and inference as in studies for other countries (Dawkins, 1998; Leigh, 2003, 2004; Watson, 2004). We pass lightly over the ‘disemployment’ evidence in this review, because it is not centrally relevant to determining whether the safety net has benefits that warrant its retention. A full assessment of the benefits *and* costs is necessary for informed policy decisions about the safety net, but beyond the scope of this study.

While the reasons for minimum wages are universal in industrialised countries, our discussion of the evidence about their effects is focused on Australian outcomes. We are interested in the state of knowledge about how the wages safety net performs in relation to the three benefits proposed earlier. We refer to comparative international research, and to some country-specific studies from the United States and the United Kingdom, to place the Australian evidence in a wider context where appropriate.

The penultimate section of the chapter reviews the wages policy literature in Australia since 1993. We are interested in how the Australian Industrial Relations Commission approached the task of safety net adjustment, and particularly the evidence of whether its principles and reasoning reflected the main arguments for minimum wage regulation as presented here. In the conclusion of this chapter, we draw together these strands of the literature to make a case for a new study of how the wages safety net has developed in Australia and who has benefited from its adjustment.

Protecting vulnerable employees

A major aim of government intervention in the labour market, since the first attempts to regulate working conditions during the Industrial Revolution, has been to eliminate harsh or exploitative practices. Richardson (1999) catalogues the appalling working conditions faced by adults, and many children, in the factories and mines of Europe during the early 19th century. These conditions included ‘wages that hardly sufficed to keep workers and their families alive, extremely long hours of work [and] factory conditions that were both dangerous and

intensely stressful’ (Richardson, 1999, p.6). These conditions existed because there was no countervailing force to the profit motive of employers. Without minimum labour standards, trade unions, or the security of income provided by social welfare, workers had no alternative but to starve or accept employment on the terms offered (Richardson, 1999, p.11).

In the contemporary labour market – at least in industrialised countries – many of the worst abuses of employer power have been eradicated by effective regulation (and by the introduction of machinery to replace the most physically demanding jobs once done by hand). But it does not follow from these improvements that regulation is now obsolete. Richardson warns that: ‘There is no reason to suppose that... the forces of competition left to themselves have been transformed so that they would deliver only benign outcomes for workers’ (Richardson, 1999, p.11). Modern support for labour market regulation thus reflects a continuing concern to protect the interests of groups of workers that are considered susceptible to mistreatment under ‘deregulated’ or ‘free market’ conditions.²⁶

The proponents of labour market regulation also argue that it prevents the subordination of workers who lack bargaining power (Richardson, 1999, pp.9-10). Minimum employment standards recognise that the rights attached to membership of a society – dignity, respect and equality of treatment under the law – extend into the workplace. These standards confer what has been called ‘industrial citizenship’ (McCallum, 2005). This interpretation holds that the role of labour market regulation is not only to avoid the crippling physical toil of the Industrial Revolution, but also to protect workers against degrading or demeaning treatment.

This view is taken especially by supporters of minimum wage regulation. Some of its proponents argue that excessively low wages represent ‘unjust’ rewards, or the ‘under-valuation’ of low-skilled work (Brosnan, 2005, pp.4-5; Masterman-Smith and Pocock, 2008, pp.55-57). Others see minimum wages as affirming workers’ ‘dignity’ and self-worth (Richardson, 1999, p.28; Masterman-Smith and Pocock, 2008, pp.57-58). Still others see minimum wages as the basis of ‘decency’ in all

²⁶ In practice, ‘deregulation’ often entails forms of regulation that favour the interests of employers over employees (or trade unions), rather than the *absence* of regulation. For this reason, it is sometimes seen as ‘re-regulation’, but both terms are used (Briggs and Buchanan, 2005, pp.186-187; Isaac, 2005, p.1).

areas of work, including in ‘safety standards, working time arrangements, morale and productivity’ (Briggs, et al., 2006, p.19). It is worth noting in this context that minimum wages are only one part of the tapestry of employment protections and entitlements that also includes occupational health and safety laws, regulation of penalty rates for work done beyond normal hours, prohibition of discrimination in hiring, promotion and remuneration, and protection against ‘unfair’ dismissal. We do not discuss these non-wage elements at any length in this thesis, but they are important in the totality of labour market regulation that exists to protect more vulnerable groups of workers.

Descriptive evidence

How successful is the Australian wages safety net in guarding against the exploitation of potentially vulnerable groups of workers? Several studies have used cross-sectional data to identify the likely recipients of minimum wages in Australia and describe their characteristics.²⁷ The first study of this kind was by Richardson (1998). Defining ‘low-wage’ workers as adults (21 years and over) paid between \$1 and \$9.50 per hour (based on their weekly earnings and working hours), and juniors (under 21 years) paid between \$1 and \$5 per hour, Richardson estimated that 17 per cent of Australian wage earners were low paid in 1990. The majority of these were adults (Richardson, 1998, pp.558-559). The adult low-wage earners in 1990 were predominantly ‘female, full-time [i.e., employed for 35 or more hours per week], of prime working age [i.e., 25 to 54 years], married and with little education [i.e., Year 12 of secondary school or below as their highest completed qualification]’ (Richardson, 1998, pp.560-561). Compared to the whole adult workforce, the low-wage earners were more likely to be married women, part-time workers and with low education, but were otherwise ‘very similar’ in terms of their age and family status (Richardson, 1998, pp.559-560).

More recent descriptive analyses support and extend Richardson’s earlier conclusions. Using a method similar to Richardson (1998), but data for 1994-95, Richardson and Harding (1999) defined two groups of potential beneficiaries from safety net wage adjustments. ‘Low-wage’ workers were adults with hourly

²⁷ We defer to a later section of this chapter the discussion of whether those receiving low wages also live in low-income households.

wages (imputed from weekly earnings and working hours) of \$10 per hour or less, and juniors paid \$6 per hour or less, in 1994-95. Their second group, 'minimum-wage' workers, consisted of adults paid \$8.50 per hour or less. This 'minimum wage' was selected because it represented the same proportion of average weekly ordinary-time earnings in 1994-95 as the Federal Minimum Wage set by the Australian Industrial Relations Commission in 1997 represented in that year (Richardson and Harding, 1999, pp.126-127).

Their analysis found that 16 per cent of employees were low-wage workers, and 6 per cent of adults were minimum-wage workers, in 1994-95. The proportion of employees on low wages had increased from 11 per cent in 1986 and had doubled (to 14 per cent) among men (Richardson and Harding, 1999, pp.130-131). Of the estimated 1.1 million 'low-wage' workers in 1994-95, a majority was married (54 per cent), of prime age (61 per cent), employed full-time (69 per cent) and without post-school qualifications (73 per cent). Relying particularly on the evidence that most low-wage workers were prime-aged and employed full-time, Richardson and Harding rejected the proposition that low wages were received mainly by young people with weak labour market engagement who would advance quickly to higher wages (Richardson and Harding, 1999, pp.131-132).

Dividing the workforce by sex, they found that low-wage men were younger than low-wage women, less likely to be married, and mainly employed as labourers and tradesmen. Women with low wages were mostly of prime age, married and employed as clerks or sales and personal service workers (Richardson and Harding, 1999, pp.130-131). These attributes were shared by the 372 thousand 'minimum-wage' workers, although their rates of marriage and responsibility for dependent children were higher than for the low-wage group, because of the exclusion of workers under 21 years from the minimum-wage sample (Richardson and Harding, 1999, pp.133-135).

Healy and Richardson (2006) provided the most recent descriptive evidence about the numbers and attributes of employees paid near the Federal Minimum Wage (FMW). Using data collected in 2004, and focusing on adult employees aged 21 years or more, they defined potential FMW recipients as those with non-zero hourly wages (imputed from weekly earnings and working hours) up to and

including \$12.50. This threshold was 20 cents above the FMW of \$12.30 fixed in Federal awards at the time. Healy and Richardson's approach is narrower than the 'low-wage' group defined by Richardson and Harding (1999), but broader than their 'minimum-wage' group. Accordingly, Healy and Richardson's estimate – that 10 per cent of adult employees had wages up to or just above the prevailing FMW in 2004 – is lower than the proportion with 'low' wages in Richardson and Harding's study (11-16 per cent), and higher than the proportion with 'minimum' wages in that study (5-6 per cent) (Richardson and Harding, 1999, pp.129-136; Healy and Richardson, 2006, pp.6-7).

The low-paid adult employees in Healy and Richardson's study were evenly divided by sex. They were predominantly Australian-born (75 per cent), of prime age (70 per cent), working full-time (61 per cent) and on permanent employment contracts (57 per cent). These attributes also applied to the majority of higher-paid adult employees, defined as those paid above \$14.50 per hour in 2004 (Healy and Richardson, 2006, pp.10-13). Compared to this higher-paid group, however, the low-paid were significantly more likely to be female, under 25 years, without post-school qualifications, employed on casual contracts and employed in the hospitality industry (Accommodation, cafés and restaurants). The most striking difference was that low-paid workers were more than twice as likely as the high-paid to be working casually (38 versus 16 per cent). These results suggest that, although the low-paid workforce resembles the whole Australian workforce in many respects, some attributes increase the probability of low pay.

Regression analyses

Another strand of the minimum-wage research literature allows us to tease out these associations more fully. These studies involve the estimation of regression models to identify the characteristics of low- and minimum-wage employees. The benefit of this empirical approach is that variables included in the regression models are statistically held constant, so that their independent effects on low pay probability can be tested.

Two recent papers use probit model estimation, where the outcome estimated is the probability of a low hourly wage, and the independent variables include personal and work-related attributes likely to be correlated with this probability.

The aim of these models is to determine which attributes increase significantly the probability of a low wage, compared with the probability of a higher wage. Leigh (2007) estimated such a model for a sample of employed adults, where the dependent variable was the probability of an hourly wage between 100 and 120 per cent of the Federal Minimum Wage. (Non-workers and those employed for less than the FMW were excluded from this particular analysis.) Workers with ‘near-minimum’ wages were significantly more likely than others to be female, younger, unmarried, born outside Australia and without post-school qualifications (Leigh, 2007, pp.436-437). Qualifications were among the most important determinants of near-minimum wages. Controlling for other personal differences, Leigh found that adults with university degrees were 9 per cent less likely to have near-minimum wages than others without post-school qualifications. This was a large marginal effect, compared with the 2-3 per cent increases in near-minimum wage probability associated with being female, unmarried and a migrant (relative to being male, married and Australian-born) (Leigh, 2007, p.437).

McGuinness and Freebairn (2007) developed Leigh’s evidence by expanding the range of independent control variables and estimating separate full-time/part-time models. Using an estimation method very similar to Leigh’s, they investigated the attributes that increase the probability of ‘low’ wages for adult employees, where a ‘low’ wage was defined as weekly earnings up to \$500, or imputed hourly wages up to \$13.15 (\$500 divided by a standard full-time working week of 38 hours). Both thresholds exceeded by approximately 10 per cent the value of the Federal Minimum Wage in 2004. In contrast to Leigh, McGuinness and Freebairn deleted from their sample non-employees and employees operating their own businesses (owner-managers), who are exempt from minimum wages.

McGuinness and Freebairn (2007) reported results for several different versions of their probit regression equation. The specification most similar to Leigh’s included controls for sex, age, marital status and education level, along with additional controls for casual employment status and long-term health (the latter to detect the presence of disabled workers receiving legitimate ‘supported wage’ payments below the Federal Minimum Wage). Estimating this model for adult full-time employees, they found that those with low wages were significantly

more likely to be female, unmarried, with little education, outside the prime-age group (either under 30 years or over 60 years), employed on a casual basis and with a long-term health condition. These effects are largely consistent with Leigh's evidence for a similar set of predictors. For part-time employees, however, the effects of sex, age and education (except a university degree) were non-significant, while being unmarried, a casual worker or in poor health increased significantly the probability of a low wage. The results were robust to the inclusion of additional controls for firm size, union membership, tenure and industry (McGuinness and Freebairn, 2007, pp.24-26). Of special interest is the finding that casual employees are between 3 and 6 per cent more likely to get a low wage if working full-time, and between 7 and 10 per cent more likely to get a low wage if working part-time (the exact estimates depending on the model specification). This evidence adds weight to earlier findings from bivariate comparisons (Healy and Richardson, 2006, p.13).

Transitions from low pay

An important limitation of the research summarised to this point is its reliance on point-in-time observations about who gets low wages. This evidence ignores the distinct possibility that those who are low-paid at a particular point in time do not remain in this state indefinitely. Some workers who start in low paying jobs move up to higher pay when they acquire experience or complete qualifications. Others remain in low-paid jobs or leave the workforce for reasons that include having children. From the point of view of understanding whether the current wages safety net protects more vulnerable workers, it would be useful to know the proportions who move up and out of low pay jobs, the proportions who remain stuck for longer periods and the particular attributes that predispose workers to one or the other outcome.

The best contemporary Australian evidence on these issues was presented in the study by McGuinness and Freebairn (2007) discussed above.²⁸ These authors investigated labour market transitions over a three-year period for adult employees who were paid a low wage (as defined earlier) in 2001. After three

²⁸ There is some other, earlier evidence that was presented in the safety net cases. We discuss this material in Chapter Five.

years, 58 per cent of the employees who had initially received a low, *full-time* wage had progressed to higher pay. Around three-quarters of these employees advanced to a higher-paid full-time job (McGuinness and Freebairn, 2007, p.33).

The transition probabilities were somewhat less favourable for adult employees who initially received a low, *part-time* wage. After three years, 44 per cent of these workers had advanced to higher pay, but most (71 per cent) remained in part-time jobs. Only 12 per cent of the employees who were initially low-paid on a part-time basis moved into higher-paid, full-time jobs. The part-time low-paid were also three times as likely as their full-time counterparts to leave the workforce after three years. This result suggests that a large number of the people who hold low-paid, part-time jobs at a particular point in time will cycle between having a low wage and having no wage at all. The workers at greatest risk of this experience are those ‘who do not successfully achieve a quick exit from a low waged state’ (McGuinness and Freebairn, 2007, p.33).

Reducing earnings inequality

A second possible function of the wages safety net is to reduce the extent of earnings inequality in the Australian labour market. There are at least four reasons why such an effect might be seen as a positive argument for retaining the current safety net. First, the degree of dispersion in the wage distribution is an indicator of the fairness of the financial rewards for working. The growth of low-wage employment perpetuates what some see as ‘an income distribution that is inherently unjust’ (Brosnan, 2005, p.4). A second argument for narrowing the earnings distribution is that this improves the chances of upward mobility for those who begin in low-wage jobs. The comparative literature shows that workers in countries with greater overall earnings inequality are less likely to advance from low to high pay (Richardson, 2005, p.173). A narrower earnings distribution might also be favoured because of its relationship to other forms of inequality. In the United States, the growth in earnings inequality for prime-age men, between 1975 and 2002, exhibits a ‘remarkably similar pattern’ to the change in the distribution of family incomes. The degree of inequality in the labour market thus appears to flow through to the degree of inequality in society at large (Gottschalk and Danziger, 2005, p.232). Finally, there is evidence that inequality can

exacerbate other social ills, such as rates of crime and incarceration, which counteract the potential employment gains from wage ‘flexibility’ (Freeman, 1995, pp.70-72).

International evidence

There is compelling international evidence that minimum wages reduce inequality, by raising pay at the bottom of the distribution relative to the middle (median) (Freeman, 1998, p.7). In comparative research for 12 developed countries (not including Australia), the Organisation for Economic Co-operation and Development (OECD) found a negative correlation between the level of the minimum wage and the extent of earnings inequality. Countries with minimum wages set at a higher fraction of median full-time earnings, including France, Belgium and the Netherlands, had less inequality in the bottom half of their earnings distributions than countries with lower minimum wages, including the United States, Canada and Korea (OECD, 1998, Chart 2.3, p.50).²⁹ Countries with higher minimum wages also had less ‘low-paid’ employment, measured as the proportion of full-time workers below two-thirds of median earnings.

Using the same definition of low pay, more recent research comparing the European Union member countries confirms that higher minimum wages are associated with a significantly lower incidence of ‘low-paid’ employment. This relationship holds after controlling for other variables that could influence labour force participation rates and employment, such as welfare entitlements, trade union density and per capita incomes (Lucifora, McKnight and Salverda, 2005, pp.276-279).

Other country-specific studies support the comparative evidence that minimum wages reduce inequality in the bottom half of the earnings distribution. In the United States (US), the Federal Minimum Wage (FMW) produces a ‘spike’ in the wage distribution. When the minimum wage rises, the relocation of this spike ‘sweeps’ the lowest-paid workers closer to the median of the distribution (Card

²⁹ The measure of ‘bottom half’ inequality was the ratio of full-time earnings at the median of the distribution to full-time earnings at the 10th percentile.

and Krueger, 1995, pp.288-290).³⁰ Conversely, when the minimum wage falls in real terms, as a result of non-adjustment in periods of inflation, inequality increases in the bottom half of the wage distribution.

This process has a larger impact on inequality for groups of workers that rely more heavily on minimum wages to set their pay, including women. The erosion of the real US FMW in the 1980s explains about one-third of the overall increase in wage inequality for US women during that decade, and at least 70 per cent of the increase in female inequality below the median (Fortin and Lemieux, 1997, pp.87-89; Lee, 1999, pp.1016-1017). Over a longer period, the real FMW tracks remarkably closely the changes in the ratio of median to 10th percentile wages for US women. In the 1980s, when the real FMW fell sharply, there was an increase in this ratio for women. From 1990 to 2005, when the FMW was maintained in real terms, there was no further change in this ratio (Lemieux, 2008, p.33). This evidence suggests strongly that changes in the US Federal Minimum Wage are a key determinant of whether low-paid US women match – or fall behind – the growth in median wages over time. Changes in the FMW appear to have a weaker impact on male wage inequality below the median, and they are unrelated to the growth in inequality above the median since 1990 (Fortin and Lemieux, 1997, Table 2, p.89; Lee, 1999, pp.1016-1017; Lemieux, 2008, p.33).

In the United Kingdom (UK), a National Minimum Wage (NMW) was introduced in 1999 partly in response to increasing wage inequality and concerns about its attendant social costs (Dickens and Manning, 2004, p.613; Brown, 2009, p.430). The UK NMW creates a ‘spike’ in the adult (i.e., 22 years and over) pay distribution similar to that observed in the United States. This spike is more evident in data sources that contain direct information about basic hourly wage rates (rather than hourly wage estimates derived from weekly earnings and hours of work) (Stewart and Swaffield, 2002). According to data reported by the Low Pay Commission (LPC), which recommends the level of the NMW to the UK government, between 2 and 3 per cent of adult employees were paid exactly the hourly minimum wage between 2002 and 2004 (LPC, 2005, p.25). Very few

³⁰ This evidence is inconsistent with the neo-classical prediction that a minimum wage will simply ‘truncate’ the distribution, by eliminating employment opportunities for potential workers whose productivity does not match or exceed the mandated minimum (OECD, 1998, pp.48-49).

adults work for less than the NMW, even in industries where large numbers of employees are affected, such as care homes, and this has been interpreted as evidence of widespread compliance with (and successful enforcement of) the minimum wage (Dickens and Manning, 2004; Machin and Wilson, 2004; Brown, 2006).

Several studies have investigated the impact of the NMW on wage inequality in the UK. Brown (2006) compared adult pay outcomes across the distribution in the five years before and after the NMW introduction. Compared to the worker at the median of the distribution, the lowest paid workers (those in the bottom 10 per cent) fell behind before 1999, but improved their relative positions afterwards. This reversal of fortune for the lowest paid workers was 'likely to be substantially attributable to the National Minimum Wage' (Brown, 2006, pp.65-67).

Using a more sophisticated statistical analysis, Dickens and Manning (2004) concluded that the NMW 'has a detectable effect on the wage distribution', with its effects concentrated on workers at the very bottom of the distribution and little or no 'spillover' to workers further up. They estimated that the introduction and two subsequent increases in the NMW (1999-2001) raised pay for the worker at the 5th percentile of the adult pay distribution (i.e., 5 per cent from the bottom) but not for the worker at the 10th percentile. They argued, further, that the capacity of the NMW to compress the pay distribution declined in this early period of its operation, because its rate of adjustment fell short of the increase in average earnings (Dickens and Manning, 2004, pp.623-624). This observation does not apply, however, to the more recent period from 2003 to 2006, during which the increases recommended by the LPC, and accepted by the UK government, exceeded the growth in average earnings as part of a strategy to extend the coverage of the minimum wage (Brown, 2009, pp.438-440).

A more controversial issue is whether the NMW helps to reduce the male-female pay differential – the 'gender pay gap'. The effect of the NMW on the *average* gender pay gap cannot be very large, because this gap reflects factors beyond the control of a minimum wage, such as the division of men and women between different types of employment and inequalities in pay near the top of the distribution (Metcalf, 2002, p.573). Robinson (2002) provided statistical evidence

on this point, by demonstrating that a minimum wage set at almost double the actual level introduced in 1999 (i.e., £7.00 per hour instead of the actual £3.60) would have left the average female wage 18 per cent below the average male wage.

Where the NMW can have a larger effect on gender inequality is at the bottom of the distribution, where there are disproportionate numbers of women. The Low Pay Commission relied on evidence that the gender pay gap is smallest among adult workers in the bottom 10 per cent of the distribution (and that this gap has been closing since 1998) to suggest that the NMW ‘has exerted a major influence in narrowing the [gender] pay gap at the lower end of the earnings distribution’ (LPC, 2005, pp.107-108). At the same time, the Commission recognised the difficulty in apportioning responsibility for this change to the minimum wage and the need for further research to isolate its causes (LPC, 2005, p.108).

Australian evidence

The impact of the wages safety net on Australian earnings inequality is more difficult to gauge, for several reasons. One reason is that the practice of regular, award-based minimum wage increases is well-established. There has not been anything like the US experience of irregular increases, or the UK experience of introducing a new National Minimum Wage in industries without a pre-existing wage floor (Metcalf, 1999, pp.178-180; Brown, 2006, p.64). The Federal Minimum Wage adopted by the Australian Industrial Relations Commission in April 1997 was set at the level of the existing lowest pay rate in the Metal Industries Award, and its coverage was restricted to those parts of the workforce already bound by existing awards (see Chapters Two and Four).

Australian minimum wages also differ from the US example in that they are relatively undifferentiated by State. While there is some State variation, due to the maintenance of separate State industrial jurisdictions and tribunals, the differences are generally small, with the State authorities typically following the decisions of the AIRC for the period studied here (O'Neill, 2005a; Briggs, et al., 2006, p.20; Leigh, 2007, p.434). This uniformity precludes the application of US-style empirical identification strategies, which detect the effects of minimum wage

changes by relating their timing to State-level data on earnings and employment rates (Card and Krueger, 1995, Chapter 4; Lee, 1999).³¹

These differences in operation mean that the Australian wage distribution does not exhibit the pronounced ‘spike’ at the level of the minimum wage which is apparent in the US and UK (Card and Krueger, 1995, pp.288-290; Stewart and Swaffield, 2002, pp.635-636). In 2006, when the Federal Minimum Wage (FMW) was \$12.75 per hour, only one per cent of adult, non-managerial employees had hourly wages in the range between \$12 and \$13, according to ABS data.³² We do not call attention to this evidence to suggest that the safety net has a limited ‘bite’ on the Australian wage structure, but to demonstrate that its impact is spread throughout the distribution, across many minima above the FMW. Analysing the effects of this safety net requires empirical methods that are not predicated on the existence of a prominent spike in the hourly wage distribution.

Comparative studies

The primary method for studying the distributional outcomes of the Australian wages system has been comparison with other developed countries, particularly Britain and the United States. The pioneering studies in the 1970s and 1980s compared Australian and British wage outcomes with industry or occupation-level data, and concluded that the Australian system based on arbitration was not significantly more egalitarian than the British system based on unionised collective bargaining. Male production workers in relatively low-wage industries were not noticeably closer to the median in Australia than comparable workers in Britain, prior to the 1970s (Hughes, 1973; Rowe, 1982). Nor were Australian earnings less widely dispersed *within* occupations, despite the ‘unusually tightly inter-connected national pay structure’ maintained by the arbitration tribunals (Brown, Hayles, Hughes and Rowe, 1980).

The availability of individual-level data, from 1975, prompted a reassessment of the arbitration system’s influence on earnings inequality (Hancock and Richardson, 2004, pp.198-199). In one major study, ‘virtually every difference’ pointed to a more compressed earnings structure in Australia than in Britain in

³¹ See Chapter Eight for further discussion of this issue in light of recent developments.

³² Survey of Employee Earnings and Hours, May 2006, unpublished data provided on request.

1981 (Norris, 1986, p.183). High- and low-paid employees were both closer to the median of the distribution in Australia than in Britain. But the major difference between the countries related to the outcomes for low-paid women. In Australia, a woman at the 10th percentile of the adult full-time earnings distribution received 79 per cent of the median female earnings. Her counterpart in Britain received 68 per cent (Norris, 1986, p.197). Although these differences are not proof that arbitration led to lower earnings inequality in Australia, this conclusion is suggested strongly by the data (Norris, 1986, p.199). This conclusion ascribes a more egalitarian role to the arbitration system than did earlier studies using aggregate-level observations for industries or occupations. It also affirms the point that women have more to lose from ‘deregulating’ the wage-setting process to lessen intervention from the arbitration tribunals (Gregory, 1999, p.277; Whitehouse, 2001).

The comparison with Britain presumed that, in the absence of arbitration, Australian wages would be set through a system of collective bargaining, in which unions have a prominent role. While this may have been a reasonable counterfactual scenario in the 1970s and 1980s, it has become less relevant in light of more recent changes in the Australian labour market and its industrial relations laws. As noted in Chapter One, trade union membership as a proportion of the workforce had fallen to 19 per cent by 2008 (ABS, 2009b, p.6). The facts of low and declining union membership make it increasingly unlikely that, were it not for the wages safety net, employees who currently rely on awards would transfer into unionised collective pay-setting agreements. It seems more likely that, if the safety net were removed, these workers would either be covered by individual agreements negotiated without union involvement or have their wages determined unilaterally by employers.

In this Australian labour market context, the more instructive comparison is with the outcomes in the United States, where ‘wages and employment are as flexible and free from institutional interventions as can realistically be expected in an advanced economy’ (Freeman, 1995, p.64).

Borland and Woodbridge (1999) review the relevant literature and conclude on the basis of this evidence, and their own separate analysis, that:

Earnings dispersion and the structure of earnings between skill and demographic groups in Australia are consistent with the hypothesis that the wage regulation system in Australia has acted to narrow earnings relativities, in particular for low-wage workers (Borland and Woodbridge, 1999, p.97).

Their analysis compared two aspects of earnings inequality in Australia and the US. First, they examined the dispersion of male full-time weekly earnings in 1990. On all measures they use (including the ratio of the 90th to 10th percentile of the distribution and the variance of earnings) male full-time earnings inequality is lower in Australia than in the United States (Borland and Woodbridge, 1999, pp.105-106). They show further that, although part of the difference in earnings inequality between the two countries is due to ‘observable’ employee attributes, such as education and experience, a larger part is due to ‘unobservable’ factors, including differences in wage regulation.

A second part of their analysis compared the average hourly wages of several more vulnerable groups of employees to the average male wage in 1995. Superior relative wages in Australia appear, again, in every one of their comparisons. For instance, the ratio of female to male hourly wages is much higher in Australia than in the US – 88 per cent compared to 70 per cent – implying a smaller gender pay gap. Employees without post-school qualifications, migrants, part-time employees and youths (aged 16-20 years) all receive closer to the male average wage in Australia than in the United States (Borland and Woodbridge, 1999, pp.108-109). Any shift toward the US model of wage determination would thus imply reduced, and often substantially reduced, relative wages for employees that rely on the current safety net to regulate their pay.

Before-and-after studies

Alongside comparative studies, a second set of studies examines the wage effects of arbitration by comparing outcomes before and after regulatory change. In 1991, New Zealand capped a series of bold economic reforms by replacing its award system with enterprise and individual wage-setting agreements (Gregory, 2000, p.108). The outcomes of the New Zealand changes have been interpreted, by Australian scholars, as evidence of what ‘deregulation’ would do to the Australian

wage structure, because of the two countries' similar historical reliance on arbitration (Barry and Wailes, 2004).

Several studies find that the New Zealand legislative changes led to wider inequality and deteriorating earnings for the lowest-paid workers. Real wages growth stagnated in the early 1990s for much of the workforce, the loss of overtime and other penalty wage payments lowered earnings for service-sector workers, and the gender pay gap widened (Hammond and Harbridge, 1995; Easton, 1997; Rasmussen and Deeks, 1997). The changes did not succeed immediately in resuscitating New Zealand's aggregate economic growth rate, relative to Australia's, but there is an ongoing debate about whether labour productivity improved (Gregory, 2000, pp.110-111; Peetz, 2005, pp.33-34; Perry, 2007).

The experiences of several Australian States provide further indicative evidence about the wage effects of arbitration. In 1992, the Kennett government in Victoria abolished its system of State awards in favour of five basic employment conditions, including a minimum hourly rate of pay. This change effectively divided the Victorian workforce into two groups. In the first group were employees who had previously been covered by State awards, who lost their award-based entitlements but retained the five basic conditions (initially under State law, and later under 'Schedule 1A' of the *Workplace Relations Act 1996*, after Victoria referred its industrial powers to the Commonwealth government in 1996). In a second group were employees covered by Federal awards, who retained their existing entitlements. The difference set up a 'natural experiment' of how arbitration affects the wages structure, compared to a counterfactual scenario without awards.

A survey of 835 Victorian workplaces, conducted (by telephone) in June 2000, found that Schedule 1A workplaces had lower starting-level wages, more dispersed pay structures, and a higher proportion of their workers on low hourly rates of pay than workplaces that retained Federal award coverage, all else equal (Watson, 2001). The employees most disadvantaged were those already at greater risk of low pay, such as those in smaller firms, located in regional areas and employed in the services industries (Watson, 2001, p.306).

In 1993, the Western Australian government introduced legislative changes aimed at encouraging the development of enterprise-based wage bargaining outside the award system. The *Minimum Conditions of Employment Act 1993* provided for a minimum wage (determined by the Minister for Labour Relations on the basis of expert advice) and basic leave entitlements, but lacked the ‘safeguards’ from the Federal legislation which protected the relative living standards of the lower-paid (Plowman, Taplin and Henstridge, 1996; Plowman and Preston, 2005, p.227). The absence of these safeguards invites a comparison between wages outcomes in Western Australia (WA) and the rest of Australia. In particular, it provides a test of how the WA minimum wage, which was consistently below the Federal Minimum Wage fixed by the AIRC, affected earnings inequality in Western Australia (Hancock, 1999, p.85; Plowman and Preston, 2005, p.242).

The evidence is that Western Australian women, who were most likely to receive the minimum wage, experienced declining earnings relative both to men in the same State and women in other States. Immediately after the introduction of the *Minimum Conditions of Employment Act 1993*, the earnings of women in WA fell sharply relative to all Australian women, and the pre-1993 relativity has not been restored in subsequent years (Plowman and Preston, 2005, pp.234-236). The Western Australian experience suggests, consistent with the earlier evidence, that women would ‘fare badly’ from the removal of the wages safety net and its associated protections for workers entering into agreements in the Federal industrial relations system.

There is less evidence relating specifically to the wage effects of the award system in its current role as a safety net. The studies that do exist are mixed in their conclusions. One recent paper, using average hourly wage data for 2000-2006, shows that there is no gender pay gap among the employees reliant on the safety net, compared to a large and growing gap (to the detriment of women) in the parts of the labour market where wages are set by individual agreements (Healy, Kidd and Richardson, 2008, p.246). While this result accords with earlier evidence that the arbitration system is egalitarian when compared with ‘deregulated’ bargaining, the result must be seen in the light of other evidence that the employees who rely on the award safety net, as a group, are falling behind the

pace of wage increases in the bargaining system (Webster and Tseng, 2002). The equity achievements of arbitration, including the closing of the gender pay gap, are giving way to new expressions of inequality, including a growing gap between wages in awards and other payment methods (Whitehouse, 2004). The reduction in award reliance could, on this view, be a factor in the increased earnings inequality seen in Australia since the 1970s. Other researchers have argued, however, that changes in the occupational composition of the workforce, rather than changes in pay rates, have driven the increase in earnings inequality (Gregory, 1993; Keating, 2003).

This thesis looks more closely at these issues. It introduces new data to: (1) compare wages *within* occupations for employees who rely and do not rely on the safety net (thus controlling for the occupational change explanation for increasing inequality); (2) separate the differences and changes by sex; and (3) compare the wages growth due to safety net adjustments with the wages growth due to bargaining. These themes are considered in Chapters Five and Six.

Preventing poverty

A third possible function of minimum wage regulation is to reduce the incidence or severity of poverty, by redistributing income to people with low living standards. The extent of poverty is determined not only by the value of incomes earned in the labour market (which can be influenced by a minimum wage), but also by a broader set of factors, including whether a wage-earner has dependent children and access to supplementary incomes, such as welfare transfers. Testing the proposition that minimum wages prevent poverty thus requires us to move from the level of the individual wage-earner, and their positions in the wage distribution, to the level of the households (or families) in which they reside (Neumark and Wascher, 2008, p.143).

The aim of poverty reduction remains a major reason for the regulation of minimum wages in developed countries. In Australia, there is a long tradition, reflected in the 1907 Harvester decision on the basic wage, and revived in the safety net era, of using minimum wage regulation to provide for family ‘needs’ (Hancock, 1998). In the United States, political support for minimum wage legislation is similarly based on its perceived ‘anti-poverty’ effects (Neumark and

Wascher, 2008, p.141). For as long as there have been minimum wages, however, there has been scepticism about their ability to assist the poor. In the 1940s, the Nobel Laureate, George Stigler, argued that the US federal minimum wage was ‘an inept device for combating poverty’, because of the ‘remote and fuzzy’ connection between hourly wages and family living standards (Stigler, 1946, p.363). While many contemporary economists share this view, others see the minimum wage as a more effective ‘redistributive tool’, especially those who perceive its purpose as the prevention of *working* poverty (Freeman, 1996; Metcalf, 2002, pp.576-577).

International evidence

The relationship between minimum wages and poverty has been analysed most fully for the United States. Card and Krueger (1995) examined how two increases in the US Federal Minimum Wage, in 1990 and 1991, affected poverty ‘rates’ – the proportion of people in families with total incomes below a poverty threshold, defined by family size and composition. They acknowledged that, even if the full benefit of a minimum wage increase went to workers in poor families, its overall impact on the income distribution would be low, because the minimum wage affected ‘fewer than 10 per cent of the lowest-paid workers in the economy’ (Card and Krueger, 1995, p.277). In a series of regression models, Card and Krueger estimated that the 1990-91 FMW increases had ‘statistically undetectable’ effects on the overall adult poverty rate, but had a ‘modest effect’ on the poverty rate for employed adults. The stronger the ‘bite’ of the Federal Minimum Wage in a State, that is, the higher the proportion of workers whose wages would have to be raised to meet the new minimum, the larger was the measured reduction in the poverty rate (Card and Krueger, 1995, pp.306-307).

Using more detailed State-level data for the period from 1983 to 1996, Addison and Blackburn (1999) examined poverty rate changes for three groups of workers affected disproportionately by US minimum wages: teenagers (15-19 year olds), young adults (20-24 year olds) and ‘junior-high dropouts’ (workers aged 25 years and over with nine or fewer years of high school education). They found that a higher minimum wage reduced the proportions of each of these three groups living in poor families. Adding controls for State economic conditions reduced the

statistical significance of the estimates for teenagers and young adults, but not for junior-high dropouts. Their estimates implied that a 25 per cent increase in the effective minimum wage would lower the combined poverty rate among the three groups studied by 9 per cent (Addison and Blackburn, 1999, pp.402-403).

This result suggests that minimum wages do reduce the incidence of poverty for some of their recipients in the United States. Other authors have criticised this conclusion, however, on the basis that ‘there is no obvious reason to care more about poverty rates among families with members in the groups studied by Addison and Blackburn’ (Neumark and Wascher, 2008, pp.150-151). For these authors, the more relevant consideration is the *total* impact of a minimum wage increase on the distribution of income.

Another criticism relates to the use of poverty ‘rates’ to study the effects of minimum wage increases. These rates are relatively insensitive to changes in incomes, because they measure only whether a family of given size and composition is above or below a poverty threshold. The outcome is a dichotomous variable in which families are defined as ‘poor’ or ‘non-poor’. An alternative outcome measure in some US minimum wage studies is the ‘income-to-needs ratio’ (INR). The INR is calculated by dividing a family’s total income by the poverty line appropriate to its size and composition. In some applications, families are treated as being either ‘poor’ (if $INR < 1.0$), ‘near-poor’ ($1.0 < INR < 1.5$) or ‘non-poor’ ($INR > 1.5$) depending on their income-to-needs ratio.

One set of authors used the INR to re-estimate the distributional effects of the 1990-1991 US Federal Minimum Wage increases studied by Card and Krueger (Burkhauser, Couch and Wittenburg, 1996). They estimated that, in 1990, 7 per cent of US workers had hourly wage rates in the range where they would be affected by the minimum wage increase (\$3.35 to \$4.25 per hour). Of these affected workers, 22 per cent were in poor families, 13 per cent were in near-poor families, and the remaining 65 per cent were in non-poor families, according to the INR ranges defined above (Burkhauser, et al., 1996, pp.550-551). Fifty-three per cent of the affected workers in 1990 were in families with total incomes more than twice the value of the applicable poverty line (i.e., $INR \geq 2.0$), and the combined proportion in poor or near-poor families (35 per cent) was roughly

equivalent to the proportion in families with incomes three times above the applicable poverty line (i.e., 33 per cent with an INR ≥ 3.0) (Burkhauser, et al., 1996, pp.551).

In subsequent years, the INR profile of US minimum-wage recipients does not appear to have changed substantially from the situation in 1990. Using the latest US data for 2008, Burkhauser and Sabia (2008) calculated that 18 per cent of 16-64 year old employees would be affected by the series of proposed Federal Minimum Wage increases from \$5.85 to \$9.50 per hour. Of these affected employees, 11 per cent were in poor families, 12 per cent were in near-poor families, and the remaining 77 per cent were in non-poor families (Burkhauser and Sabia, 2008, p.172).

A comparison of the results from these two studies implies that the proportion of US minimum-wage workers in 'needy' families declined between 1990 and 2008, despite the Federal Minimum Wage being left unadjusted for a decade from 1997 to 2007 (Bernstein and Shapiro, 2006). In 1990, the minimum-wage workforce was divided about equally between workers in poor or near-poor families (INR <1.5) and workers in well-off families (INR ≥ 3.0). In 2008, the comparable proportions in these two groups were 23 and 43 per cent. The connection between the US minimum wage and poverty thus appears to have weakened over time (Burkhauser and Sabia, 2008, p.172).

Neumark and Wascher (2008) review the US literature (including their own contributions) at length and conclude that 'an increase in the minimum wage largely results in a redistribution of income *among* low-income families', rather than moving low-income families up the income distribution (Neumark and Wascher, 2008, p.189, italics in original). Indeed, they suggest that there is 'some likelihood that, on net, poor or low-income families are made worse off' by minimum wage increases. The evidence for this conclusion is mainly based on before-and-after studies, comparing outcomes in States that lifted their minimum wages to those that did not. Their major study of this kind found that while the incidence of poverty falls immediately after a minimum wage increase, this effect is eventually neutralised by 'lagged' employment reductions for the members of needy families (Neumark, Schweitzer and Wascher, 2005). Taking account of

both effects, they detected a statistically significant, but economically small, increase in the proportion of families that are poor or near-poor ($INR < 1.5$) as a result of the higher US minimum wage. They attribute this result to ‘many families making small movements to the left’ of the income distribution (Neumark, et al., 2005, p.889).

In their review of the US evidence, Neumark and Wascher acknowledged that ‘there is little, if any, basis for assuming that [this] evidence carries over to other economies’ (Neumark and Wascher, 2008, p.190). This limitation makes it especially necessary to look at whether the redistributive benefits of minimum wages in other developed countries are different from the United States.

Bryan and Taylor (2004) studied where the recipients of the British National Minimum Wage (NMW) were positioned in a distribution of net household income (adjusted for size) in 2003. They found that NMW recipients were over-represented in households with below-median incomes. When located in a distribution for all households, 34 per cent of NMW recipients were in the bottom three income deciles and 47 per cent were in the bottom four deciles. And, when located in a distribution for households with at least one person employed, 47 per cent of NMW recipients were in the bottom two income deciles (Bryan and Taylor, 2004, pp.28-29). These results indicate that minimum-wage workers in the United Kingdom are considerably more likely to be members of ‘low income’ households than their counterparts in the United States.

Australian evidence

Does the Australian wages safety net operate more like the British NMW, offering a large proportion of its redistributive benefits to workers in low-income households, or more like the Federal Minimum Wage in the United States, where most of the beneficiaries are in non-poor households? This question has attracted substantial recent attention from Australian researchers.

A contentious issue in the literature is how to define the comparison population when locating minimum-wage recipients in the income distribution. Some authors consider that the only worthwhile comparison is with the population of all households, since this is the way to ascertain whether the lowest-paid are in

households with incomes that are low by the standards of the whole Australian society. Some contend that while minimum wages continue to be promoted as anti-poverty instruments, the whole population is the 'policy-relevant' comparison (Wooden, Wilkins and McGuinness, 2007, p.300). This view is supported by the argument that, because minimum wages might generate costs that are borne by society at large, such as higher consumer prices, their benefits should also be evaluated against the income distribution for all households (Gosling, 1996, pp.40-41).

A competing perspective emphasises the potential benefits of a higher minimum wage for reducing the incidence of *working* poverty. Authors that take this view are interested in whether minimum wages reduce poverty for employed people, accepting that they cannot be a 'panacea for poverty' generally (Freeman, 1996, p.648; Metcalf, 1999, pp.576-577; Masterman-Smith and Pocock, 2008, pp.47-50). These authors focus on whether low-wage workers are situated at the bottom of an income distribution that excludes households where no-one works.

The Australian evidence indicates that adult employees (those aged 21 years or more who are not owner-managers) are spread relatively evenly throughout a distribution of income that includes all households (and where income is adjusted for household size and composition). For the lowest-paid 20 per cent of adult employees (ranked by their hourly wages), 4 per cent are in households in the bottom income decile, 13 per cent in the bottom two deciles, and 22 per cent in the bottom three deciles (Wooden, et al., 2007, p.302).

The overlap between low wages and low household incomes in Australia is somewhat sensitive to the definition of a low wage, but even the lowest-paid 10 per cent of adult employees are not strongly concentrated at the bottom of the overall income distribution. Five per cent of these employees were in households in the lowest income decile, 17 per cent in the bottom two deciles, and 28 per cent in the bottom three deciles, in 2005 (Wooden, et al., 2007, p.302). These results suggest that minimum wages are not an effective mechanism for redistributing incomes to the very poorest households in Australian society.

McGuinness and Freebairn (2007) qualify this conclusion by differentiating between part-time and full-time adult employees. They find that employees earning part-time low wages (up to 10 per cent above the FMW) are more likely than their full-time counterparts to be in low-income households. In a size-adjusted income distribution for all households, 14 per cent of full-time and 29 per cent of part-time, low-wage employees were in the two lowest income deciles (McGuinness and Freebairn, 2007, p.32). Of the two estimates, we should place greatest weight on the full-time result, since most employees with low wages in Australia work a full-time week (Healy and Richardson, 2006). But the part-time estimate demonstrates that those working shorter hours at low rates of pay are not likely to be the children or partners of already well-off workers, looking to earn some extra discretionary income. Rather, these part-time workers are typically people from households clustered at the lower end of the income distribution. This conclusion has adverse implications for economic mobility, given the evidence (cited earlier) that part-time low-wage workers are also less likely than full-time workers to find higher-paid jobs within three years (McGuinness and Freebairn, 2007, pp.32-33).

Leigh (2007) presents further evidence by narrowing progressively the scope of the population in which the household income positions of low-wage workers are evaluated. Beginning with the population of all households, he estimates that workers in the bottom quintile (20 per cent) of hourly wages were spread fairly evenly through the income distribution between 1994 and 2003. He notes that ‘because most of those in the poorest households are out of the labour force, the bottom quintile of hourly wage earners is less skewed towards poor households than might be expected’ (Leigh, 2007, p.440). He then limits the comparison population to persons of working age (15-55 years), excluding retirees who are unaffected by minimum wages. This restriction increases by 12 percentage points (from 39 to 51 per cent) the proportion of low-wage workers in the bottom 40 per cent of the household income distribution, although Leigh characterised this increase as ‘only a small impact on the distribution’ (Leigh, 2007, p.440). His final comparison is with an income distribution that includes only households with at least one employed person. The lowest-paid workers are heavily skewed

towards the bottom of this ‘working households’ distribution, with 35 per cent in the lowest income quintile and 59 per cent in the bottom two quintiles.

This evidence suggests that the wages safety net in Australia successfully redistributes income to low-income *working* households, but not to low-income households in the broader population that includes retirees and other non-workers. Opinions differ about whether the alleviation of ‘working poverty’ should be seen as a legitimate objective of minimum wage regulation (Wooden, et al., 2007).

It is sometimes said that a focus on wage-earning households overstates the redistributive benefits of a minimum wage by ignoring the plight of persons who want to work but are ‘priced out’ of jobs by the existence of the minimum wage. It is certainly the case that the unemployed are more heavily concentrated in low-income households than low-wage employees. One recent study found that almost half of adult unemployed persons in Australia were in households in the lowest income decile in 2004 (Healy and Richardson, 2006, p.22). Perhaps the most useful comparison, therefore, involves asking where the lowest-paid workers are situated in a distribution of income that includes not just current workers, but all who currently wish to work. This approach also has the advantage of reflecting what we know from longitudinal studies (including some cited earlier in this chapter), about the tendency of low-paid workers to cycle between ‘low pay’ and ‘no pay’ (see also Perkins and Scutella, 2008).

Healy and Richardson (2006) develop this perspective by estimating where adult low-wage employees were situated in a distribution of household income that included all households with someone ‘in the labour force’ (i.e., either working or looking for work). They find that half of adult low-wage employees (those paid up to 20 cents above the FMW) are in the bottom three deciles of household income in this distribution (Healy and Richardson, 2006, p.22). This result implies that the Australian Federal Minimum Wage has an equalising effect on the household income distribution, even when the comparison population includes unemployed persons. Its effects are thus not restricted to the alleviation of working poverty.

Transitions from poverty

A final issue relevant to this discussion is whether the low-wage workers who do live in poorer households experience any improvement in their living standards over time. Hahn and Wilkins (2009) investigate this issue with longitudinal Australian data for the period 2002 to 2006. They focus on transition probabilities for low-wage employees (those paid up to 120 per cent of the Federal Minimum Wage) who were in poor households in 2002 (i.e., below 75 per cent of the median, size-adjusted income).

By 2006, 41 per cent of these employees were no longer in poor households (based on the same income definition), while 59 per cent remained poor (Hahn and Wilkins, 2009, pp.48-49). Subject to sample-size limitations, they report that the low-wage workers who escaped poverty between 2002 and 2006 were more likely to be young (under 25 years), single and Australian-born than those who stayed in poor households (Hahn and Wilkins, 2009, pp.51-52). When the poverty threshold is reduced from 75 to 60 per cent of the median household income, the likelihood of low-wage employees escaping poverty increases, from 41 to 58 per cent. The difference between these two estimates suggests that many who exit income poverty do so only by increasing their incomes to levels slightly above the poverty threshold (Hahn and Wilkins, 2009, p.49). Seventy-two per cent of low-wage workers from poor households in 2002 remained in the bottom 40 per cent of the income distribution by 2006 (Hahn and Wilkins, 2009, p.51). These results suggest that rapid upward income mobility is not the typical experience of the low-paid 'working poor' in Australia. Minimum wages are one way of ensuring that persistent low incomes do not translate into material hardship for the lowest-paid workers.

Wages policy since 1993

To what extent did the Australian Industrial Relations Commission pursue the above three objectives – protecting vulnerable employees, reducing earnings inequality and preventing poverty – in safety net wage cases? Compared to the large volume of information available about the effects of minimum wages, little is known about how the Commission approached the task of setting the safety net.

Peetz (1998a) made the major contribution to this literature. His central argument was that ‘by late in the 1990s the Commission was in a better position to fulfil its social obligations than it had been at any earlier time in that decade’ (Peetz, 1998a, p.552). ‘Social obligations’ meant ‘in particular, the setting of minimum award wages at a level that is commensurate with community expectations of fairness’ (Peetz, 1998a, p.534). ‘Fairness’ required that minimum award wages at least match annual price increases, and that ‘in the long run they move broadly in line with real per capita gross domestic product, or something resembling “prices plus productivity”’ (Peetz, 1998a, pp.536-537). Safety net adjustments would preferably be granted as ‘predominantly’ percentage increases, rather than ‘flat-rate’ (i.e., dollar amount) increases, to prevent wages falling in real terms for a ‘significant minority of employees on wages well above the lowest unskilled award rate but still below average weekly earnings’ (Peetz, 1998a, p.549). There should also be less frequent ‘productivity-based cases’ to determine ‘how much of the increase in national productivity was available to be distributed to employees reliant on award rates’ (Peetz, 1998a, p.551).

The first four safety net decisions of the AIRC (1993 to 1997) ‘fell well short’ of achieving the fair outcomes envisaged by Peetz (1998a, p.537). They resulted in small, flat-rate increases (of \$8 to \$10 per week) that were intended to encourage the development of the bargaining system, on the assumption that unions and employees would seek higher wages through agreement-making. These early decisions produced ‘a widening gap between employees reliant on awards and those benefiting from enterprise bargaining’, consistent with the goal of reducing employees’ reliance on the award system to set wages (Peetz, 1998a, pp.534-537). By the late 1990s, however, the AIRC was better placed to deliver fair outcomes to the employees who remained dependent on minimum award wages, because of ‘changes in the relationship between the award safety net and actual wages, new research, and growing experience of the interaction between award wages and monetary policy’ (Peetz, 1998a, p.532).

The link between the award system and the bargaining system had weakened, because fewer employees were eligible for safety net increases under the *Workplace Relations Act 1996* and because the value of these adjustments was no

greater than the expected inflation rate used by unions as the basis for negotiating wage rises (Peetz, 1998a, pp.542-543). Consequently, the macroeconomic significance of safety net cases had diminished. Increases that were consistent with the underlying inflation ‘target’ (of 2 to 3 per cent per annum) were unlikely to trigger a monetary policy response from the Reserve Bank of Australia (Peetz, 1998a, pp.547-548). The significance of safety net cases related mainly to their *microeconomic* effects, particularly for employment of the low-skilled. But new empirical evidence from the United States (chiefly Card and Krueger, 1995) had falsified ‘the simplistic notion that an increase in minimum wages will *always* lead to some reduction in employment’ (Peetz, 1998a, pp.544-546, italics in original). It was also being recognised – including by the Commission in its April 1998 decision – that ‘modest’ safety net increases might help to improve labour productivity, by giving employers a reason to negotiate changes in working practices to offset their rising costs (Peetz, 1998a, p.552). For all these reasons, Peetz argued that the maintenance of a fair wages safety net was not ‘inherently incompatible’ with the goal of prioritising bargaining for the majority of Australian employees (Peetz, 1998a, p.536).

Hancock (1998), a former member of the AIRC (including in the Full Bench of the 1996-97 Living Wage case), examined the meaning and application of the ‘needs of the low paid’ as a criterion for adjusting the wages safety net. He argued for an approach in which ‘unmet needs are inversely related to wages’, and against an interpretation which would ‘attempt to identify needs and the cost of meeting them, so as to establish some kind of benchmark of wage adequacy’ (Hancock, 1998, p.43). The latter approach, involving ‘proposals to translate needs into wage outcomes using precise or approximate benchmarks’, was described as being ‘at odds with logic’ and unsustainable, based on the ‘historical experience’ of arbitration (Hancock, 1998, p.58). The alternative, which he favoured, entailed ‘an endeavour to maintain and improve the relative incomes of low-paid workers’, focusing on their positions within ‘the structure of relative pay’ (Hancock, 1998, pp.43 & 58).

The ‘benchmarking’ approach to needs, advocated by some of the parties appearing in the Living Wage case, was untenable for three reasons discussed in

the paper. These Hancock described as ‘the hazards that wage-fixers will encounter if they ascribe a determinative role to needs’ (Hancock, 1998, p.53). The first problem is that needs are dictated by ‘what is economically practical and possible’ (Hancock, 1998, p.53). Needs are not ‘static’, but vary according to economic circumstances and the standards of what is recognised as a reasonable or ‘decent’ standard of living in a particular place, at a particular point in time. On the one hand, this is a constraint on wage fixation, because the extent to which minimum wages can alleviate hardship is contingent on economic capacity. On the other hand, it is an opportunity, because the growth in economic output raises the absolute living standards of the poor over time.

A second problem with the benchmarking approach is that workers vary in terms of their family responsibilities. Some support large families with dependent children, others live alone. Thus, ‘a uniform wage does not confer a uniform standard of living’ (Hancock, 1998, p.54). A wage benchmark could be fixed for a single person, but only because of the availability of transfer payments from government that support larger families.

This wages-welfare nexus was a third limitation of benchmarks: needs are ‘not simply a function of the wages system, but involve also welfare provisions made by government’ (Hancock, 1998, p.54). The social welfare system carried part of the burden for alleviating material hardship, but left to wage-fixers the difficult task of deciding *how much* of the responsibility for addressing needs should be borne by employers of the low-paid, and how much by society at large, through tax-transfer policies of governments.

Hancock described the Commission’s responsibility in relation to needs as:

to have regard to the distribution of employment income, especially as it has an impact on people who depend on awards, and to prefer wage outcomes that narrow rather than widen pay dispersion (Hancock, 1998, p.58).

He acknowledged that a preference for a more compressed wage distribution ‘cannot be paramount, because the wage structure serves functions other than alleviating need’, such as providing incentives for workers to improve their skills by undertaking training (Hancock, 1998, p.58). But inequality in wage outcomes

warranted closer attention in safety net cases, because ‘workers who have been covered by collective enterprise agreements have fared better than those who have remained dependent on awards’, and because declining trade union membership ‘has left the low paid more exposed to the inequalities of market power than for many decades’ (Hancock, 1998, pp.59-62).

Several other papers have discussed aspects of the Commission’s April 1997 decision on the ACTU ‘Living Wage’ claim and its implications. The common theme of these papers is the difficult task faced by the Commission in balancing its responsibilities to low-paid workers against the economic imperatives of controlling unemployment and inflation. Acting on advice from the Reserve Bank of Australia (RBA) about the rate of underlying inflation and the macroeconomic ‘cost’ impacts of any safety net wage increase, the majority of the Full Bench of the AIRC declared itself unable to provide greater assistance to award-reliant workers unless the participants in the bargaining system moderated their claims and offers. If bargainers did manage to ‘lower the level of settlements’, this would ‘leave “space” for a more generous treatment of workers fully or substantially dependent on award wages’ (AIRC, 1997, p.50).

Dabscheck (1997) questioned this reasoning. It was ‘inconsistent’ with the aim of encouraging bargaining in the Objects of the *Workplace Relations Act 1996*, and it was not apparent ‘why those on the union/worker side of bargaining should enter into negotiations with one, or both, arms... voluntarily tied behind their backs’ (Dabscheck, 1997, p.138). He criticised the Commission for failing to suggest more ‘imaginative’ ways of assisting award-reliant workers than making their wages dependent on bargainers exercising restraint. Instead of requesting greater ‘space’ to address the needs of the low paid, the Commission could have offered to oversee the ‘formation of workplace committees’ to improve the bargaining positions of low-paid workers, or ‘asked the Howard government to be more considerate, if not generous, to the low paid in its Budget decisions’ (Dabscheck, 1997, pp.138-139).

Jones and Harcourt (1997), who appeared for the ACTU in the Living Wage case, also criticised the Commission’s conclusions about the ‘economic constraints on equity’. For these authors, the majority decision reflected an unjustifiably

‘cautious and conservative’ assessment of the economic evidence (Jones and Harcourt, 1997, p.157). The conclusion that the ACTU claim would increase average weekly earnings by 2 per cent was ‘an arbitrary over-estimate’, which failed to take account of the decline in award reliance since 1993 and the costs already in the system from previous safety net decisions (Jones and Harcourt, 1997, pp.158-159). The majority had also ‘overstated’ the likely indirect impacts of the safety net adjustment on negotiating behaviour in the bargaining sector (Jones and Harcourt, 1997, pp.160-162). By exaggerating the costs of the ACTU claim, while also accepting the RBA’s advice about the need to limit the inflationary impact of safety net adjustments, the Commission had endorsed an approach in which ‘low-paid workers are to carry the burden of wages policy’ (Jones and Harcourt, 1997, p.164). The Commission’s suggested link between fairness for award-reliant workers and moderation in bargained outcomes would ‘require the union movement to commit to aggregate outcomes’ (i.e., the inflation target) without requiring employers or the Commonwealth government to commit to future improvements in the safety net or the ‘social wage’ (i.e., non-wage benefits such as superannuation) (Jones and Harcourt, 1997, p.165).

Stegman (1997) addressed further the implications of the Commission’s decision on the Living Wage claim. The decision had adverse consequences for equity, as it permitted ‘a continuation of developments... that worsen the relative income position of the low paid [and] tend to create a two-tier wage structure’ (Stegman, 1997, p.143). The decision was also ‘unhappy’ for the AIRC, for three reasons (Stegman, 1997, p.154). First, although expressing its concern for ‘fairness’, the economic constraints under which the Commission saw itself as operating had prevented it from stabilising or improving award wages relative to bargaining. Second, in the interests of moderating the macroeconomic costs of its decision, the Commission had awarded a flat-rate increase, which threatened to disturb the margins between classifications in the award pay structure (Stegman, 1997, p.152). Third, and most importantly for Stegman, the decision made possible a much increased role for monetary policy in enforcing wage restraint. Instead of the co-operative incomes policy that operated during the Accord era (1983-1996), departures from the aggregate inflation target in the bargaining era would be corrected by interest rate rises, with associated employment reductions. Without

‘the apparatus of centralised wage determination’, there was no way to ensure that bargainers ‘accept responsibility for the macroeconomic outcomes of individual enterprise outcomes’ or that the burden of wage restraint is shared by weaker and stronger groups (Stegman, 1997, pp.153-154). This situation would undermine the already vulnerable position of award-reliant employees.

Between 1998 and 2004 – when the creation of a new minimum wage authority to replace the AIRC was first mooted – little attention was paid to the issue of wages policy. The *Journal of Industrial Relations* published annual review pieces on ‘wages and wage determination’, which contributed to the debate during this time. However, because their considerations were broader than the safety net, these articles typically provided only a brief commentary on the Commission’s policies. The main conclusions accepted by the Commission between 1998 and 2004, and discussed in the *JIR* reviews, were that:

- 1) workers reliant on the safety net had received smaller wage increases than workers covered by bargained agreements;
- 2) the definition of ‘the low paid’ for the purposes of adjusting the safety net excluded the unemployed;
- 3) the indirect (‘spill-over’) effects from safety net increases would generally be small, in contrast to the conclusion of the majority of the Full Bench of the AIRC in 1997;
- 4) the margins between award wage classifications (‘relativities’) remained a relevant consideration when maintaining the safety net;
- 5) safety net adjustments should be available to all award-reliant employees and not ‘capped’ as argued by the Commonwealth government and some employers’ groups;
- 6) there was no conclusive evidence that safety net adjustments of the size awarded by the Commission had reduced employment.

The *JIR* articles record these developments in the Commission's policies, but they provide little *analysis* of why certain approaches were taken and others rejected.³³ A major contribution of this thesis is to explain the Commission's reasoning more fully, and to evaluate the evidence that shaped its decisions.

Two other more recent papers have examined the development of AIRC wages policy in the safety net era. Hancock and Richardson (2004) consider the outcomes of this period against the backdrop of the federal industrial tribunal's evolution as 'a maker of economic and social policy' in 20th century Australia (Hancock and Richardson, 2004, p.139). They contend that the defining feature of the safety net cases is the 'decreased proportion of wage-earners dependent on award conditions, with safety net increases having a lesser economic impact than did earlier general wage decisions' (Hancock and Richardson, 2004, pp.148-149).

This reduction in award reliance has influenced the nature of safety net review cases in several ways. One change was the detailed consideration of needs, encouraged by the direction in the *Workplace Relations Act 1996* that safety net adjustment decisions should have regard to 'the needs of the low paid'. The return of needs as a wage-fixing criterion prompted the establishment of a new Federal Minimum Wage in 1997 and shaped the Commission's approaches to issues as diverse as wage inequality, unemployment, poverty, family structure and social inclusion (Hancock and Richardson, 2004, p.149-151).

Decreasing award reliance has also shaped the Commission's views about the balance between the social and economic functions of the wages safety net. Hancock and Richardson characterise safety net cases as 'contests between the two goals of curbing the growth in the gap between bargained and safety net wages, and limiting increases in labour costs'. They acknowledge, however, that 'the trend of [AIRC] decisions... has been towards more generous "safety net" increases' (Hancock and Richardson, 2004, p.179). This implies a shift in the role of the Commission, away from the achievement of macroeconomic objectives and towards microeconomic and social objectives, such as reducing wage dispersion.

³³ For further comment, see the original articles (Buchanan, O'Keeffe and Bretherton, 1999, pp.111-115; Buchanan, O'Keeffe, Bretherton, Arsovska, Meagher and Heiler, 2000, pp.119-122; Watts, 2001, pp.184-189; 2002, pp.234-238; 2003, pp.190-193; Watts and Mitchell, 2004, pp.167-171; 2005, pp.155-160).

Briggs, Buchanan and Watson (2006) locate the wages safety net (what they call the ‘non-bargaining sector’) within the broader Australian incomes system, which they conceive as including employee ‘bargainers’, non-employee ‘contractors’ and the social welfare system. They distinguish two possible directions for wages policy in the non-bargaining sphere. The first – a ‘low wage sector’ strategy – would allow real wages to fall for award-reliant workers, in the hope of increasing employment, with the income reductions offset by ‘in-work’ transfer payments to the low paid (Briggs, et al., 2006, p.16). They argue that this policy direction, while perhaps expanding the number of jobs, would have unfavourable effects on job *quality*, with ‘minimal access to training, high job turnover, negligible prospects for advancement... [and] very low productivity’ in the non-bargaining sector. They commend the AIRC for maintaining the safety net in a manner that ‘prevented the extremes [of low pay incidence] evident in the US and to a lesser extent the UK’ (Briggs, et al., 2006, p.17).

Their alternative, and preferred, direction is a ‘living wage’ strategy, which takes ‘the needs of the employee’ as the basis for safety net adjustment. Their ‘living wage’ would allow a single person employed full-time to obtain a ‘decent standard of living’ from their earnings, without being ‘dependent’ on ‘supplementary welfare payments’ (Briggs, et al., 2006, p.18). In relation to this living wage strategy, they noted that safety net cases had ‘re-established need as a criterion for wage fixing when it had been almost completely eclipsed by productivity-based criteria’ (Briggs, et al., 2006, p.19). The Commission’s ‘evidence based policy development’ in safety net cases had ‘defended hourly rates of pay from falling as fast as they would have in the absence of intervention, and reduced the proportion of employees working at very low rates of pay’ (Briggs, et al., 2006, p.20). It was likely that safety net adjustments were the cause of the modest increase in real wages for employees at the bottom of the distribution, between 1997 and 2001, reversing the real declines of the period 1989 to 1997 (Briggs, et al., 2006, pp.4-5). For the safety net to remain effective, it should continue to be adjusted not only for employees on the minimum wage, but for the broader group of employees that ‘lacks equality of bargaining power with the people engaging their services’ (Briggs, et al., 2006, p.35).

Conclusion

We have reviewed in this chapter the existing evidence about three potential benefits of the Australian wages safety net: (1) protecting vulnerable employees against exploitation; (2) reducing earnings inequality; and (3) preventing poverty.

The evidence is mixed in relation to the ‘protective’ function of the safety net. On the one hand, the employees with low hourly wages (below or near the Federal Minimum Wage) look much like the rest of the Australian workforce. They are mostly adults, in full-time jobs, with permanent contracts. These attributes are not obviously indicative of labour market disadvantage. Longitudinal evidence suggests further that most full-time, low-wage jobs provide a pathway to higher pay within three years. On the other hand, the employees with low hourly wages in Australia are more likely than higher-paid employees to be young, low-educated, and in part-time and casual jobs. While some of these employees can be expected to improve their circumstances quickly, the longitudinal evidence suggests that part-time, low-wage jobs offer fewer opportunities for rapid upward wage mobility. Middle-aged, low-education women seem to have especially poor prospects of advancement.

There has been debate over how arbitration affects the Australian wage structure since at least the 1970s. The evidence currently available suggests strongly that the awards of the industrial tribunals have narrowed the overall dispersion of Australian earnings, relative to an alternative ‘deregulated’ scenario represented by comparative outcomes in the United States. The egalitarian effects of the arbitration system seem especially to have benefited women, part-time workers and migrants. When the award structures have been dismantled, as in New Zealand and in some Australian States, the relative wages of these affected groups fall, and overall earnings inequality increases. There is no agreement, however, about whether the award system has an egalitarian influence on wages in its present role as a safety net. This thesis investigates two issues relevant to answering this question: how the pay structure within awards changed as a result of safety net decisions; and how wages in the rest of the Australian labour market moved relative to the award system. Our answers help to determine the

relationship between changes in minimum-wage regulation and rising earnings inequality in Australia.

There has been growing interest in the broader redistributive effects of the safety net, as evidenced by the number of recent studies investigating whether low-wage workers live in low-income households. Most prior Australian studies conclude that low wages are related only weakly to low household incomes. When compared with the whole population, low-wage workers are not strongly concentrated at the bottom end of the Australian income distribution, but they are more likely to be in this position if their jobs are part-time. The link between low wages and low household incomes is strongest if examined only for ‘working’ households, but some observers question the relevance of this comparison. While the relationship between low wages and household incomes is certainly relevant to understanding whether the safety net helps to prevent poverty, we contend that other pertinent issues are yet to be examined as fully. These include, in particular, broader conceptions of the ‘needs’ of low-income working households. Many US studies explore this issue through the concept of an ‘income-to-needs’ ratio. Australian researchers are also now beginning to broaden their perspectives to include evidence on household expenditure and wealth (e.g., Hahn and Wilkins, 2009). This thesis contributes to these developments, by asking whether safety net adjustment recipients live in ‘financially stressed’ households at greater risk of material hardship.

As well as addressing the issues noted above, this thesis overcomes two more general deficiencies in the current literature. The first problem is the underdevelopment (or absence) of a link between the ‘low-wage’ workforce and the coverage of the wages safety net. Although much is known about the low-wage group, comparatively little is known about how this group intersects with the safety net. The extent of overlap is important, since it will determine the degree to which much of the existing empirical literature reflects the actual operation of minimum-wage regulation in Australia. This problem is sometimes acknowledged in the literature, but no study has yet focused on exactly who benefits from safety net adjustments. In large part, this is a data problem. The surveys that most researchers have used to understand the low-wage workforce do not contain the

information about pay-setting methods that is needed to identify the beneficiaries of safety net adjustments. Much of the work presented in this thesis, particularly Chapters Five and Seven, is motivated by the aim of improving what we know about the intersection between the wages safety net and the low-wage workforce.

A second problem is the deficiency of current evidence about how the safety net has been maintained. With some recent exceptions, the literature on wages policy in the safety net era is dominated by studies of the Commission's April 1997 decision on the ACTU Living Wage claim. There are few Australian equivalents of the studies examining the 'political economy' of minimum wages in the United States (e.g., Neumark and Wascher, 2008), or the personal accounts by members of the British Low Pay Commission about how that country's National Minimum Wage has been set (e.g., Bain, 1999; Metcalf, 1999; Brown, 2002, 2009).³⁴

We argue that there is now a need for a study that explains in a more thorough way how the AIRC approached the maintenance of the wages safety net. What purposes did the Commission pursue? What evidence did it rely on to determine whether these aims were being met? What problems were encountered and how effectively were these dealt with? Does an independent evaluation of the evidence substantiate or challenge the Commission's conclusions about the effects of its decisions? These are some of the questions that we answer in this thesis. They are central to the objective of understanding the safety net adjustment *process*, as part of the overall aims for this thesis outlined in Chapter One.

We attempt to unify two different strands of the existing literature in answering these questions – one relating to the objectives of safety net adjustments; the other relating to their effects. We use qualitative data, drawn from the Commission's archives and from interviews with AIRC members, to explain the reasoning and evidence behind safety net decisions. Our examination improves substantially on what is already known from wages policy studies. We then use quantitative data, drawn mainly from Australian Bureau of Statistics surveys, to evaluate the actual effects of safety net decisions. By focusing on the beneficiaries of these decisions, we extend what is already known from the labour economics literature about the

³⁴ An exception that we discuss in later chapters is a speech given by the President of the AIRC, Justice Giudice, in September 2005 (Giudice, 2005).

generic group of low-wage workers. In Chapter Eight, we draw together these two strands of the investigation to evaluate whether the functions of the safety net, as seen by the AIRC, accord with the evidence of its actual effects on wages, living standards and needs.

CHAPTER FOUR: Meaning and Coverage of the Safety Net

Introduction

The various pieces of Commonwealth legislation from which the Australian Industrial Relations Commission derived its wage-fixing powers have referred, since 1993, to an award ‘safety net’. The Keating Labor government’s *Industrial Relations Reform Act 1993* (amending the *Industrial Relations Act 1988*) stipulated that awards should ‘act as a safety net of minimum wages and conditions of employment underpinning direct bargaining’ (s.88A(b)). The Howard Coalition government’s *Workplace Relations Act 1996* had as one of its Objects ‘providing the means...to ensure the maintenance of an effective award safety net of fair and enforceable minimum wages and conditions of employment’ (s.3d(ii)). The 1996 Act included several further references to this safety net, including specific criteria relevant to its maintenance and adjustment (s.88B(2)).

This chapter explores the meaning of the ‘safety net’ and begins our investigation into its coverage. The body of the chapter contains three sections. The section that follows this Introduction looks at how the Australian Industrial Relations Commission defined the safety net. It shows that the Commission held consistently to a view that the whole system of award wages and conditions (subject to certain conditions being defined as ‘non-allowable’ matters after 1996) should constitute the safety net. We show further that this view prevailed over arguments from the Commonwealth government (after 1996), and from key employers’ groups, to limit the scope of the safety net to *part* of the existing award system or a single minimum wage. We discuss the Commission’s reasons for rejecting these alternative approaches to the safety net, and its rationale for establishing, in 1997, a new Federal Minimum Wage.

The second section of the chapter introduces the structure of award minimum rates of pay that, as a result of the Commission’s definition, constituted the wages component of the safety net. We describe the different classifications within this structure, and how they correspond to an underlying hierarchy of employee skills and qualifications. We show further how the award pay structure was affected by

safety net adjustments over the time period that this thesis considers (1993 to 2005). One consequence of the particular form of safety net adjustments given by the Commission was ‘compression’ of the award pay structure, drawing both the highest and lowest paid employees closer to the middle pay levels in 2005 than they had been in 1993. We demonstrate that the compression that occurred within the award system was opposite to the trend towards a wider dispersion of earnings in the Australian labour market generally, and contend that this is an important consequence of the safety net’s focus on ‘the needs of the low paid’ (s.88B(2)(c) of the *Workplace Relations Act 1996*).

The third section in the body of this chapter investigates the number, and some of the attributes, of the employees whose wages have been determined by awards throughout the safety net era. We assemble and compare data from four national surveys covering the period 1990 to 2006. We show that, as a result of the legislative impetus given to direct wage bargaining in the early 1990s, the award system moved quickly from the mainstream of Australian wage determination, in 1990, to a narrower role in 1995 and thereafter. The proportion of employees who rely directly on award wages had fallen to 19 per cent by 2006. The minority who remain award-reliant are predominantly women, in ‘non-standard’ employment (especially part-time), and in sales and service industries with low union membership. We argue on the basis of this evidence that the safety net protects mainly employees who would have difficulty bargaining over pay.

What should constitute the safety net?

The situation before 1996

The wages safety net developed gradually from a process which included establishing a separate stream of registrable bargaining agreements, limiting the wage-setting role of the Australian Industrial Relations Commission, and redefining the award system as a protection for workers unable to bargain, rather than as the main vehicle for wage determination. As this process unfolded, the question arose naturally of what should constitute the ‘safety net’ of minimum wages and conditions of employment. Was it to be simply the existing agglomeration of award classification rates of pay and other conditions, re-

branded and with a different function, or was the safety net to comprise only some of these existing pay and conditions standards?

This question was first considered in safety net review cases under the *Industrial Relations Act 1988*, from 1993 to 1995. An indication of how the Commission would approach this issue is evident from a review of the wage-fixing principles finalised in October 1993. The decision (AIRC, 1993a) conveys the Commission's interest in safeguarding the award wage structure that had been determined in the Minimum Rates Adjustment (MRA) process of the late 1980s. The purpose of the MRA was to correct 'irregularities' in award rates of pay, which allowed employees doing similar types of work to receive different wages, depending on their award coverage. The Commission said that these 'inequitable relationships' had persisted 'for too long', and set out to eliminate them by consolidating existing award rates into a common pay classification structure (AIRC, 1989b, pp.6-7; 1989a).

By the time of its 1993 review, this carefully devised structure of award pay rates was under threat from the shift to enterprise bargaining. The Commission sought to insulate the award system from wage increases negotiated in the emerging bargaining sector:

The award system that currently exists is arguably based on considerations of equity and public interest. Any enterprise bargaining system must, of its very nature, lead to differing outcomes. In our view, the only way that they can be reconciled is if within the award system there are awards which provide equitable minimum standards of wage rates upon which enterprise bargaining is anchored. To that extent, the two can be complementary. But the stability and viability of those awards can be undermined if the disparate outcomes of enterprise bargaining flow back into them (AIRC, 1993a, p.14).

The Commission made clear its view that the structure of award standards developed in the MRA process was to be the cornerstone of an emerging 'safety network' of pay and conditions, above which bargaining occurred:

The implementation of the national framework of properly fixed minimum award rates... effectively created a safety network of minimum award rates for employees across all industries. This was then, and is now in our view, an essential element in moving towards a decentralised system (AIRC, 1993a, p.21).

The Commission's adherence to what it described as 'properly fixed' minimum award rates is a major reason why it opposed efforts, in later decisions that we review below, to restrict access to safety net wage adjustments. Such restrictions would have quickly disturbed the minimum pay rates that the Commission believed were already fixed 'in proper relation' to each other, as a result of the MRA process.

In August 1994, the Commission revisited its statement of wage-fixing principles, to recognise 'major amendments' to the *Industrial Relations Act 1988* arising from the Keating Labor government's *Industrial Relations Reform Act 1993*. The amended Act:

...now clearly distinguishes between the arbitrated award safety net and the bargaining stream. It intends that the actual wages and conditions of employment of employees will be increasingly determined through bargaining at the workplace or enterprise (AIRC, 1994a, p.4).

Within this new context, one of the Commission's major functions was to 'ensure, so far as possible, that the award system provides for "*secure, relevant and consistent wages and conditions of employment*" [s.90AA(2)] so that it is an effective safety net "*underpinning direct bargaining*" [s.88A(b)]' (AIRC, 1994a, p.4, italics in original). For employees 'who may be unable to bargain', the safety net operated as a set of minimal protections. For employees able to bargain, it provided 'the benchmark for the "*no disadvantage test*" that the Act requires be met before agreements are certified by the Commission' (AIRC, 1994a, p.8, italics in original). To meet this test, wages and conditions offered in agreements were required to be no worse than those available in an applicable award.

The Commission reached what it considered 'an interim position' on the composition of the safety net, saying that 'existing wages and conditions in the relevant award or awards... shall be the safety net underpinning enterprise bargaining'. The safety net would be reviewed periodically, 'in light of prevailing economic, social and industrial circumstances' (AIRC, 1994a, p.15, p.41). This position was seen as provisional, because the major interest groups were 'not agreed as to what should finally constitute the safety net' (AIRC, 1994a, p.16). We show later in this section, however, that this 'interim position' would become

one of the most permanent of the Commission's views about the appropriate role of the safety net.

The parties' differences of opinion on the contents of the safety net were made clearer in a subsequent review and adjustment decision in September 1994. The Commission summarised their various positions at Appendix E to its decision (AIRC, 1994b, p.92). Broadly speaking, employers' groups advocated trimming the content of awards, to expand the range of matters for negotiation at the enterprise level. Unions maintained that this reduction need not occur for awards to provide the 'underpinning' for bargaining envisaged by the *Industrial Relations Act 1988*. The Commonwealth government concurred with the major employers that awards should be simplified to allow more conditions of employment to become matters for agreement. It supported a gradual process of identifying, and excising, 'non-foundation' matters from awards, but insisted that this process would not be used to undermine existing award standards (AIRC, 1994b, pp.92-95). These differences foreshadow the significance that the issue of the safety net's 'constitution' would acquire in later cases.

The case for 'capping'

The change of Federal government in 1996 led to legislative changes that affected the debate over what should constitute the wages safety net in three major ways. First, the amended legislation (renamed the *Workplace Relations Act 1996*) removed the former requirement for awards to prescribe 'secure, relevant and consistent' minimum wages and conditions of employment. Second, and in place of this old requirement, the new Act required that the Australian Industrial Relations Commission have regard to 'the needs of the low paid' when adjusting the safety net (s.88B(2)(c)). Third, the new Act stipulated that wages and conditions of employment should be determined 'as far as possible, by agreement upon a foundation of minimum standards', with awards being used to 'ensure the maintenance of an effective safety net of fair and enforceable minimum wages and conditions' (s.3(d)).

In each of the nine *Safety Net Review – Wages* cases decided between 1997 and 2005, the Commonwealth government (supported by the State Coalition governments from 1997 to 2001) argued that the Commission should impose a

‘cap’ on safety net wage adjustments. Under this arrangement, employees paid above a certain level would not be eligible for the safety net increase. In the 1996-97 case, the Joint Governments sought to limit access to their proposed \$8 per week safety net increase to employees below the estimated ‘average weekly ordinary-time earnings’ (AWOTE) for full-time, adult employees (about \$650 per week in May 1995).³⁵ The Governments argued that a ‘cut-off’ at AWOTE would provide an increase for ‘the great majority’ of workers on award rates, without requiring the Commission to define specifically what was meant by the reference to ‘the low paid’ in the *Workplace Relations Act 1996*. In later cases, however, the Joint Governments’ revealed that their initial support for an AWOTE cut-off was a negotiating position. It was chosen, not ‘because [AWOTE] necessarily represented the appropriate level for a cut-off’, but rather because:

...it appeared in our view to provide the Commission with the opportunity to establish *the principle* of a cut-off for safety net increases without having to deal with the issue of the precise definition of the low paid. In this regard, [we] in no way precluded proposing *a more appropriate cut-off*... once the actual principle of a cut-off for availability of safety net increases had been established (DEWRSB, 1998, p.60, italics added).

The ‘more appropriate’ cut-off recommended subsequently by the Joint Governments was the minimum classification rate for a qualified tradesperson in the Metal Industries Award (known as the ‘C10’ award rate, see further discussion below). In every one of the eight safety net cases heard by the AIRC between 1998 and 2005, the Joint Governments (and, from 2002, the Commonwealth government alone) urged the Commission to adopt a C10 cut-off. To illustrate the difference in effect between this cut-off and the AWOTE cut-off originally proposed, we note that in 1995 the full-time adult C10 rate was \$433.20 per week, or 67 per cent of full-time adult AWOTE (\$648.60 per week). A cut-off at the C10 rate would thus be significantly more restrictive than an AWOTE cut-off, and would apply to correspondingly fewer employees. The Joint Governments viewed this lower level as the ‘more appropriate’ point at which to render employees ineligible for receiving wage increases through the safety net adjustment process.

³⁵ As estimated by the Australian Bureau of Statistics (ABS, 1996, Table 2, p.12).

One rationale for capping safety net adjustments – whether at AWOTE or at the C10 award rate – was to focus the award system on ‘the needs of the low paid’. The Joint Governments explained in their submission to the 1996-97 Living Wage case that the repeal of the former requirement for ‘consistent’ minimum wages was a deliberate omission from the *Workplace Relations Act 1996*. Its absence signalled that the Commission was no longer expected to maintain award-based wage ‘relativities’:

The major rationale for removing the requirement of ‘consistency’ is to give the Commission more flexibility in ensuring awards are properly focused on their safety net role and [that] appropriate regard is had to the needs of the low paid. It recognises that the requirement for the Commission to have regard to the low paid is not consistent with preserving existing relativities within awards (DEWRSB, 1996, p.36).

The Joint Governments emphasised that the role of the wages safety net was different, and narrower, under the *Workplace Relations Act 1996* than it had been under the *Industrial Relations Act 1988*. The award system was no longer viewed as a fallback for a nascent bargaining sector, because the coverage of agreements, and the maturity of the participants in bargaining, had grown since the Commission first articulated the notion of awards providing the ‘safety network’ for bargaining (AIRC, 1993a, p.21). Under the *Workplace Relations Act 1996* (WR Act), the safety net existed only to keep a diminishing minority of low-paid employees out of poverty:

The award safety net envisaged by the WR Act *serves as a foundation protecting against hardship* rather than as a safety net underpinning bargaining. Its purpose is to provide fair minima for employees who need the improvements and protections which it supplies (DEWRSB, 1998, p.60, italics added).

From 1998 to 2005, the Joint Governments insisted that the only employees in need of the ‘protections’ supplied by the safety net were those on classification rates of pay below the C10 tradespersons’ level. They accepted that employees paid less than the C10 rate were entitled to ‘modest’ safety net increases, because they ‘are likely to be unskilled, are a less mobile workforce and may have more limited bargaining power’ (DEWR, 2002, p.98). For workers receiving higher rates, however, the Joint Government contended that the bargaining sector existed as an alternative to reliance on the safety net, and these workers should be

encouraged to move into that sector. A cap on safety net increases at C10 level would achieve the twin objectives of reducing the wages safety net to a minimalist system, oriented towards the needs of workers at risk of hardship, while compelling other workers to bargain (since they would have no other source of regular wage increases). Restricting access to safety net increases was, in the Joint Governments' view, 'inevitable' and 'a logical conclusion' of focusing the award system on the low paid (DEWRSB, 1998, p.60; 1999, p.57).

These arguments are predicated on the Joint Government's confidence in the capacity of skilled workers to negotiate their wages directly with employers. They described as 'defeatist' the notion that, because some workers employed on rates above C10 were *currently* reliant on the wages safety net, they would necessarily remain in this state (DEWRSB, 1996, p.161). The Joint Governments asserted that workers with a trades certificate or a higher qualification had specific, marketable skills. They did not accept the notion that these workers were reliant on the wages safety net because they lacked 'bargaining power'. Rather, the Governments asserted that these workers faced a choice, between staying on the safety net and moving into the bargaining sector. The Commission's decision about access to safety net increases would affect this choice, since: 'No one is forcing [workers above the C10 rate] to move into agreement making... [If] the Commission continues to provide automatic increases to them, that does not provide any specific incentive to move away from award rates, *as the Act intends*' (DEWRSB, 2000, Appendix D, p.317, italics added).

The Joint Governments recognised that a cap on safety net adjustments would slowly 'erode' the values of the higher award classification rates, making them progressively less relevant to the wages set in agreements. They said, however, that the appropriate relationships between the wages of different types of workers were to be determined by market forces, rather than defined by the relativities in awards (DEWRSB, 1999, p.56). These relativities had an important role when the majority of Australian workers were reliant on awards and the Commission retained substantial control over aggregate wage movements. But in a system where bargaining was the major driver of wages growth, this role could be jettisoned: 'In this context, internal relativities are no longer an important part of

the award system' (DEWRSB, 1996, p.9). Such a shift would leave a greater portion of wage determination to market forces, but did not imply that the Commission was exposing vulnerable workers to exploitation:

After all, in a market economy higher skilled employees command higher wages. They will continue to do so if the Commission agreed to a cap such as that sought by the joint Governments. Countries without an award system seem to be able to maintain skill based career paths and provide training to their employees. In any case it is hard to see how an arbitral body can do a better job of ensuring that employees are rewarded appropriately for their skill in a relative sense than the market (DEWRSB, 2000, p.252).

The Joint Government also made a case for capping safety net adjustments on 'equity' grounds, submitting that most of the material benefit from uncapped increases went to employees in relatively affluent families. The Governments claimed that uncapped safety net adjustments had a 'regressive' impact on the overall distribution of income, since: 'high-income working families capture the bulk of the benefit from an increase in all award rates' (DEWRSB, 2000, p.211).

In 1999, the Joint Governments commissioned the National Centre for Social and Economic Modelling (NATSEM), an academic group specialising in the micro-simulation of economic policy changes, to simulate the 'distributional' effects of the \$26.60 per week uncapped component of the ACTU wage claim. The NATSEM analysis showed that the main beneficiaries of the ACTU claim would be households in the upper half of the income distribution. By contrast, the simulated effects of the Joint Governments' proposal, for an \$8 per week increase capped at the C10 rate, would reduce the income share of households in the top 30 per cent of the distribution, while increasing slightly the income share of the bottom 20 per cent. These impacts were described by the Joint Governments as 'relatively neutral', compared with the 'regressive' ACTU claim (DEWRSB, 1999, pp.220-221).

In other cases, the Joint Governments presented their support for capping as a way of limiting the aggregate economic impact of safety net decisions. Their proposal for an AWOTE cut-off, in 1996-97, 'enables the lower-paid to receive a greater benefit... while reducing any deleterious economic effects' (DEWRSB, 1996, p.157). Reducing aggregate costs was also implicit in the argument, from 1997-

98, that a C10 cut-off would reduce by two-thirds (from 18 to 6 per cent) the proportion of full-time adult employees receiving the safety net adjustment, compared to an AWOTE cut-off (DEWRSB, 1996, p.158; 1998, p.62).

By 1999, however, the Joint Governments were retreating from their earlier efforts to use the safety net as an instrument for managing aggregate wage costs. They said: 'it misunderstands our submission to conclude that a concern to limit the aggregate labour cost impact of safety net adjustments is a factor in [our] support for a C10 cut-off' (DEWRSB, 1999, p.58). In 2000, the Joint Governments portrayed their advocacy of capping as similarly independent of its likely wage cost effects. The principal arguments in favour of capping, as seen in that case, were the legislative provisions relating to 'needs', the encouragement of bargaining and the empirical evidence (similar to that reported above) that 'uncapped' increases provided limited assistance to low-income households (DEWRSB, 2000, Appendix F, p.456).

The role of a minimum wage

Some participants in safety net cases favoured an even more restrictive approach than the C10 cap proposed by the Joint Governments. The Business Council of Australia (BCA), an influential lobby group representing 'the chief executives of over ninety of Australia's largest businesses', argued that the safety net should be defined as a single minimum wage (BCA, 1996, p.2). The Commission's task was to maintain a 'genuine' safety net (the same term used by the Joint Governments), that would not be a 'vehicle' for a general wage increase. The safety net's role should be circumscribed:

The term 'safety net' implies that it is something that catches those who are not accommodated by the mainstream system... It follows that a safety net must apply only to a relatively small minority of employees, otherwise it ceases to be a safety net and de facto becomes part of the mainstream of wage-fixation (BCA, 1996, p.8).

The BCA recommended that the Commission set 'a single minimum adult wage rate, to apply regardless of the award involved for any particular employee' (BCA, 1996, p.9). This proposed new award rate of pay would be known as the 'Safety Net Wage', to distinguish it from the 'minimum wage' which operated under the previous system and to avoid the 'emotional and ideological baggage'

associated with that earlier term. The new wage would be inserted in awards, and would be subject to review by the Commission in safety net cases. Other award classification rates of pay would not be adjusted in these cases, leaving the matter of skill relativities to be settled through enterprise-level negotiations. Existing award rates above the proposed Safety Net Wage would 'gradually become irrelevant' (BCA, 1996, p.13).

As to the Safety Net Wage *level*, the BCA said that there were 'strong arguments' for setting it at the lowest rate of pay in the Metal Industries Award at the time (\$349.40 per week, or \$9.19 per hour) (BCA, 1996, p.10). In subsequent review cases, this Safety Net Wage could be updated 'legitimately using growth in national productivity as a proxy for changes in community-wide needs' (BCA, 1996, p.14).

The Australian Chamber of Commerce and Industry (ACCI) also proposed that safety net adjustments be restricted to minimum-wage workers. It recommended that, rather than granting the ACTU claim for a general increase in award rates, the Commission should grant a small, 'special allowance' (e.g., of \$5 per week) to employees who had not received any wage increase, other than from safety net adjustments, since 1991. The Commission should also 'commence the process of reviving the minimum wage, in order to facilitate the development of an appropriate safety net and to address the needs of the low paid' (ACCI, 1996a, p.2).

ACCI did not seek the establishment of *new* Safety Net Wage, such as that envisaged by the BCA, but rather the 'revival' of the minimum wage which survived in some Federal awards from an earlier wage-fixing era. At the time of the 1996-97 wage case, this 'Minimum Wage' was worth approximately \$260 per week, or 75 per cent of the lowest classification rate of pay which applied in Federal awards (AIRC, 1997, p.77). This minimum wage predated the safety net concept, but had fallen into disuse as a result of its exclusion from major wage adjustments in the 1980s (Hancock, 1998, p.50). ACCI suggested that the Commission resurrect this minimum wage, 'grant a modest increase to it' and commit to reviewing it in the next application for a safety net adjustment (ACCI, 1996a, pp.44-45).

The Commission's views

The Commission did not accept the submissions that the safety net should be confined to a minimum wage, or that adjustments to it should be subject to any form of cut-off. In successive decisions, the Commission held to the position reached by the majority of the Full Bench in April 1997 that 'the [award] system as it exists from time to time will remain the safety net of fair minimum wages (and conditions of employment)' (AIRC, 1997, p.21). The Commission's 1997 position was remarkably similar to its interim position from 1994, in which 'existing wages and conditions in awards' were treated as the safety net (AIRC, 1994a, p.16)

The Commission gave two principal reasons for refusing the capping proposals of the Joint Governments. First, it said that the adjustment of all award rates was necessary to preserve the relativities between the different classification levels, which were the basis of the safety net's fairness. The Commission echoed its earlier sentiments that bargaining could not guarantee equitable outcomes unless it was 'anchored' to the fair minimum wage structure provided in awards. These award-based relativities:

...remain an important determinant of the fairness of the minimum wage structure within awards. How can award rates be fair if they do not properly reflect the relative skills, responsibilities, etc of jobs covered by the award? If an award system has to be fair, then it is no answer, as the Joint Governments suggest, to leave it to workplace agreements to establish appropriate relativities (AIRC, 1997, pp.72-73).

This element of fairness had two important dimensions. On the one hand, there were workers on rates of pay further up the award classification structure – including those above the C10 cut-off proposed by the Joint Governments – who nonetheless remained reliant on awards. The Commission referred to this group of workers in 1998, saying that its decision would avoid 'neglecting the interests of those at the higher levels who receive no payments other than those prescribed in the award' (AIRC, 1998, p.42). The Commission referred to this group again, in 2004, noting that '...the award safety net should be adjusted with the interests of [employees who have no bargaining power] in mind' (AIRC, 2004, p.90). We argue, in the next chapter, that the employees above the proposed C10 cap

represented a significant number of all award-reliant workers and that they were, indeed, workers with limited bargaining power.

The second dimension of fairness relevant to the Commission's views on relativities was the link between the award system and workplace agreements. The maintenance of 'proper' relativities was important, not only for employees paid at award minimum rates, but also for a broader group of agreement-covered workers who were indirectly affected by safety net decisions. In 1997, the Commission emphasised one aspect of this relationship, by observing that 'it is common for workplace agreements to build uniform percentage increases on to the established award rates' (AIRC, 1997, p.73). In 2001, the Commission emphasised another aspect: the role of the safety net in providing the benchmark for agreements certified under the no-disadvantage test. The fact that higher-paid workers were not exempt from this test meant that 'it would be incongruous if the Commission was not obliged to maintain fair minimum wages for employees at higher levels of the award structure' (AIRC, 2001, PN 137, p.43).

The Commission also rejected the case for capping on the basis of its reading of the WR Act. In contrast to the Joint Governments' argument that capping was a 'logical conclusion' of the wage-fixing criteria specified in the WR Act, the Commission said there was nothing that 'compels the conclusion that employees on higher award classification rates should generally not be eligible for award safety net increases' (AIRC, 1999, PN 92, p.34). The Commission particularly stressed the fact that the statute directed it to 'ensure that *awards* act as a safety net of fair minimum *wages* and *conditions* of employment' (s.88A(b), italics added):

It is true that s.88B(2)(c) of the Act provides that when adjusting the safety net the Commission must pay regard to the needs of the low paid. However we do not think that this object can be elevated in such a way as to displace the obligation on the Commission to maintain a safety net of fair minimum wages for all employees. *In this respect we do not see how the use of the plural term can be ignored* (AIRC, 2001, PN 137, p.43, italics added).

While refusing to reduce the wages safety net to merely the lowest classification rates of pay, the Commission accepted that the 'needs of the low paid' would be served by the establishment or revival of a specific minimum wage. In 1997, the

majority of the Full Bench of the AIRC proclaimed a new 'Federal Minimum Wage' (FMW), set at \$359.40 per week, as 'the wage below which no full-time adult employee working under a federal award is to be paid' (AIRC, 1997, p.76). The value of the new FMW was not based on any notion of workers' (or families') 'needs', but was set as the equivalent of the lowest classification rate in the Metal Industries Award ('C14'), adjusted for the \$10 per week adjustment granted in April 1997. Minimum wages for part-time and junior workers were set proportional to the full-time, adult FMW.

This approach, which the Commission said 'lends industrial realism' to the FMW, was similar to the Safety Net Wage proposed by the BCA, but with the crucial difference that the Commission declined to treat the FMW as the *only* award rate of pay requiring regular adjustment in safety net decisions (AIRC, 1997, p.77). The Commission saw the FMW as an integral part of the wages safety net, and refused proposals in later cases for the connection between it and the rest of the award pay structure to be severed (AIRC, 1998, pp.44-47).

All of the Commission's decisions in the safety net era involved dollar adjustments to award minimum rates of pay. Although the Commission noted in 1997 that it 'would have preferred to grant a percentage increase throughout the award structure, thereby maintaining existing [wage] relativities', this approach was never actually taken in the safety net era, because of the emphasis given to 'the needs of the low paid' in the WR Act and the Commission's concerns about limiting the aggregate wage cost impact of its decisions (AIRC, 1997, p.73). Some of these decisions involved 'tiered' increases, where the amount granted to some workers was lower than for others (see the next section), but all of the *Safety Net Review – Wages* decisions were dollar increases applied to the whole structure of award minimum rates of pay.

Another feature of the Commission's decisions was the requirement that safety net wage increases be 'absorbed' into existing over-award payments, including registered agreements paying above the award rate and informal payments made at the discretion of employers. This requirement meant that, in the event of a \$10 per week safety net adjustment, an employee paid \$15 above the award rate would have their over-award payment reduced by the full amount of the safety net

adjustment, in this case to \$5 per week. Absorption was intended to limit the ‘spill-overs’ or ‘leakage’ from safety net increases to higher-paid employees and, consequently, the aggregate economic impact of the Commission’s decisions. In 1997, the Commission referred to full absorption as a mechanism for delivering ‘maximum assistance to award wage-earners within the cost constraints in which we are operating’ (AIRC, 1997, p.78).

As a strategy for cost containment, absorption was dependent on voluntary enforcement. It required that both unions and employers accept a gradual narrowing of the margin between the award minima and the actual wages paid to certain groups of employees.³⁶ If enforced, absorption provisions would also, over time, *increase* the size of the group potentially eligible for safety net adjustments, an effect seemingly at odds with the Governments’ and employers’ efforts to make the award system less relevant to the ‘mainstream’ of wage determination. We revisit this issue later in the chapter, in the context of survey data showing the changes in award coverage during the safety net era.

The award classification structure

In this section we describe the structure of minimum classification rates of pay which existed within awards, and assess briefly how this structure was affected by safety net review decisions of the AIRC. It is necessary to introduce this classification structure reasonably early in the thesis, because this and subsequent chapters refer extensively to the rates provided within it.

For most employees, award rates of pay operated only as legal minimum wages in the safety net era, with actual earnings being set by registered agreements, informal bargaining or unilateral determination of management (see next section). For a diminishing minority of award-reliant employees, however, increases in award rates led directly to improvements in take-home pay. It was largely out of concern for this second group that the safety net was maintained, a point that the Commission recognised:

³⁶ There was a paucity of specific data on the extent of compliance with absorption requirements. Some unions gave assurances to the Commission that they would not pursue the restoration of previous over-award relativities in response to safety net adjustments. But employers might also resist absorption, if they perceive over-awards to be useful in recruiting or retaining staff. In the absence of better data, the Commission assumed widespread observance of absorption requirements (AIRC, 1998, p.41).

No one would suggest that all employees are capable of bargaining. Bargaining is not a practical possibility for employees who have no bargaining power. It is to be inferred from the statutory scheme that the award safety net should be adjusted with the interests of these employees in mind (AIRC, 2004, PN 325, p.90).

A complicating factor in the analysis of award rates is their diversity. It is impractical to assess changes in all the different rates of pay in Federal and State awards, which number in the thousands. The degree of variation was reduced, however, by award ‘simplification’ initiatives in the late 1980s and early 1990s, including the Minimum Rates Adjustment process noted in the preceding section (and in Chapter Two). These simplification efforts led to the adoption in Federal awards of a common, skills-based pay classification scheme, modelled on the 14 levels of the Metal Industries Award.

In this classification structure, minimum pay rates are ranked from ‘C14’ (the lowest rate) to ‘C1(b)’ (the highest). Rates between C14 and C11 are low or semi-skilled. In April 1997, a new Federal Minimum Wage (FMW) was established at the C14 level, as noted earlier. Moving further up the classification structure, the C10 rate represents the minimum wage for a tradesperson. Above C10, higher rates apply to workers with more advanced qualifications, up to professional engineers. We use the classification scheme from the Metal Industries Award as a simplifying device, and because it is the basis on which the Commission and other key parties monitored the effects of *Safety Net Review – Wages* decisions.

We are encouraged in this approach by the evidence that most other awards use a pay classification structure that is identical or very similar to that in the Metal Industries Award. In a speech on minimum wage-setting in September 2005, the President of the AIRC, Justice Giudice, noted that ‘most awards now have a classification structure consistent with the 14 levels operating in the Metal Industries Award, although very few awards have all 14 levels and most have fewer than 10 levels’ (Giudice, 2005, PN 10, p.4). We take advantage of the widespread use of the Metal Industries classifications to abstract from the particular rates set in other Federal awards.

One issue of interest is how the 14 basic rates within the award classification structure moved in relation to each other, as a result of safety net adjustment

decisions. Table 4.1 addresses this issue. It shows the dollar values of the award rates as they existed at the start of the safety net era, in 1993, and after the final adjustment decision made by the Australian Industrial Relations Commission, in 2005.³⁷ The percentage increase for each rate is also shown (in nominal terms).

TABLE 4.1 – CHANGES IN AWARD MINIMUM CLASSIFICATION RATES: 1993-2005

Level	1993 value (\$)	2005 value (\$)	Increase (%)	Proportion of C10 in 1993	Proportion of C10 in 2005
C14 (FMW)	325.40	484.40	49	0.78	0.84
C13	342.10	501.10	46	0.82	0.87
C12	364.60	523.60	44	0.87	0.91
C11	385.50	544.50	41	0.92	0.94
C10	417.20	578.20	39	1.00	1.00
C9	438.10	599.10	37	1.05	1.04
C8	458.90	619.90	35	1.10	1.07
C7	479.80	638.80	33	1.15	1.10
C6	521.50	680.50	30	1.25	1.18
C5	542.40	701.40	29	1.30	1.21
C4	563.20	722.20	28	1.35	1.25
C3	604.90	763.90	26	1.45	1.32
C2(a)	625.80	784.80	25	1.50	1.36
C2(b)	667.50	822.50	23	1.60	1.42
C1(a)	751.00	906.00	21	1.80	1.57
C1(b)	876.10	1031.10	18	2.10	1.78

Sources: AIRC *Safety Net Review – Wages* decisions, April 1997 (Print P1997) and June 2005 (Print PR002005); and Metal, Engineering and Associated Industries Award 1998.

Table 4.1 shows a perfectly inverse relationship between skill level and wage growth. While rates of pay increased in nominal terms at all the classification levels, the entry level and unskilled rates at the bottom of the structure, including the FMW, increased by substantially more than rates near the top of the classification structure. The FMW (and its pre-1997 equivalent, C14) increased 49 per cent between 1993 and 2005. The C10 rate, for workers with a trade qualification, increased 39 per cent, and the C1(b) rate, for professional engineers, increased 18 per cent. The nominal rate of growth for the lowest-skilled workers was thus more than double that for the highest-skilled.

These outcomes jointly reflected two aspects of the Commission's approach to safety net adjustment. The nominal growth across all pay levels was the result of

³⁷ The values shown in Table 4.1 applied before the first safety net wage adjustment in 1993 and after the final adjustment awarded by the AIRC in 2005 (AIRC, 1993b, 2005).

its decision to treat the whole award system as ‘the safety net’, as noted in the previous section. If the Commission had not taken this approach, and instead had followed the urging of the Joint Governments and ACCI to cap its decisions, the differences in nominal pay growth in Table 4.1 would have been even more pronounced. The second element of the Commission’s approach was the effort to target the largest nominal benefit to the lowest-paid. This outcome was realised by granting increases in dollar amounts rather than as percentage adjustments.

A related consequence of granting increases in dollar terms was ‘compression’ of the award relativities, which were originally set to reward the acquisition of higher skills. The two columns on the right of Table 4.1 reveal the extent of compression, with each of the 14 classification rates expressed as a proportion of the C10 tradespersons’ rate at the start and end of the safety net era. The FMW was equal to 78 per cent of C10 in 1992, rising to 84 per cent by 2006. In contrast, the C1(b) professionals’ rate was worth 2.1 times C10 in 1992, but 1.8 times in 2006. The cumulative impact of safety net decisions was thus to narrow the gap between workers at the top and bottom of the award classification structure, reducing the associated margins for skill.

It is important to note that the compression of award relativities was opposite to the tendency in the whole labour market toward a wider, rather than narrower, dispersion of earnings. Table 1.4, in Chapter One, showed evidence of the growth in full-time earnings inequality since 1994. Another recent analysis estimated that the real earnings of an employee at the 90th percentile of the full-time weekly earnings distribution increased by 15 per cent between 1994 and 2001, while the real earnings of an employee at the 10th percentile increased by 6 per cent (Saunders, 2005, Table 6, p.81). The compression of award relativities, shown in Table 4.1, was therefore not replicated in the rest of the labour market, where earnings inequality increased. This difference is one example of how the Commission’s influence over aggregate earnings outcomes diminished during the safety net era.

The Joint Governments argued that the ongoing compression of award relativities was making the adoption of its proposed ‘cap’ on safety net adjustments an inevitability. They said that the compression of relativities was not to be regretted

or resisted, but was a trend consistent with the increased focus on the needs of the low paid. In the Joint Governments' view:

This trend to compression of internal award relativities is already a reality – an outcome for which no apology is necessary, bearing in mind that *it is the necessary corollary* of the Commission's approach of targeting its assistance to the low paid by providing flat dollar safety net adjustments (DEWRSB, 2000, p.71, italics added).

The Commission expressed concern about the effects of its decisions on relativities, and the resultant incentives for skill acquisition, on several occasions. This concern is evident, for instance, in its comments at the start of the safety net era, in the context of its decision to award three \$8 per week adjustments. In 1994, the Commission said:

...there is clearly a practical limit to the utility of using flat dollar increases to adjust the safety net as, over time, such increases will create unsustainable pressures to restore pre-existing relativities. However, we are not satisfied that we have yet reached that point (AIRC, 1994b, p.37).

Despite this initial concern, only one of the Commission's decisions could be seen as deliberately counteracting the compression. In 2001, the Full Bench granted a 'three-tier' adjustment, increasing award rates up to \$490 per week by \$13, rates between \$490 and \$590 per week by \$15, and rates above \$590 per week by \$17. The unusual form of the 2001 adjustment broke with the Commission's earlier, and subsequent, approach, of giving increases which were either expressed as uniform dollar amounts, or structured *in favour of* the lowest-paid.

The inversion of the tiers in the 2001 decision found little support from the parties to safety net cases in 2002. The ACTU abandoned its practice of claiming percentage increases in higher award rates, which had implied support for the maintenance of existing relativities, and instead submitted that there should be a uniform \$25 per week increase across the classification structure. The Commonwealth government continued to press for smaller, capped increases, which it said satisfied the implied legislative requirement for a 'genuine' safety net. Having resolved that higher-skilled award workers should not be denied an increase, merely because of their higher pay, the Commission returned to its earlier practice (evident in the decisions of April 1997 and May 2000) of granting uncapped, and mostly uniform, dollar adjustments.

The outcomes of safety net cases after 2001 were, for all but the highest paid workers who received a slightly smaller amount in 2003, increases of between \$17 and \$19 per week. The form of these increases undoubtedly contributed to further compression of the award relativities, exacerbating the problem which had prompted the inverted-tiers decision in 2001. The extent of compression due to these decisions was, however, less than from earlier decisions (April 1998 and 1999) that granted lower dollar increases to the highest classification rates. From 2002 to 2005, the Commission seems to have found an approach which balanced its responsibilities to: (1) assist the lowest paid, by awarding them the largest increase; (2) avoid the aggregate cost effects of percentage increases, by awarding increases in dollar values; and (3) limit further compression of relativities, by increasing all classification rates of pay (AIRC, 2002, PN 160, p.58; 2005, PN 243, p.69).

Changes in award reliance: 1990-2006

In this section we trace the changes in award reliance back through time, to show how the Commission's direct influence in wage determination was displaced by the spread of bargaining arrangements and the expanding coverage of agreements that reflected bargaining outcomes. We refer to data from four significant earlier surveys: the 1990 Award Coverage Survey, the 1995 Australian Workplace Industrial Relations Survey, the 1999 Award and Agreement Coverage Survey, and the 2006 Survey of Employee Earnings and Hours. We use these surveys both to estimate the reduction in aggregate award reliance and to identify the groups of employees that remained most dependent on safety net cases to determine the quantum and timing of their wage increases.

Award Coverage Survey, 1990

A picture of pay-setting arrangements shortly before the commencement of the safety net era is provided by the award coverage data collected by the Australian Bureau of Statistics in 1990 (published in ABS, 1991). The estimates of award coverage are based on a single supplementary question put to employers who

participated in the May 1990 Survey of Employee Earnings and Hours.³⁸ Employers were asked to state how base rates of pay were varied for each of their employees. This could be either in accordance with: (1) an award or similar determination from a specialist tribunal, such as the Coal Industry Tribunal; (2) a registered or unregistered collective agreement; or (3) neither of the above. Employers were also asked to provide the title of the relevant award or agreement for verification against records maintained by the AIRC and other authorities (DEWRSB, 1999, Appendix G, p.284).

In the statistical tables published by the ABS, employees from groups (1) and (2) are classified as covered by awards and related instruments, while employees in group (3) are not covered (and thus effectively ‘award-free’). Table 4.2 reproduces the coverage statistics for five different populations of employees, along with the survey estimates of the numbers employed. In May 1990, 80 per cent of Australian employees, and 85 per cent of adult non-managerial employees, had their base rates of pay set by awards or related instruments.³⁹ Coverage was highest (91 per cent) for juniors under 21 years of age and lowest (34 per cent) for ‘managerial’ employees, including executives and other higher supervisory staff who are usually ineligible for paid overtime.

TABLE 4.2 – COVERAGE OF AWARDS AND RELATED WAGE-SETTING INSTRUMENTS: 1990

Employee population	Covered (%)	Not covered (%)	Estimated no. ('000s)
All	80	20	5652
Junior	91	9	484
Adult	79	21	5168
Adult, Managerial	34	66	618
Adult, Non-managerial	85	15	4550

Source: ABS ‘Award Coverage, Australia’, May 1990 (catalogue no. 6315.0).

³⁸ The survey involved a two-stage sample of 9400 businesses, drawn randomly from the ABS Business Register, which provided information on 83 thousand of their employees (ABS, 1991, p.19).

³⁹ A feature of the system that we do not discuss in this chapter is the division between the Federal and State industrial jurisdictions. In May 1990, 58 per cent of the employees covered by awards or related instruments were employed in the State systems. We do not pay closer attention to this aspect of the system because AIRC decisions affecting Federal awards in the safety net era were usually ‘flowed on’ quickly to State award workers by equivalent (or near-equivalent) decisions of the State tribunals (O’Neill, 2005a; Leigh, 2007, p.434).

These estimates imply that an increase in award rates of pay in 1990 would have led to increases in actual earnings for most Australian employees. The proportions do not imply that all of the 80 per cent ‘covered’ by awards were receiving exactly the rate of pay specified (for their occupation) in the applicable award. Some employees received higher amounts through informal over-award payments or registered agreements. But it is a reasonable supposition that most of the covered 80 per cent were directly reliant on increases in award rates, because the wages system at the time allowed little independent scope for bargaining. The emphasis was on centralised adjustments determined by the AIRC in National Wage Cases. Wage increases outside this process were ‘rare and carefully monitored’ to prevent them spilling over into broader industry-level or national claims which were contrary to the ‘public interest’ (Giudice, 2005, PN 3, pp.1-2). After the legislative changes of 1992-93 discussed in Chapter Two, the scope for bargaining expanded through a repeal of the Commission’s public interest obligations. In 1990, however, restrictions on bargaining meant that many of the 80 per cent of employees ‘covered’ by awards would receive wage increases from arbitrated changes in award rates of pay.

This argument is supported by other evidence from the safety net review cases. The Commonwealth government’s submission to the 2001-02 case included a summary of ‘developments in the wages system’, which referred to estimates from the Survey of Employee Earnings and Hours. The submission noted that:

...award reliance has fallen dramatically since the introduction of enterprise bargaining. In 1990, *67.6 per cent of employees were paid at an award rate* (the remainder were paid over-award rates or were outside the award system). By 2000, this figure had fallen to 23.2 per cent (DEWR, 2002, Appendix A, p.125, italics added).

This submission implies that *reliance* on award rates of pay in 1990 (at almost 68 per cent of employees) was lower than award *coverage* (at 80 per cent). The submission is consistent with the above argument that most, but not all, of the employees ‘covered’ by awards in 1990 stood to benefit from arbitrated increases in minimum rates of pay.

We have not been able to find any reference to the 67.6 per cent figure offered by the Commonwealth in the data published from either the 1990 Award Coverage

Survey or the 2000 Survey of Employee Earnings and Hours (ABS, 1991, 2001). The figure may have originated in unpublished data provided by the ABS, but the Commonwealth submission makes no comment about the source of the data or how the estimate was derived from published information.

Despite these concerns, the implied award reliance rate of 67.6 per cent in 1990 appears to have been accepted without reservation by the Commission. In the *Safety Net Review – Wages* decision of May 2002, the Full Bench referred to the passage of the Commonwealth submission quoted earlier, and observed that ‘...award reliance has declined from 67.6 per cent in May 1990 to 23.2 per cent in May 2000’ (AIRC, 2002, PN 111, p.44). Three years later, in an address to the Industrial Relations Society of the Northern Territory, AIRC President, Justice Giudice, repeated the same information:

At the beginning of the 90’s the Commission’s national wage decisions affected directly 67% of the workforce. Currently, with the significant shift to bargaining, only about 20% of the workforce have their pay set by awards. A change of that magnitude constitutes a massive decentralisation in pay setting (Giudice, 2005, PN 11, p.5).

We take as our starting point for this analysis the proposition, which was not seriously challenged in safety net cases, that a majority of Australian employees were reliant on awards to set their actual wages in 1990. From this starting point, subsequent national surveys affirm that the Australian system has indeed undergone what Justice Giudice described as ‘a massive decentralisation in pay setting’.

Australian Workplace Industrial Relations Survey, 1995

The 1995 Australian Workplace Industrial Relations Survey (AWIRS) depicts the wages system in a state of transformation, after legislative changes which widened the scope for bargaining in 1992-93, but before the change of Federal government and the ‘Living Wage’ case in 1996-97. The survey was initiated by the Federal government and managed by the Commonwealth Department of Industrial Relations. The data to which we refer are derived from the ‘employee relations management questionnaire’, a component of the main workplace survey that dealt with award coverage, adoption of new agreements and employee payment systems. The questionnaire was completed by managers responsible for

industrial relations matters at 2001 workplaces with 20 or more employees (smaller workplaces were excluded from the main part of the survey). Results from the AWIRS were published in a book, *Changes At Work* (Morehead, Steele, Alexander, Stephen and Duffin, 1997), which has a chapter on pay-setting arrangements (Chapter 10) and a useful data appendix. These published results are sufficiently comprehensive to eliminate the need for a substantial new analysis. We have reproduced the main data from *Changes At Work* with some adaptation, except in relation to one point noted below.

Managers completing the ‘employee relations management’ questionnaire were asked to select the pay-setting arrangement most applicable to employees in each occupation present at their workplaces. Information was collected, not about the method of setting pay for each individual employee, but for most employees in a particular occupation. This approach necessarily means that minority arrangements are ignored: the major pay-setting method is assumed to apply to all employees in an occupation. Morehead *et al.* (1997) identified six methods of setting employees’ pay in their report on the AWIRS data. These were: (1) State awards; (2) State over-awards; (3) Federal awards; (4) Federal over-awards; (5) collective agreements (at enterprise or workplace level); and (6) individual arrangements (including award-free employees). To simplify the discussion, we collapse their six categories into four discrete payment methods: awards only (either State or Federal jurisdiction), over-awards, collective agreements, and individual arrangements.

Table 4.3 presents the AWIRS estimates of the proportions of employees, by industry, under each payment method in 1995. The results are adapted from Table A10.16 of Morehead *et al.* (1997, p.535). Of the estimated 3.61 million employees (in workplaces with 20 or more employees), 33 per cent had their pay set by awards only, 13 per cent by over-awards, 44 per cent by collective agreements and 9 per cent by individual arrangements. These estimates imply that at least 1.2 million employees were entirely reliant on award minimum rates of pay to set their wages. Another 470 thousand employees were partially reliant on the award minima, through over-awards, and would benefit from safety net

adjustments only to the extent that these increases were not ‘absorbed’ into their existing over-award payments.

The industry-level estimates are ranked in descending order by the proportion paid by awards only. The first six industries listed had rates of award reliance higher than the all-industry average (33 per cent) in 1995. In ‘Accommodation, cafes and restaurants’, 70 per cent of employees were award-reliant, followed by 60 per cent in ‘Retail trade’ and 50 per cent in ‘Health and community services’. It is important to note that these industries vary significantly by size, as shown in the estimates of employment in the right-hand side column of Table 4.3. While ‘Accommodation, cafes and restaurants’ has a high proportion of award-reliant employees, it is not an especially large industry in terms of total employment. Only 10 per cent of employees in the largest industry, ‘Manufacturing’, were entirely award-reliant in 1995, although a further 19 per cent were receiving over-award payments.

By multiplying the award reliance proportions by the number of employees in each industry, we estimate that 49 per cent of award-reliant employees were in the first three industries listed in Table 4.3, and 69 per cent were in the first five industries.

TABLE 4.3 – PROPORTION OF EMPLOYEES BY INDUSTRY AND PAYMENT METHOD:
1995

	Award only	Over award	Collective agreement	Individual arrangement	Estimated no. ('000s)
Accommodation, Cafes & Restaurants	70	13	10	5	170
Retail Trade	60	13	25	2	390
Health & Community Services	50	2	43	1	460
Personal & Other Services	49	8	39	4	110
Education	46	3	44	2	390
Cultural & Recreation Services	41	14	23	17	90
Government Administration	28	8	62	2	390
Transport & Storage	25	14	54	4	110
Construction	25	16	47	11	60
Electricity, Gas & Water Supply	24	2	73	0	50
Property & Business Services	20	16	20	41	250
Wholesale Trade	15	30	31	20	130
Manufacturing	10	19	57	13	700
Mining	8	21	45	25	60
Finance & Insurance	4	26	48	22	170
Communication Services	0	1	98	1	80
All industries	33	13	44	9	3610

Source: Weighted estimates from AWIRS 1995, adapted from Table A10.16 of Morehead *et al.* (1997, p.535). The estimates are based on an unweighted sample of 1810 workplaces with 20 or more employees. Proportions sum to less than 100 across some rows, because workplaces where managers were unable to identify whether an award operated in the Federal or a State jurisdiction were excluded. Approximately 3 per cent of all workplaces surveyed were excluded for this reason (Morehead, et al., 1997, p.234, footnote 28).

Although restricted to workplaces with 20 or more employees, the AWIRS data show a sharp reduction in award reliance (33 per cent in 1995) from the unchallenged estimate of 68 per cent award reliant in 1990. We would expect the 1995 proportion to be higher if AWIRS had included workplaces with fewer than 20 employees, because of the evident negative relationship between workplace size and the probability of award reliance. According to estimates provided by Morehead *et al.* (1997, p.535), 43 per cent of employees in workplaces with 20-49 employees were award-reliant in 1995, compared to 20 per cent in workplaces

with at least 500 employees. Even with such an adjustment, it is likely that the data would still show a sharp decrease in award reliance, and a corresponding increase in agreement coverage, in the 1990-95 period, consistent with the much expanded legislative scope for enterprise bargaining.⁴⁰

One criticism of the AWIRS data on payment system coverage is that the ‘agreement’ categories include verbal agreements, which need not deal with wages. Rimmer (1998, pp.607-08) suggested that this will ‘exaggerate the incidence of enterprise *wage* bargaining... [in part because] workplaces with verbal agreements are included; these often have no provisions affecting pay’. This proposition can be tested directly, using data from another part of the employment relations management questionnaire. The Agreements section of the questionnaire asked managers which issues, including ‘pay rates’, were provided for in agreements reached or renegotiated since the start of 1994. Managers were also asked whether their agreements replaced ‘some’, ‘most’ or ‘all’ of the provisions which applied previously in the relevant award.

The data reveal that agreements which replaced awards entirely, or in large part, dealt with pay in the overwhelming majority of cases (98 per cent of affected workplaces).⁴¹ Where an agreement operated to the exclusion of only ‘some’ award provisions, pay rates were still included among the agreed matters in 82 per cent of workplaces. These data give little support to the contention that bargaining might not extend to wages (Rimmer, 1998). Only a small minority of workplaces with new agreements in 1995 left the issue of pay rates to be determined by the underlying award, and even those which retained some award content typically replaced the provisions relating to pay. We can thus be confident that the estimates shown in Table 4.3 are reflective of the diminishing use of awards as instruments for setting pay between 1990 and 1995.

⁴⁰ A separate ‘small workplace survey’ was undertaken, but the questions on payment systems differed from the main survey and there are no comparable estimates of award coverage. One issue this survey did demonstrate is that 17 per cent of employees in 1995 were in workplaces with 5 to 19 employees. Accounting for payment methods in these workplaces could thus materially affect the aggregate results.

⁴¹ Author’s calculations using items CF32A and CF33 of the employee relations management questionnaire. Results are weighted, based on a sample of 740 workplaces. The estimates given in text have not previously appeared elsewhere.

Award and Agreement Coverage Survey, 1999

By the late 1990s, the AWIRS 1995 data were losing currency and there was demand for a new survey to ‘fill a major gap in the current level of understanding of the extent of enterprise agreement coverage, reliance on the award system, and more informal arrangements for setting pay’ (DEWRSB, 2000, Appendix B, p.267). The 1999 Award and Agreement Coverage Survey (AACS), a business survey conducted under the auspices of the Commonwealth Department of Employment, Workplace Relations and Small Business (DEWRSB), was designed for this purpose. The survey was sent to employee relations managers in approximately 1150 organisations in late 1999, yielding 607 useable responses – a response rate of 53 per cent (DEWRSB, 2000, p.90 and Table 8.1, p.186; Wooden, 2001, p.259, endnote 3). Managers were asked to report their total employment, main industry of operation and numbers of employees under four distinct pay-setting methods (by full-time/part-time).

A controversial aspect of the survey, debated in the safety net case of 1999-2000, was the text of a covering letter from the Chief Executive of the Australian Chamber of Commerce and Industry (ACCI) that accompanied the questionnaire sent to managers. The letter explained that the AACS would be ‘essential for policy development, the drafting of new legislation, and for our own submissions in dealing with wage claims before the AIRC’. The Australian Council of Trade Unions (ACTU) argued that the wording of this letter was likely to be prejudicial, since employers opposed to safety net increases would be most inclined to respond. Advice from the Australian Bureau of Statistics suggested, however, that the risk of bias was low, because the survey asked for information held in employers’ records (e.g., payroll details) rather than for subjective attitudes (the relevant correspondence is collated in ACTU, 2000a).

The AACS and AWIRS have a similar treatment of the various pay-setting methods. Both surveys differentiate between: (1) ‘award only’ employees, whose wages are set at exactly the rates given in awards; (2) ‘over-award’ employees, who are covered by awards but receive higher pay through informal agreements (and would revert to award rates without these agreements); (3) employees paid by ‘registered collective agreements’; and (4) employees with other ‘individual

arrangements' (including those without award coverage) (DEWRSB, 2000, pp.91-93). Their major difference is that AACS included businesses with five or more employees, while AWIRS was limited to businesses with 20 or more employees. In this respect, AACS is the more comprehensive of the two surveys. However, the AACS sample size is only one-third that of AWIRS and its response rate is much lower. These limitations mean that AACS yields less reliable estimates of payment system coverage at disaggregated levels, such as for particular industries. We improve reliability by pooling the data for similar industries in this analysis, but the problem of non-sampling error due to the lower response rate remains.

Table 4.4 reproduces, from the Joint Governments' submission to the 1999-2000 *Safety Net Review – Wages*, the AACS estimates of the proportion of employees, by industry grouping, in each pay-setting method. The survey indicated that 22 per cent of all employees (in businesses with five or more employees) were paid the award rate only in 1999. This represents an 11 percentage point reduction from the 33 per cent estimate produced by the 1995 AWIRS (see Table 4.3). The actual reduction is likely to have been greater still, because workplaces with fewer than 20 employees were excluded from AWIRS. The AACS data show that the rate of award reliance for employees in these smaller workplaces was 33 per cent, 1.5 times the national average of 22 per cent in 1999 (DEWRSB, 2000, Table 5.4, p.95).

With respect to industry differences, Table 4.4 shows that award reliance was highest in 1999 for employees in 'Personal services' (41 per cent). This grouping includes four separate industries: Accommodation, cafés and restaurants; Retail trade; Cultural and recreational services; and Personal and other services. The first two of these industries were also ranked highest in the more detailed data from AWIRS (see Table 4.3). All four industries in the 'Personal services' grouping were among the top six industries, ranked by award reliance, in 1995. The second most important industry grouping according to the AACS data, 'Education and health services', includes the two remaining industries from the top six, ranked by award reliance, in 1995. We thus see a quite stable relationship between industry and payment method in 1995 and 1999. The evidence does not appear to be much affected by differences in the coverage of AACS and AWIRS, with both showing

that the employees most likely to rely on awards are those working in hospitality, retail, personal services, health and education sector jobs.⁴²

TABLE 4.4 – PROPORTION OF EMPLOYEES BY INDUSTRY GROUPING AND PAYMENT METHOD: 1999

	Awards only	Over awards	Collective agreements	Individual arrangements
Personal services	41	24	18	16
Education, health services	39	5	53	3
Infrastructure services	17	52	19	11
Manufacturing	11	29	46	15
Government administration	10	1	74	15
Finance, property & business services	8	37	43	11
Mining & construction	6	34	16	43
All industries	22	22	42	14

Source: Table 8.2 of Joint Governments' submission to the 1999-2000 *Safety Net Review – Wages* (DEWRSB, 2000, p.187). The estimates are weighted, based on a sample of 607 businesses with five or more employees.

The AACS data also indicated that 22 per cent of employees had their pay set through 'over-award' arrangements – the equivalent of the proportion directly reliant on award minimum rates. This result suggests that while aggregate award reliance fell between 1995 and 1999, the overall proportion of employees directly and *indirectly* affected by award rates remained high (44 per cent). The substantial use of over-award payments raises other questions about the extent of 'flow-on' from safety net wage adjustments. Are these adjustments received solely by workers who are reliant on award minimum rates, or does some of the benefit 'spill over' to reach over-award workers?

The AACS dealt with this question by asking managers to record the number of their employees who received wage increases from any source in the financial year 1998-99, including from safety net adjustments. Managers were provided with details about the value and timing of recent safety net decisions, to assist in preparing their responses. The data submitted by the Joint Governments revealed

⁴² The Joint Governments' submission did not provide estimates of the numbers employed in each industry, so it is not possible to calculate what proportion of all award-reliant employment is concentrated in each industry (as was possible with the AWIRS data).

that an estimated 21 per cent of employees had received a wage increase in the past year as a consequence of the safety net adjustment. Of these employees, 83 per cent were in the award-only pay-setting category, 13 per cent received over-awards, and the remaining 5 per cent were covered by registered agreements or were award-free. These results indicate that there was some transmission of safety net adjustments to workers not paid at exactly award rates, although its aggregate economic impact would be small. Workers paid above the award minima, who nonetheless received a safety net adjustment in 1999, comprised only 4 per cent of all employees in workplaces covered by the AACS (DEWRSB, 2000, Table 5.9, p.101).

The apparently limited flow-on from safety net wage cases to over-award workers can be interpreted in different ways. One inference that can be drawn from the AACS data is that safety net increases are, by and large, received by their intended beneficiaries: the workers whose pay is set solely by award. This was the conclusion reached by the AIRC. In 2000, the Commission said that ‘whilst there is likely to be some indirect cost associated with a safety net adjustment, the AACS survey [sic] suggests that it would be limited’ (AIRC, 2000, PN 65, p.27). This conclusion survived later attempts by employers’ groups to demonstrate a broader spill-over from safety net cases. In 2004, the Commission recalled the AACS data and restated its view that ‘the flow of safety net adjustments to employees in receipt of overaward payments or paid pursuant to certified agreements is limited’ (AIRC, 2004, PN 124, p.43).

This interpretation of the AACS data implied that the Commission’s requirements for ‘absorption’ of safety net increases were, with few exceptions, observed. If this view is correct, then the small proportion of employees who received the safety net increase in 1999, despite already having over-award wages, did so because of non-compliance or because their agreement specified wages as a payment above the award (absorption was not required if it violated the terms of an agreement).⁴³ The majority of over-award workers who did *not* get the safety net adjustment in 1999 must have either had wages substantially above the award,

⁴³ See the Commission’s statements of wage-fixing principles (AIRC, 1997, p.102; 2005, p.130).

and thus of sufficient value to fully absorb the Commission's increase, or had agreement terms which permitted non-absorption.

There are two potential problems with the line of argument followed above in relation to over-award workers. The first reservation is that the AACS data may not be reliable enough to support strong conclusions about the spill-over from safety net adjustments. The estimates are based on responses from a small sample of organisations (607), and their quality is entirely dependent on employers understanding the subtle distinctions between pay-setting methods, such as when safety net adjustments do and do not apply. A misunderstanding from only a few employers could seriously bias the estimates, because of the relatively small sample size. The Commission recognised this potential weakness, noting that 'some reservations' had been raised about the quality of the AACS estimates, but nonetheless used these data to support the conclusion that the spill-over from safety net cases was of limited economic significance (AIRC, 2000, PN 65, p.27).

Another reason for caution is that the AACS data have not been superseded. The ABS data discussed in the next section do not permit the separate identification of over-award workers, so the AACS remains our most recent source of information about this key group. The lack of more recent data is concerning, because if the AACS is correct – that is, if most safety net increases are absorbed into over-award payments – it is possible that the number of over-award workers eligible for safety net adjustments rose over time, as the gap between awards and actual wages narrowed. Eligibility for safety net adjustments would not have increased, however, if over-payments also increased for reasons unrelated to safety net cases.

Survey of Employee Earnings and Hours, 2006

Our final and most recent data source on the coverage of the wages safety net is the May 2006 ABS Survey of Employee Earnings and Hours (EEH). This survey is used widely for its data on payment system coverage and the distribution of earnings, and we rely on it extensively throughout this thesis. The EEH is an employer-based survey conducted in two stages. First, a stratified sample of approximately 9000 employers is drawn from the ABS Business Register to ensure balanced representation by industry, State/Territory, public/private sector and business size. In the second stage, employers randomly select up to six

employees from their payroll and provide information about their earnings, working hours and methods of pay determination. The resulting sample contains information for approximately 57 thousand employees. Unlike other surveys, the large size of the EEH sample allows reliable disaggregation of the data to detailed levels, such as specific industries or occupations. The survey covers businesses of all sizes, including those with fewer than 20 employees, but excludes those in the industry ‘Agriculture, forestry and fishing’.

The EEH survey has collected information on how pay is set for employees since May 2000. (The survey is now conducted every two years.) It distinguishes three methods of setting pay which are broadly comparable with the estimates produced by earlier surveys (AWIRS and AACS). ‘Award-only’ employees are those whose pay is set at the rate specified in an applicable award and who do not receive above-award payments. These are the workers who benefit directly from safety net adjustments. A second group of employees is covered by ‘collective agreements’. These agreements may be reached with or without trade union involvement, and may be registered with a certifying authority (such as the AIRC) or unregistered. The overwhelming majority of employees covered by collective agreements (93 per cent) have registered agreements (ABS, 2007a, p.25). A third group of employees has their pay set by ‘individual arrangements’. In contrast to the collective agreements group, most of the employees covered by individual arrangements (91 per cent) have *unregistered* arrangements (ABS, 2007a, p.25).⁴⁴

The individual pay-setting category includes two important subgroups of employees: working proprietors and the recipients of over-award payments. Working proprietors (or ‘owner-managers’) are employees of incorporated businesses that they personally own and operate. We argue in this chapter, and later chapters, that, because working proprietors have control over their own pay (subject to business conditions), they are better seen as self-employed persons, rather than as employees. The EEH data allow us to remove working proprietors from the estimates, and we do this in several of the following comparisons.

⁴⁴ This estimate excludes working proprietors of incorporated businesses, whose pay is also recorded as being set by individual arrangement. See further discussion in text.

A second important subgroup is over-award workers. Because these workers get more than the applicable award minimum rates, they are not placed in the ‘award-only’ group by the ABS. There are no separate estimates from the EEH survey about the size of the over-award workforce. Instead, these workers form part of the large group covered by ‘unregistered individual arrangements’. The lack of data on over-award coverage means that the EEH survey is less useful than earlier surveys in understanding the total impact of safety net decisions. In all other respects, the EEH is the most comprehensive and reliable source of contemporary data on wage-setting.

In what follows, we report estimates from two different sources of the EEH 2006 data. First, we use a set of unpublished data tables constructed on request by staff in the Australian Bureau of Statistics. We requested these tables as a way of obtaining more finely-detailed information on award reliance than is available in the published reports. They show, for instance, the industries and occupations in which award-reliant employees are mainly working. The second source of data is the Confidentialised Unit Record File (CURF) that the ABS issued from the EEH 2006 in March 2009. The EEH 2006 CURF allows us to tailor specific tables which were not requested in the unpublished dataset obtained from the ABS.⁴⁵

Table 4.5 shows aggregate estimates of how different populations of employees were distributed across the three main pay-setting methods in May 2006. Of the 8.3 million Australian employees, 19 per cent were award-reliant.⁴⁶ This represents a fall, although not a steep one, from the 22 per cent estimate provided by the Award and Agreement Coverage Survey in 1999 (for businesses with five or more employees). Employees not reliant on awards were divided evenly between collective and individual forms of agreements.

We then report estimates of payment system coverage after removing working proprietors. The award system remains an important source of wage determination for junior workers, but is essentially irrelevant to pay-setting for managerial

⁴⁵ This is useful because access to the CURF is free to academic staff and students at Australian universities, whereas the ABS charges a fee for its staff to produce tailored data on request.

⁴⁶ The estimated total number of employees according to the 2006 EEH (8.3 million) is more than twice the estimate shown in Table 4.3 from the 1995 AWIRS (3.6 million). The difference is due both to the growth in the workforce and the inclusion of workplaces with fewer than 20 employees in the EEH survey but not AWIRS.

employees.⁴⁷ The proportion of ‘adult, non-managerial’ employees reliant on awards was the same as in the workforce at large (19 per cent). Multiplying by the employment estimates in the right-hand side column of Table 4.5, approximately 1.3 million adult, non-managers were reliant solely on awards to set their pay in 2006. This estimate implies that safety net decisions continue to apply directly to a significant minority of Australian employees.

TABLE 4.5 – PROPORTION OF EMPLOYEES BY PAYMENT METHOD: 2006

Employee population	Awards only	Collective agreements	Individual arrangements	Estimated no. ('000s)
All	19	41	40	8342
<i>Excluding proprietors</i>				
Junior	48	36	16	511
Adult	18	44	38	7409
Adult, Managerial	1	25	74	423
Adult, Non-managerial	19	45	36	6986

Source: Weighted estimates from EEH 2006, Expanded CURF.

The remaining tables in this section provide further details about methods of setting pay for *adult, non-managerial* employees. This and subsequent chapters of the thesis focus attention largely on this subset of the total workforce. We do this to avoid the confounding effects on earnings estimates of the lower rates of pay among juniors and because estimates of hourly wages are available only for non-managerial employees. While we have shown in Table 4.5 that junior workers are especially likely to depend on awards, junior rates of pay were generally seen as a special component of the safety net, separate from the annual process of adjusting the minimum adult rates.

Table 4.6 shows a breakdown of payment system coverage by sex, hours of work and type of employment arrangement for adult, non-managerial employees. In relation to working hours, we distinguish between full-time and part-time workers using the same definition as in earlier chapters. For employment arrangements, we distinguish between casual and non-casual workers based on their entitlements to paid holiday and sick leave.

⁴⁷ Juniors are employees under 21 years of age who receive wages proportional to the adult minima. Managerial employees are ‘in charge of a significant number of employees and/or have strategic responsibilities in the conduct or operations of the organisation, and usually do not have an entitlement to paid overtime’ (ABS, 2007a, p.52).

TABLE 4.6 – PROPORTION OF ADULT, NON-MANAGERIAL EMPLOYEES BY SEX, TYPE OF EMPLOYMENT AND PAYMENT METHOD: 2006

	Award only	Collective agreement	Individual arrangement	Estimated no. total	Estimated no. award reliant
	(%)	(%)	(%)	('000s)	('000s)
<i>Males</i>					
Full-time, Non-casual	10	46	45	2630	255
Part-time, Non-casual	23	48	29	245	56
Full-time, Casual	26	24	50	160	42
Part-time, Casual	41	29	30	381	154
All males	15	43	42	3415	507
<i>Females</i>					
Full-time, Non-casual	13	49	38	1713	222
Part-time, Non-casual	21	58	22	1012	209
Full-time, Casual	46	21	34	74	34
Part-time, Casual	47	31	22	771	359
All females	23	47	30	3571	825

Source: Weighted estimates from EEH 2006, Expanded CURF. The figures in the 'Estimated no. award reliant' column do not exactly equal the percentages in the 'Award only' column multiplied by the figures in the 'Estimated no. total' column, because the percentages have been rounded.

The major finding from Table 4.6 is that women were considerably more likely than men to have their pay set by award only in 2006 (23 per cent versus 15 per cent). It follows that women represent the majority of award-reliant employees. Using the employment estimates in the right-hand side column of Table 4.6, we calculated that 62 per cent of (adult, non-managerial) award-reliant employees were women. This estimate indicates that safety net cases have a potentially important influence on the status of low-wage women, the overall gender pay gap in the labour market and the attainment of gender equity in other spheres (such as the distribution of income within the family). The Commission was aware of this gender imbalance among the workers affected by safety net decisions, noting that 'within the low paid award dependent group there is a disproportionate number of women' (AIRC, 1997, p.57).

A second finding from Table 4.6 is that the safety net operates largely to the benefit of employees in 'non-standard' jobs. For both sexes, the employees in part-time, casual jobs were around four times more likely to have their pay set by awards than employees in full-time, non-casual jobs. Again we can calculate from the employment figures in Table 4.6 that, of the approximately 1.3 million (adult, non-managerial) award-reliant employees in May 2006, 58 per cent were in part-time jobs, 44 per cent were in casual jobs, and 39 per cent were in jobs that were

both part-time and casual. The single largest group of award-reliant employees in 2006 was women in part-time, casual jobs. This group on its own represented one in four award-reliant employees (27 per cent). These data reinforce the argument that the wages safety net affects especially the employees in ‘precarious’ forms of work, where working hours are shorter and there are fewer of the entitlements and protections associated with ongoing employment. The insecurity of employment for many safety net adjustment recipients would place them in weak bargaining positions, if they were forced to negotiate pay increases directly with their employers. This point was also recognised by the Commission, in remarks about the need for the safety net to be set with the interests of more vulnerable groups of workers in mind (e.g., AIRC, 2004, PN 325, p.90).

We are wary, however, of overstating the safety net’s role in assisting disadvantaged workers. While Table 4.6 demonstrates that employees in non-standard jobs have a greater chance of award reliance, it also shows that more than one-third of employees receiving safety net wage increases (36 per cent) are in full-time, non-casual jobs. The typical award-only worker has a non-casual job. These employees are less likely to encounter the problems of precariousness and insecurity that are associated with part-time and casual positions. Again, however, there is a notable gender difference. Half of award-reliant men were in full-time, non-casual positions, compared to only 27 per cent of award-reliant women. This difference underscores the earlier argument that women with relatively weak bargaining power are the principal beneficiaries of the safety net.

Our final representation of the EEH data is Table 4.7, which shows an industry disaggregation of payment system coverage, similar to Tables 4.3 (using AWIRS) and 4.4 (using AACS). Award reliance was most common among (adult, non-managerial) employees in the industries: Accommodation, cafés and restaurants; Retail trade; and Health and community services. These are the same three industries, in the same order (ranked by award reliance), as reported in Table 4.3 using the AWIRS data. In both 1995 and 2006, these three industries accounted for half of all workers reliant on award rates of pay. The first four industries listed in Table 4.7 accounted for 68 per cent of award-reliant workers in 2006.

TABLE 4.7 – PROPORTION OF ADULT, NON-MANAGERIAL EMPLOYEES BY INDUSTRY AND PAYMENT METHOD: 2006

	Awards only	Collective agreements	Individual arrangements	Estimated no. ('000s)
Accommodation, Cafes & Restaurants	63	9	28	314
Retail Trade	27	33	40	831
Health & Community Services	26	61	13	929
Property & Business Services	25	18	57	971
Cultural & Recreational Services	21	41	39	168
Personal & Other Services	21	53	28	272
Transport & Storage	14	44	41	335
Construction	13	37	52	370
Wholesale Trade	13	11	76	405
Manufacturing	11	42	48	740
Education	11	83	6	706
Finance & Insurance	6	51	43	279
Mining	3	32	64	98
Communication Services	1	67	31	98
Government Administration	1	94	6	405
Electricity, Gas & Water Supply	0	90	9	56
All industries	19	45	36	6986

Sources: Weighted estimates from the EEH 2006, Expanded CURF, and unpublished data tables provided by the ABS on request.

It is important to recognise that most of the industries with high award reliance have below-average trade union densities. In 2006, 20 per cent of Australian employees were trade union members (ABS, 2007b). This represented a decline from an estimated 35 per cent density near the start of the safety net era, in 1994 (see also Table 1.3, Chapter One). In 2006, there were six industries – of the 16 listed in Table 4.7 – that had union membership rates below the 20 per cent density for the workforce as a whole. Four of these six low-density industries are in the top six, ranked by award reliance, in Table 4.7. Union membership rates in 2006 were: 8 per cent for employees in Accommodation, cafés and restaurants; 16

per cent in Retail trade; 5 per cent in Property and business services; and 12 per cent in Cultural and recreational services.⁴⁸

We draw attention to these data to demonstrate that a key role of the wages safety net is to substitute for an effective trade union presence in large segments of the Australian labour market. If the practice of awarding annual safety net increases were abandoned, many of the workers who benefit from these increases would be left without union representation, and few would have the capacity to negotiate equivalent wage increases with their employers or to determine the timing of these negotiations. The recognition of this imbalance in bargaining power is a legitimate argument for maintaining the wages safety net, and is consistent with several of the Commission's statements in *Safety Net Review – Wages* decisions.⁴⁹

Conclusion

The issue of who the wages safety net should protect was persistently controversial in the work of the Australian Industrial Relations Commission between 1993 and 2005. Throughout this period, the Commission adhered to a view that the whole structure of award minimum rates of pay would constitute 'the safety net' which the Parliament of Australia had directed it to establish and maintain. It defended in successive decisions the position first espoused in 1994, and affirmed in 1997, 2001 and 2005, that existing award wages and conditions would remain the safety net. The Commission supported these statements by increasing wages across the award classification structure on each occasion when it was called upon to maintain the safety net.

The Commission's approach to the maintenance of the safety net was sharply at odds with the approaches recommended by the Commonwealth government between 1997 and 2005. The Commonwealth government instructed the

⁴⁸ Authors' calculations from ABS data on union membership by industry (ABS catalogue no. 6310.0, August 2008, Time series spreadsheet 63100TS0001, Table 3 – Industry).

⁴⁹ An opposing view is that the safety net discourages trade union membership, by guaranteeing regular wage increases to members and non-members alike (this possibility is discussed for an earlier period of arbitration by Gahan, 1996). The belief that bargaining would help to demonstrate the benefits of unionism was also one of the reasons why the ACTU supported the shift away from centralised wage-fixing in the early 1990s (see Chapter Two, pp. 22-24). However, falling award reliance since the start of the safety net era has not stemmed the decline in union membership. In all industries where award reliance remains high, trade union density fell by at least 7 percentage points between 1994 and 2006. These patterns do not encourage a view that weaker arbitration will be a fillip to union renewal.

Commission that the safety net envisaged by the *Workplace Relations Act 1996* had the limited role of preventing poverty for the lowest-paid employees. This safety net was not to be a foundation for the bargaining system, as had been the case before 1996, but rather to be a ‘foundation protecting against hardship’. The reference to ‘the needs of the low paid’ was said to emphasise the minimalist function of the safety net. Employers’ groups, including the Business Council of Australia and the Australian Chamber of Commerce and Industry, supported these views, saying that the Commission’s task was to establish a ‘genuine’ safety net which would not impinge on the ‘mainstream’ of wage determination. The approaches of these parties countenanced a significant downgrading in the coverage of the wages safety net through a ‘cap’ on further adjustments. (We provide evidence, in the next chapter, that the proposed cap would have left most award-reliant workers ineligible for safety net wage increases.)

The Commission rejected repeatedly the proposals for ‘capping’, and the underlying premise that the safety net should serve merely as a foundation against hardship. Its fundamental concern was with the safety net’s fairness. The Commission anticipated, quite early in the safety net period, that a shift to bargaining would distort the overall structure of wages, to the disadvantage of groups with weak bargaining power, unless anchored to a set of fair relativities provided by the award system. The conviction that award rates of pay would necessarily be fairer than the outcomes of bargaining seems to have been a lasting source of the Commission’s opposition to capping. The safety net would not be fair, according to the Commission, if its benefits were denied to employees above the tradespersons’ (C10) rate, because some of these workers were directly reliant on awards (and were assumed still to need its protections), while many others, covered by agreements, were affected indirectly through the no-disadvantage test. The Commission accepted the importance of ‘the needs of the low paid’, but not the argument that these needs were exclusive of the safety net’s overall fairness.

The distance between the views of the Commission and the stated preferences of the Commonwealth government raised the important issue of the wage-fixing authority’s independence from the Parliament. The arguments both for and against capping were derived from interpretations of the *Workplace Relations Act 1996*.

The Commission said that its approach was justified by the references to fairness, and the plural form of the requirement that *awards* act as a safety net of fair minimum *wages* and *conditions*. The Commonwealth government said that capping was warranted by the absence of a requirement for the Commission to maintain internal award relativities, and the needs of the low paid.

These perspectives could not be reconciled merely by a reading of the *Workplace Relations Act 1996*. Rather, they required the Commission to evaluate the arguments before it and form a view about their merits. It is difficult not to conclude in hindsight that, by maintaining a safety net so different from the expressed wishes of the elected government, the AIRC *was* exercising a measure of judicial independence. That independence may well have contributed to the government's determination to replace the AIRC with a new wage-fixing authority, with different powers, in 2005. It is interesting to note, however, that this shift has not yet seen the safety net reduced to the 'foundation against hardship' envisioned by the government. In three of its four general wage-setting decisions (2006-08), the Australian Fair Pay Commission raised minimum pay rates at all levels. (The 2009 decision left all rates on hold.)⁵⁰ The resistance to capping is therefore not due primarily to recalcitrance on the part of the AIRC. It might reflect popular support for a safety net that 'bites' in the determination of wages generally, but further research would be needed to establish this point.

The approach taken by the AIRC between 1993 and 2005 has had a profound impact on the role and importance of the wages safety net. Most critically, it meant that the award system continued to be the sole basis of wage determination for a significant minority of Australian employees. In the early 1990s, the proportion of the workforce reliant directly on awards fell sharply, to one-third, as workers with union coverage or the capacity to bargain individually moved into new agreements. In the next decade, however, the flight from award reliance slowed. The EEH data indicate that, by 2006, 1.6 million Australian employees (19 per cent) and 1.3 million adult, non-managerial employees (also 19 per cent) had safety net adjustments as the sole source of increases in their pay. On the basis of this evidence, we argued that the safety net is not a trivial deviation from

⁵⁰ See Chapter Two for further discussion of the approach of the Australian Fair Pay Commission.

the mainstream of Australian wage determination, as the Commonwealth government and groups such as the Business Council of Australia hoped it would become. Instead, the safety net that now exists remains a real alternative to bargaining for a significant minority of Australian employees.

The breadth of the safety net's coverage means that the 'award-reliant' workforce is somewhat varied in composition. There are, however, several employee attributes that seem to increase the probability of award reliance. These are: being female, being in a part-time job, and being in a services or sales-based industry with below-average union density. Of the 1.3 million adult, non-managers who currently rely on the safety net to set their pay, 62 per cent are women, 58 per cent are employed part-time, and 58 per cent are in industries with trade union membership rates below the national estimate of 20 per cent for 2006.

These findings illustrate the vital role played by the wages safety net in protecting employees with limited bargaining power and substituting for the effective presence of trade union organisation in key sectors of the labour market. We argued that, because of these uneven coverage patterns, the removal of the safety net's protections would be detrimental for many of the workers who currently rely on awards. We also argued, however, against seeing the safety net as a protection only for vulnerable workers. One in five award-reliant workers (19 per cent) are men in full-time, non-casual jobs. These men are less likely to face the problems of under-employment and insecurity associated with many part-time and casual jobs.

Another result of the Commission's approach to the safety net is its influence on the wage structure and, hence, the degree of earnings inequality in Australia. The granting of safety net increases in dollar terms – a practice supported by the Commonwealth government, employers and, eventually, the ACTU – led to compression in the overall structure of award classification rates of pay. The award rates near the bottom of this structure, including the Federal Minimum Wage adopted in 1997, increased at double the rate of the higher classifications. This compression of skill-based relativities, as a result of dollar adjustments, was a by-product of the Commission's efforts to recognise the needs of the low paid. It meant, further, that safety net cases were a factor tending to narrow the dispersion

of earnings in the Australian labour market, where the overall tendency was toward a wider dispersion. Although the Commission's influence on the wage structure was greater than it would have been if the Commonwealth government took direct responsibility for setting minimum employment standards, it was not large enough to resist the rising tide of earnings inequality from other sources.

A final issue, about which we lack robust and contemporary data, is how many of the employees with 'over-award' arrangements are receiving safety net wage adjustments. The Award and Agreement Coverage Survey, from 1999, indicated that 22 per cent of employees in workplaces with five or more employees were getting over-awards. This estimate is consistent with more recent assessments of payment system coverage (Peetz, 2006, p.55). According to the AACS data, however, very few – about one in every seven – over-award workers got the safety net wage adjustment in 1999. If this estimate is accurate (and we raised concerns about the small AACS sample size), it means that a significant proportion of the economic impact of safety net decisions is 'absorbed' into over-award payments. While this outcome has a positive side – in that almost all of the eventual beneficiaries of safety net cases are workers who rely on the award minima – it raises the possibility that, over time, the number of safety net adjustment recipients will increase, as over-award payments are eroded. This would not occur if workers have written agreements which provide for non-absorption, if over-award payments have increased for other reasons, or if there is non-compliance with the Commission's orders. But these are issues about which little current information exists. In Chapter Eight, we recommend them as areas for further research.

CHAPTER FIVE: The Link Between Award Reliance and Low Pay

Introduction

The Australian Industrial Relations Commission was required to take ‘the needs of the low paid’ into consideration when evaluating the case for safety net wage adjustments (s.88B(2)(c) of the *Workplace Relations Act 1996* as it operated from 1997 to 2005, prior to the *Work Choices* amendments of 2005-06). This chapter examines in detail the relationship between the safety net and the concept of ‘low pay’. Its focus is the hourly wages of award-reliant employees. The ‘needs of the low paid’ are broader than wages (as we discuss in Chapter Seven), but wages are a major determinant of living standards for many families and as such they play a significant role in meeting, or failing to meet, needs (Saunders, 2005).

How successful is the wages safety net in protecting ‘low paid’ workers? The first step in answering this question is to define what is meant by low pay. We do this by reference to the submissions made by the major industrial parties in safety net cases and the Commission’s decisions about these. We show in the first section of this chapter that there was no consensus about the meaning of low pay among the parties. The chief disagreement was between the ACTU and the Commonwealth government; the former arguing that the majority of all award-reliant employees should be counted as low paid, the latter insisting that only the workers paid less than the tradespersons’ award rate should be so defined. The low pay definition articulated by the majority of the Full Bench of the AIRC in April 1997 specified no dollar benchmark or other threshold to be used in differentiating between ‘low’ and ‘high’ paid workers.

The second section of this chapter develops evidence about the incidence of low pay in 2006, using data on the hourly wage distribution from the ABS Survey of Employee Earnings and Hours. We show that the estimated incidence of low pay among award-reliant workers is highly sensitive to two parameters: the choice of low pay threshold, and the assumptions made about the value of casual ‘loadings’. If we assume that casual workers receive an average 20 per cent loading on their base rates of pay (consistent with submissions made by both the ACTU and the

Commonwealth government), the incidence of low pay for award-reliant workers still varies from 36 to 57 per cent, depending on the preferred threshold of a ‘low’ wage. Another application of the distributional data involves comparing the wages of award-reliant workers to the wages of workers covered by all other methods of pay determination. On this test, we find strong evidence that award workers are *lower* paid, with the size of their disadvantage increasing progressively at higher percentiles in the hourly wage distribution.

The third section of this chapter analyses data on *average* hourly wages from the EEH survey. An advantage of these data over the earlier distributional data is the ability to compare wages for award-reliant workers and other workers within the same occupations. Part of the reason why award workers are lower in the hourly wage distribution is that they are over-represented in low-skilled occupations and industries. We use the EEH average wage data to estimate a simple linear model of wages with controls for occupation, casual status and sex. The average wage of award-reliant employees is shown to be \$2.60 per hour below that of workers with individual agreements, and \$4.20 per hour below that of workers with collective agreements, on a ‘like-for-like’ comparison within the same broad occupations.

In this chapter’s fourth section we pioneer a method of ‘importing’ information on award reliance into a sample of employee data from the ABS Survey of Education and Training (SET) for 2005. This innovation lets us estimate the wage effects of award reliance in a more sophisticated econometric framework, where we have extensive information on human capital variables, such as experience, education and tenure, and a large sample of individual-level observations. The ‘importation’ procedure is used to overcome the fact that there is no information on pay-setting methods in any of the currently available CURF datasets that include the standard human capital variables. Using the SET 2005 CURF, we model hourly wages as a linear function of employees’ human capital and the probability of award reliance, and find that the award reliance probability is related inversely to hourly wages.

The chapter’s final section reviews the evidence from safety net case submissions on the prospects of upward earnings mobility for initially low-paid employees in Australia. The Commonwealth government and some employer groups sought to persuade the AIRC that there was a high degree of upward mobility. They argued

that the principal concern of safety net cases should be to expand the supply of low-paid work, rather than to narrow the distribution of pay, so as to increase the opportunities for the unemployed and other low-skilled people to find jobs and to improve their living standards over time.

The main conclusion from empirical studies of earnings mobility is that low-wage employees' chances of advancing to higher pay depend substantially on their personal characteristics and the circumstances of their employment. Low-paid workers have poorer prospects if they are female, are older, have less education, or are employed in small firms. Award-reliant workers are predominantly female, as we showed in Chapter Four. Employees in small firms are also more likely to be award-reliant. In 2006, 30 per cent of employees (other than owner-managers) in businesses with fewer than 20 employees were award-reliant, compared to 14 per cent of employees in businesses with between 500 and 999 employees (ABS, 2007a, p.31). We therefore contend that safety net cases benefit not only the employees who are currently low-paid, but also those with a higher probability of remaining low-paid over longer periods.

Defining low pay

The ACTU's evidence

The major participants in safety net cases differed in their views about who should be seen as low paid. The ACTU submitted that there was 'a significant overlap' between the low-paid workforce and the group of employees receiving safety net adjustments. While accepting that the intersection was not perfect, the ACTU said that most of the employees receiving safety net adjustments could be described as low paid (ACTU, 2003, p.8).

In the 1999-2000 safety net case, the ACTU presented evidence on the location of several key award rates in the weekly earnings distribution, to demonstrate what it said was the strong connection between the safety net and low pay. Its submission used data from the 1998 EEH survey to graph the weekly earnings distribution among adult workers in full-time, permanent, non-managerial jobs in the private sector. The Federal Minimum Wage was shown to be below the 5th percentile in this distribution, meaning that it applied directly to fewer than 5 per cent of full-

time adult employees in the private sector. The C10 tradespersons' award rate was located at about the 20th percentile of this distribution, while the minimum rate for technicians ('C7') was at the 36th percentile. The ACTU argued that most of the employees receiving safety net wage increases were working at or below the C7 award rate, because at higher levels, 'overaward payments are more substantial and the impact of safety net increases on take-home pay is negligible' (ACTU, 2000b, p.8). Since there was unlikely to be any significant transmission of safety net adjustments to workers further up the award classification structure:

the distributional evidence establishes clearly that the actual beneficiaries [of safety net decisions] will be the intended beneficiaries – workers reliant on award minimum rates of pay, whose average earnings place them well within the bottom quarter and certainly the bottom third of the overall earnings distribution (ACTU, 2000b, p.9).

There were two points of weakness in these initial submissions from the ACTU. The first was that the distributional evidence related only to permanent, full-time workers. This limitation is important, because the ACTU had acknowledged in 1998 that low-paid workers are 'concentrated in precarious forms of employment, as casuals or temporaries [and] commonly working on a part-time basis' (ACTU, 1998, p.3). Evidence about the location of key minimum pay rates in the earnings distribution for permanent, full-time workers is thus likely to result in an excessively adverse assessment of where award-reliant workers are located. The ACTU conceded this limitation, but sought to downplay its importance, saying 'it is likely that a similar exercise (using hourly rates)...would show the claimed [award minimum] rates falling slightly higher in the corresponding earnings distribution' (ACTU, 2000b, p.9). However, its evidence neither established this proposition empirically nor indicated to the Commission *how much* higher the key award rates would be located if the distribution were broadened.

The second point of weakness in the ACTU submissions related to the assertion that employees with award rates above the C7 classification would generally not benefit from safety net adjustments. This claim rested on an assumption that there were few high-skilled employees paid at exactly award minimum rates – that is, without any benefit from over-awards or higher rates agreed through bargaining. It was not until the 2001 safety net review case that this claim could be checked against representative 'methods of setting pay' data collected by the ABS.

In 2003, the ACTU reprised its approach of constructing an earnings distribution and locating the key award rates within it. On this occasion, however, the ACTU used the EEH data to plot an hourly wage distribution for 'award-reliant' workers only. Its submission showed an 'adjusted' distribution for adult, non-managerial, award-reliant employees in 2002. The adjustment to the data involved multiplying the recorded wages of casual employees by a factor of 5/6. The ACTU explained that this was done to 'take account of an average 20 per cent casual loading... [which] gives a truer picture of base [i.e., award minimum] rates of pay' (ACTU, 2003, p.16).

The adjusted hourly wage distribution submitted by the ACTU showed that 80 per cent of award-reliant employees were paid less than the median hourly wage for all adult, non-managerial employees in 2002. The distribution showed further that 64 per cent of award-only employees were located in the bottom 30 per cent of the distribution, and that 'more than half' were located in the bottom 25 per cent (the exact proportion was not provided). The ACTU viewed these data as supporting and strengthening one of the central themes of its submissions in earlier safety net cases: that 'award workers are overwhelmingly concentrated in the bottom half of the wages distribution' (ACTU, 2003, p.16).

Another purpose for which the ACTU used the EEH data was to estimate the 'gap' in average wages between award-reliant employees other employees. In the 2000-01 safety net review case, the ACTU compared award-reliant employees to employees covered by registered collective agreements in May 2000. Focusing on adults in permanent, full-time jobs, the ACTU showed that average hourly wages were \$5.40 lower for award-reliant employees than for employees with registered collective agreements. The gap in wages was significantly greater for men (\$6.20) than for women (\$3.60). For adults in casual, part-time jobs, hourly wages were again lower for award-reliant employees than for those with registered collective agreements (on average by \$1.80). The ACTU argued that persistent differences of these magnitudes were threatening the safety net's integrity: 'The award system does not act as a genuine safety net if it lags so far behind the market as to be irrelevant' (ACTU, 2001, p.13).

The Commonwealth government's evidence

The Commonwealth government challenged the two major conclusions from the ACTU evidence on low pay.⁵¹ With respect to the contention of a significant 'gap' between award-reliant employees and other employees, the Commonwealth government said that this arose largely because the ACTU comparisons failed to control for underlying differences in industry of work. When the comparison was made on a 'like-for-like' basis, that is, between employees in the same industries, the Commonwealth government said that the wage gap narrowed, most noticeably in industries with the greatest exposure to safety net adjustments.

The most useful evidence on this issue was presented in Appendix A to the Commonwealth government's submission in the 2001-02 safety net case (DEWR, 2002, pp.127-29). Appendix A included a table of estimates from the May 2000 EEH survey, comparing average weekly ordinary-time earnings (AWOTE) for full-time, adult, non-managerial employees with different pay-setting methods. Across all industries, the average award-reliant employee received \$211 per week less than the average employee with a (Federally) registered collective agreement. In 'Retail trade' and 'Accommodation, cafés and restaurants' – the two industries in which employees were most likely to be award-reliant in 2000 – the differences were \$60 and \$90 per week, respectively. The Commonwealth government said that these estimates demonstrated the importance of looking beyond the aggregate comparisons on which the ACTU had relied, because 'the global picture masks important differences between industries' (DEWR, 2002, p.128).

As with the ACTU evidence, there are two noteworthy limitations of this part of the Commonwealth government's submissions. One is identical to the criticism made earlier of the ACTU data; namely, that comparisons restricted to full-time employees are unlikely to be representative of the circumstances of award-reliant employees, because many of these employees hold part-time and casual jobs (see also Table 4.6, Chapter Four). This limitation could be overcome by comparing

⁵¹ We refer throughout this section to the 'Commonwealth government'. From 1996 to 2001, the Commonwealth government's submissions were made in conjunction with the governments in the various States and Territories. These parties were known collectively as the 'Joint Governments'. After 2001, the Commonwealth government made separate submissions. We attribute submissions from both time periods to the 'Commonwealth government', to avoid unnecessary confusion.

hourly wages, rather than weekly earnings, but the Commonwealth elected not to follow this approach in its industry-level comparisons.

Our second criticism relates to the choice of industry for making ‘like-for-like’ comparisons. The presumed reason for breaking the data down by industry is that employees are more similar in skills and productive capacities within the same industry than across industries. However, while some industries have substantial uniformity in employee skill levels – e.g., Accommodation, cafés and restaurants – this is not true of other industries with large numbers of award-reliant workers – e.g., Health and community services (see Table 4.7, Chapter Four). A preferable way of holding constant workers’ skill levels is to compare wages within *occupations*. We take this approach later in the chapter to estimate the wage gap associated with award reliance in 2006.

The Commonwealth government also disagreed with the ACTU about the extent of overlap between the wages safety net and the low paid. It insisted that, ‘on the basis of widely accepted international definitions’, safety net increases restricted to employees paid less than the metal tradespersons’ rate (C10) would ‘more than capture all employees who might generally considered low paid’ (DEWRSB, 1998, p.61). This contention is consistent with the government’s proposed C10 ‘cap’, as discussed in Chapter Four.

The Commonwealth government relied initially on evidence that the C10 award rate exceeded the OECD low pay benchmark – two-thirds of median earnings. Using estimates of full-time, adult ordinary-time earnings from the EEH survey of 1996, the Commonwealth government calculated that the OECD standard equated to earnings of \$402 per week. The C10 award rate at the time was \$451 per week. This \$50 difference was said to demonstrate that the C10 award rate was not an especially restrictive cut-off for defining low pay (DEWRSB, 1998, p.61).

In later submissions, the Commonwealth government provided to the Commission information about the wage distribution that was almost identical in source and construction to that presented by the ACTU. Both parties took their information from the EEH survey and both made the same adjustment to the raw wage data for casual workers – multiplying their recorded wages by 5/6 to remove the effects of

(an assumed) 20 per cent average loading. Despite these similarities in data source and methodology, the Commonwealth government reached conclusions that were at odds with the ACTU's assertion of 'a significant overlap' between the award-reliant workforce and the low paid. In the Commonwealth government's view, the EEH data showed that 'employees paid at award wages do not just comprise "low paid" employees in any meaningful sense' (DEWRSB, 2001, p.76).

The sharp differences in the inferences reached, from much the same data, by the ACTU and the Commonwealth government reflected their value judgments about how to define 'low' pay. The ACTU saw a significant overlap between the safety net and the low paid because its definition of a low wage encompassed the entire bottom-half of the distribution. The Commonwealth saw a more limited overlap, because it maintained that only wages less than the tradespersons' rate should be interpreted as low.

In the 2000-01 safety net case, the Commonwealth government presented detailed evidence on the distribution of both weekly earnings (for full-time employees) and hourly wages (for part-time employees) for award-reliant workers, drawing on unpublished data from the 2000 EEH survey. At the time, the C10 award rate was \$477.20 per week, or \$12.56 per hour (when divided by 38). In the full-time labour market, the C10 award rate was equivalent to the 30th percentile for award workers in permanent jobs and was between the 50th and 60th percentiles of the distribution for award workers in casual jobs (after adjusting for loadings). In the part-time labour market, the C10 rate was slightly above the 30th percentile for award workers in permanent jobs and slightly above the 60th percentile for award workers in casual jobs.

Taken together, these estimates implied that between one-third and one-half of all award-reliant employees were paid wages less than the C10 cut-off nominated by the Commonwealth government as the most appropriate threshold for delineating the low paid. Depending on the relative shares of award-reliant workers in casual and non-casual jobs (an issue not considered in the Commonwealth government's evidence) these estimates suggested further that the incidence of award-reliant employment *above* the C10 pay rate was substantial in May 2000. The assumption made by the ACTU earlier in the safety net era – that most workers employed on

award rates above C10 would not be directly reliant on safety net cases – was not supported by the distributional data from the EEH survey. We return to this issue later in the chapter, using more recent data than any submitted to the AIRC, from the 2006 EEH survey.

ACCI's evidence

Another major party contributing to the debate over low-pay definition was the Australian Chamber of Commerce and Industry (ACCI). Like the Commonwealth government, ACCI submitted that the practice of awarding ‘across-the-board’ safety net increases was inconsistent with the Commission’s responsibility to help the low paid, since it resulted in centralised wage increases for some employees who were already receiving more than the median wage. ACCI supported the Commonwealth government’s proposals to withhold safety net increases from the employees above the C10 award rate, who were not ‘genuinely’ low paid.

ACCI’s submissions reveal deep scepticism about the capacity of the wages safety net to improve meaningfully the circumstances of the lowest-paid workers. ACCI said of the matter that:

No matter how fast incomes grow, there will always be some individuals earning less than others... [Trying] to narrow the distribution by bringing those on the lowest end towards those on the middle and upper end is a fruitless and self-defeating approach (ACCI, 1998, p.43).

A major reason why ACCI said that redistributive efforts were unwarranted is that the earnings distribution reflected differences in employees’ skills and experience:

In the data it has provided, all the ACTU has demonstrated is that there is a wages distribution, in that some people are paid more than others... That higher earnings may be related to educational attainment, experience, length of service and other criteria seems to elude the ACTU (ACCI, 1996b, p.2).

The assertion that the earnings distribution is merely the product of differences in human capital characteristics, such as education and length of service, implies that pay-setting methods are unimportant in wage determination. If this is the case, we should be able to show empirically that, after controlling for the standard human capital variables, there is no significant difference in wages between award-reliant employees and other employees. This contention was never tested by ACCI in any of its submissions to safety net cases. Later in this chapter, we conduct such a test.

While opposing the ACTU's efforts to use safety net adjustment cases as a vehicle for reducing earnings inequality, ACCI sought to broaden the definitions of 'the low paid' and 'needs' beyond the confines of the existing employee labour force. It said that any worthwhile definition of 'low pay' would include the unemployed, because their prospects of finding jobs were inversely related to the level and rate of growth in award minimum wages. ACCI reasoned that:

the sorts of jobs that many of the unemployed would seek would be those at the unskilled end of the award classification system, and those are likely to be the areas where employer decisions to employ are affected most by lifting the award rate by large real amounts.

Because of this intersection between actual and potential employment, 'the term "low paid" would necessarily include the unemployed' (ACCI, 1999, p.100).

The Commission's views

In evaluating the different stances of the major participants in safety net cases, the Australian Industrial Relations Commission adhered mostly to a definition of low pay which reflected the common elements of the submissions, but did not adopt a specific dollar benchmark or threshold. The three elements of the definition enunciated by the majority of the Full Bench of the AIRC in 1997, and endorsed in later cases, viewed the low paid as workers who: (1) had their wages (and wage increases) set by awards, rather than by agreements; (2) were employed on rates 'toward the lower [unskilled] end of the award structure'; and (3) did not receive any significant additional benefit from overaward pay (AIRC, 1997, p.65). The Commission accepted that there was some imprecision in the meaning of items (2) and (3), but maintained that the three criteria, '[when] taken together, constitute a workable definition of "low paid"'.

There is nothing in any element of the Commission's definition mentioning the actual distribution of weekly earnings or hourly wages in the Australian labour market. In this sense, the Commission's definition rejects the types of thresholds commonly found in the academic literature, such as the OECD definition of low wages as less than two-thirds of median earnings. The Commission's definition uses pay-setting method and skill level as its major criteria. The low-paid workers are not receiving wage increases from bargaining and they are predominantly in jobs at the bottom of the skills hierarchy within the award classification structure.

The Commission said that this approach was ‘relevant to the current industrial environment’, reflecting its preference for a useable practical interpretation of the ‘low paid’ (AIRC, 1997, p.65).

The Commission was quick to reject the ACCI suggestion that the unemployed be counted among the low paid. In its decision of June 2005, the Commission looked back over earlier decisions and said categorically that: ‘it ought now be regarded as well established that the expression “low paid”... refers to the low paid in employment, and does not extend to include the low paid who are not employed’ (AIRC, 2005, p.91). This did not mean that the Commission was blind to the potential impact of its decisions on employment and the unemployed, only that these considerations were covered by other sections of the *Workplace Relations Act 1996*, in particular s.88B(2)(b), which refers to ‘the desirability of attaining a high level of employment’.

We said above that the Commission held mostly to a definition of low pay based on pay-setting method and skill level, without expressly mentioning dollar values or the actual wage distribution. The one exception to this observation was the ‘Decision of Vice President Ross’, a separate judgment dissenting from the majority of the Full Bench in the April 1997 decision, which articulated a more precise benchmark of low pay.

In that judgment, Ross VP nominated the ‘C7’ award minimum classification rate as an appropriate low pay threshold. He adopted this threshold because of its approximate equivalence to the ‘consensual poverty line’, a standard developed by researchers on the basis of community perceptions, using detailed interviews with households about their living standards and perceived needs. By espousing this standard, Ross VP was also rejecting the arguments made by some parties in favour of more austere thresholds, particularly the Commonwealth government’s advocacy of a C10 cut-off for defining the low paid. Ross VP determined that ‘no convincing rationale was advanced in support of such a definition’ (Ross, 1997, p.23).

A weakness in the approach taken by Ross VP is that it conflates the treatment of low pay – that is, a concern for workers near the bottom of the *wage* distribution –

with broader considerations about *income* inequality and poverty. The concepts are related, but not synonymous. The construction of the consensual poverty line on which Ross VP relied was not restricted to a survey of persons in employment. Hence, the responses aggregated to derive the poverty line included the views of the unemployed and persons outside the labour force. Many of the people in these two groups would fall below the consensual poverty line because they have no income from wages. It is not clear why they should be conceived as ‘low paid’, and indeed the Commission was unanimous in reaching this conclusion in its later decisions. The link between the safety net and family needs, while central to the Commission’s overall wage-setting function, is less relevant to the challenge of defining low pay. The approach of Ross VP represented an attempt to unify the two concepts, but was compromised by its inconsistency with the Commission’s subsequent interpretations of the ‘needs’ criterion (see Chapter Seven).

The hourly wage distribution in 2006

This section uses unpublished data from the May 2006 EEH survey to further our understanding of the link between award reliance and the concept of low pay. We use data similar to those relied on by the Commonwealth government and the ACTU, but rectify the limitations of their analyses identified earlier. We examine the distribution of hourly ordinary-time wages (i.e., excluding overtime payments) for adult, non-managerial employees in 2006.

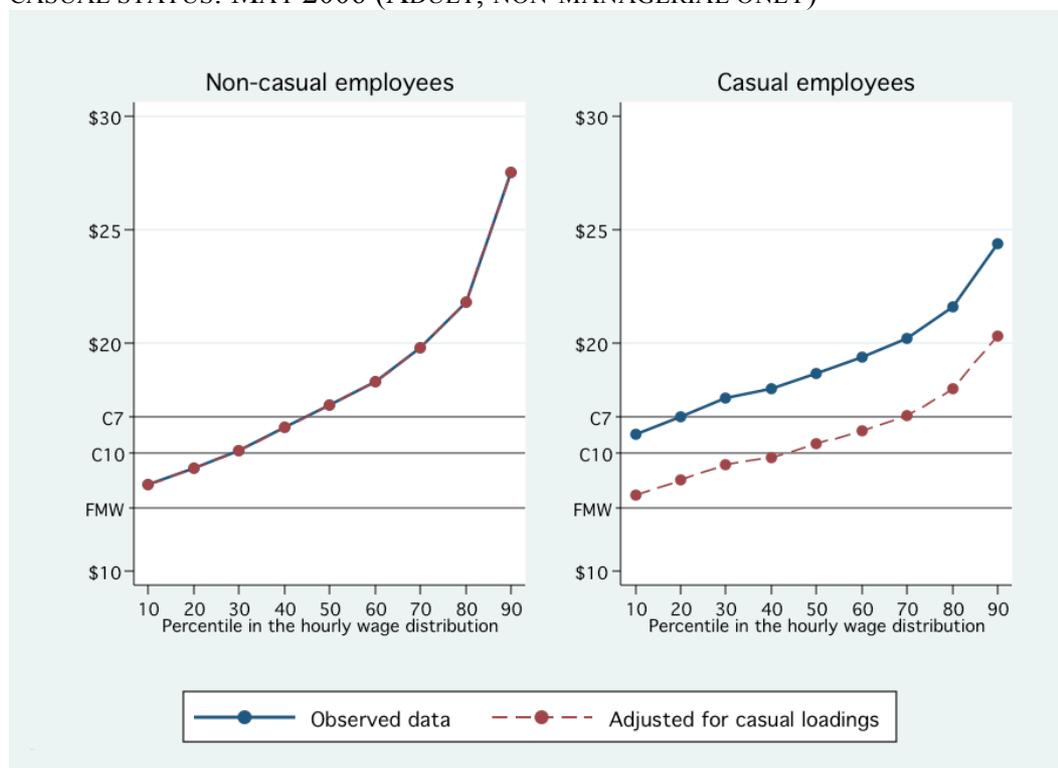
Positions of the low pay thresholds

The first way of interpreting the wage distribution is to estimate the proportion of award-reliant employees who are paid less than some threshold that defines a low wage. We argued in the previous section that the meaning of low pay was not agreed by participants in safety net cases, but that two thresholds suggested were the ‘C10’ and ‘C7’ award rates from the Metal Industries Award, representing the minimum award pay rates for skilled tradespersons and technicians, respectively.

Figure 5.1 shows where these two award rates were positioned in the hourly wage distribution for award-reliant employees in 2006. For interest, we also show the position of the Federal Minimum Wage. The two graphs in Figure 5.1 distinguish between casual and non-casual employees. This distinction allows us to adjust for

the presence of casual loadings. The vertical axes represent hourly wages and the horizontal axes represent percentiles in the wage distribution.

FIGURE 5.1 – HOURLY WAGE DISTRIBUTION FOR AWARD-ONLY EMPLOYEES, BY CASUAL STATUS: MAY 2006 (ADULT, NON-MANAGERIAL ONLY)



Source: Unpublished data, ABS Survey of Employee Earnings and Hours, May 2006.

It is a simple matter to estimate the proportion of *non-casual* employees who are low-paid on each of the relevant thresholds. The distribution on the left-hand side of Figure 5.1 shows that the C10 award rate intersected with the 30th percentile of the award-reliant wage distribution in 2006, while the C7 award rate intersected just below the median wage. Hence, if we use the Commonwealth government's preferred threshold of low pay as any wage below C10, approximately 30 per cent of award-reliant employees in non-casual positions were low-paid in May 2006. If our assessment is instead based on the C7 cut-off used by Ross VP in his minority decision of 1997, 47 per cent of award-reliant employees in non-casual positions were low-paid in 2006. Both thresholds imply that the median adult employee in an award-reliant, non-casual job was *not* low-paid in 2006.

It is more difficult to estimate the proportion of *casual* award-reliant workers who are low-paid, because of the effects of casual loadings. There are no systematic data in Australia on the coverage or value of these loadings. Several of the major

parties to safety net cases, including the ACTU and Commonwealth government, assumed the payment of an average 20 per cent casual loading. They are justified in doing this by the fact that many jurisdictions require employers to provide a 20 per cent loading to casual workers. In South Australia, for instance, the Minimum Standard for Remuneration adopted by the State Industrial Relations Commission builds a 20 per cent loading onto the base minimum pay rates for casual workers.

A competing perspective on the practical operation of casual loadings is given by the 2006 ABS Survey of Working Time Arrangements (SWTA), which asked a large sample of employees about their wages and other working entitlements. The evidence relevant to the current study is that 39 per cent of ‘casual’ employees – those without paid holiday leave or paid sick leave – reported not receiving casual loadings as part of their pay. The remaining casual employees divided between those who were certain of receiving loadings (48 per cent) and those who were uncertain of their entitlement (13 per cent) (ABS, 2007d, p.14). The SWTA data support the conclusion that there are likely to be some ‘casual’ employees in Australia whose jobs do not provide loadings to compensate for the loss of paid leave entitlements associated with contingent employment. The exact numbers of these workers will be influenced by the quality of employees’ knowledge about the different components of remuneration comprising their total earnings, but the central proposition – that some casual jobs offer no loadings, let alone the widely assumed 20 per cent – is uncontentious, in light of these national survey data.

If we ignore the effects of loadings and use the EEH data without adjustment, the hourly wage distribution for casual, award-reliant employees is that shown by the solid line on the right-hand side graph of Figure 5.1. This unadjusted distribution shows the vast majority of casual award workers above the two thresholds of low pay. In this distribution, 20 per cent of casual award workers have wages below C7, and fewer than 10 per cent have wages below C10. These figures are ‘lower bound’ estimates of the proportions of casual award workers in low-paid jobs. They would apply only if there were no casual loadings.

The approach used by both the Commonwealth and the ACTU, to adjust for the presence of loadings, was to multiply the casual wages recorded in the EEH by 5/6. This approach assumes an average casual loading of 20 per cent. If we make

the same adjustment to the 2006 data, we obtain the distribution shown by the dashed line on the right-hand side graph of Figure 5.1. The adjustment has a large effect on the estimated proportions of casual award workers in low-paid jobs. The proportion below the C7 award rate increases from 20 to 70 per cent, while the proportion below C10 increases from under 10 per cent to more than 40 per cent. The proportion paid up to and including the FMW increases from insignificance to around 6 per cent. We treat these adjusted figures as ‘upper bound’ estimates of the proportions of casual award workers who are low-paid. These estimates would apply only if casual employees received a uniform 20 per cent loading on their base hourly pay rates. The SWTA data, to which we have referred, cast doubt on this assumption. The ‘true’ proportions of casual award workers in low-paid jobs will fall between the upper and lower bounds that we have described. We cannot be more precise, because the existing ABS data do not provide information about the values or variability of the loadings that are actually paid to casual employees.

To reach a final estimate of the proportion of award-reliant workers who were low paid in 2006, we need to ‘weight’ our estimates according to the proportions in casual and non-casual jobs. In Chapter Four, we estimated that 56 per cent of (adult, non-managerial) award-reliant employees were in non-casual jobs in 2006, with the remaining 44 per cent in casual jobs (see Table 4.6 and the discussion of it). If we use the C10 rate as our low-pay measure, and accept the ACTU and Commonwealth government assumption of an average 20 per cent casual loading, then the proportion of award-reliant employees who were low-paid in 2006 is calculated as follows ⁵²:

$$(0.30*0.56) + (0.43*0.44) = 0.17 + 0.19 = \mathbf{0.36}$$

Thirty-six per cent of award-reliant employees were low-paid according to these parameters. The low-paid in non-casual award jobs comprised 17 per cent of this total, while the low-paid in casual award jobs comprised the other 19 per cent.

If we instead use the C7 award rate, the proportion of award-reliant employees who were low-paid in 2006 increases to 57 per cent:

⁵² 0.30 and 0.43 are the estimated proportions of non-casual and casual award-only workers who were low paid, based on earlier calculations. 0.56 and 0.44 are the relative shares of non-casual and casual workers in all (adult, non-managerial) award-only employment in May 2006.

$$(0.47*0.56) + (0.70*0.44) = 0.26 + 0.31 = \mathbf{0.57}$$

The differences in these two estimates are a useful reminder of the effect that the choice of low pay benchmark has on the estimated number of employees defined as low-paid. By raising the benchmark from C10 to C7 – that is, by shifting the benchmark up just three levels in the award classification structure – we increase the proportion of award-reliant workers defined as ‘low paid’ by 21 percentage points. More importantly, we move from a situation where low-paid workers are a clear minority of the award-reliant workforce (36 per cent), to a situation where they represent the majority (57 per cent).

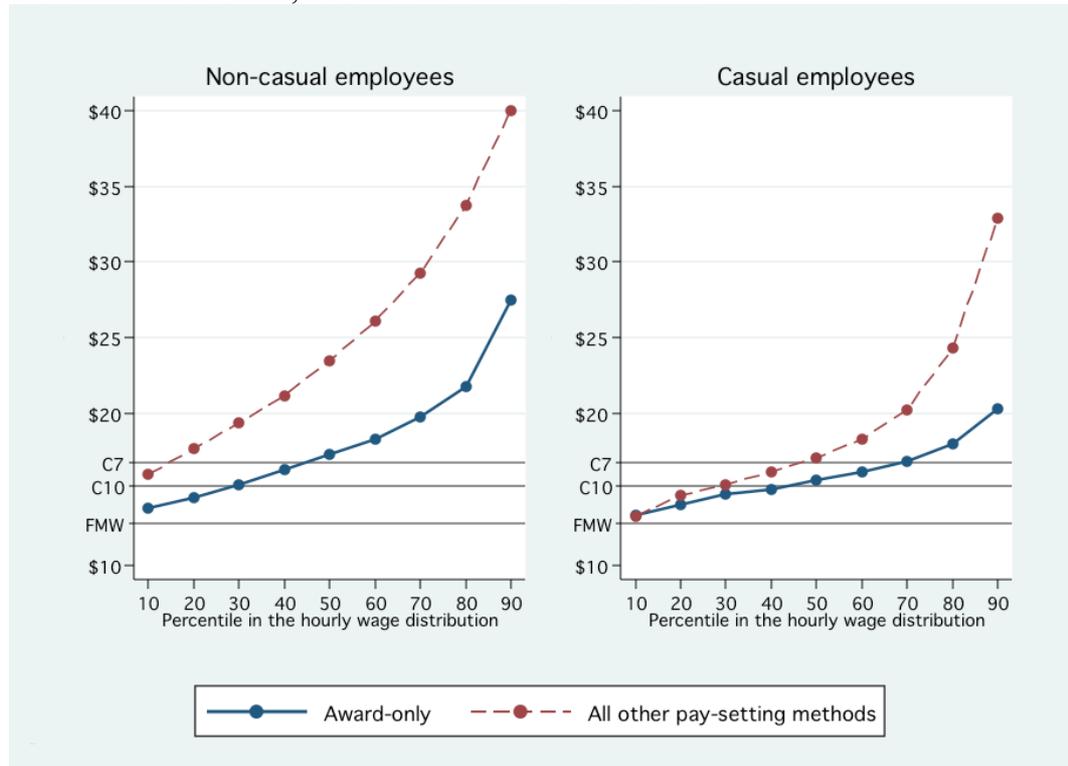
Award versus non-award outcomes

Another perspective can be obtained by comparing the distribution of wages for award-reliant employees to that for employees with different pay-setting methods. This approach eliminates the need for a specific low-wage benchmark. Instead, the issue of interest is how much lower paid award-reliant workers are compared to workers with other pay-setting methods at similar points of the distribution.

To aid comparison, we grouped all employees other than those reliant on awards into a single ‘non-award’ category. This approach avoids the arbitrary selection of a comparison group from among the various types of non-award workers (such as the use of employees with registered collective agreements). The drawback of the non-award category is that some of these employees may be affected by safety net wage increases. This will be most true of employees with ‘unregistered individual arrangements’, for whom safety net increases might not be wholly absorbed into overaward payments. We do not know precisely how many workers are in this position, as noted in the previous chapter. But if there is some non-absorption, the present distinction between ‘award’ and ‘non-award’ workers may be artificial.

Figure 5.2 compares the hourly wage distribution for award-reliant employees to the distribution for employees under all other methods of setting pay in 2006. The estimates for award-only employees are identical to the adjusted data from Figure 5.1, but the vertical axis has been rescaled to allow the inclusion of higher values. Our use of the ‘adjusted’ wage estimates is subject to the same caveats noted earlier in relation to the true coverage of and variability in casual loadings.

FIGURE 5.2 – HOURLY WAGE DISTRIBUTION COMPARING AWARD-ONLY EMPLOYEES TO OTHER EMPLOYEES, BY CASUAL STATUS: MAY 2006



Source: Unpublished data, ABS Survey of Employee Earnings and Hours, May 2006.

Looking first at the estimates for non-casual employees on the left-hand side of Figure 5.2, we see that there is a substantial wage disadvantage for award-reliant employees throughout the distribution. An award-only employee receives \$2.20 per hour less than a non-award employee at the 10th percentile of this distribution, \$6.20 per hour less at the median, and \$12.50 per hour less at the 90th percentile. These hourly wage differences translate to percentage ‘gaps’ of 14, 26 and 31 per cent.

For casual award-reliant employees, the wage differences compared to non-award employees are typically smaller, but the pattern of increasing disadvantage further up the distribution is repeated. Differences of less than \$1 per hour exist between workers in the bottom third of the casual award and non-award distributions. The gap widens significantly at higher percentiles. Hence, an award-reliant employee receives 9 per cent less than a non-award employee at the median of the casual wage distribution, 26 per cent less at the 80th percentile, and 38 per cent less at the 90th percentile.

The key finding here is that, although some of the higher deciles of award-reliant employees lie above the thresholds that were used to define low pay in safety net cases, these employees are unambiguously lower paid than non-award workers, at the same points of the wage distribution. In the next section, we explore whether their lower pay is attributable to award reliance or to other differences, such as in occupations, for which we have not controlled in the distributional comparisons.

Average hourly wages

The hourly wage distribution provides a useful starting point for the comparison of award and non-award employees' earnings, but is limited by the lack of control over important underlying differences in employees' attributes. Award-reliant employees are over-represented in the service industries and in relatively low-skill occupations. In 2006, 53 per cent of (adult, non-managerial) employees reliant on awards were employed in either the 'elementary' or 'intermediate' clerical, sales and service occupations, compared to 31 and 32 per cent, respectively, of the employees covered by collective and individual agreements.⁵³ It is partly because of their concentration in lower-skill occupations that the centre of the award-only wage distribution is lower than for other employees.

As we saw earlier in this chapter, part of the debate in safety net cases concerned the issue of whether award-reliant workers are significantly lower paid than other workers with broadly similar attributes (in particular, the same industry of work). This debate can be rephrased as a research question: Does the method of setting pay have any *independent* effect on employees' wages, once other factors likely to affect their productivity and wages are held constant? In short, is the lower pay of award-reliant workers due to the fact of their award reliance or to other factors?

Dataset and estimation method

In this section, we use a different set of EEH data to answer these questions. We obtained from the ABS a set of *average hourly wage* estimates disaggregated by four employee attributes: sex, casual status, occupation and pay-setting method.⁵⁴ Our pay-setting variable differentiates between awards, collective agreements and individual arrangements. We do not separate registered and unregistered forms of

⁵³ Survey of Employee Earnings and Hours, May 2006, unpublished data provided on request.

⁵⁴ We continue the earlier focus on adult, non-managerial employees.

agreements, as there are insufficient data to make this distinction without severely compromising the reliability of the resultant estimates. Occupations are coded into eight major groups, following the classification system of the ABS.⁵⁵

In measuring the independent wage effects of pay-setting methods, we are limited by two important features of the EEH data. First, we are constrained to the use of disaggregated average wage estimates, because the ABS did not, until recently, release a CURF from the EEH survey.⁵⁶ Instead, we have average wage estimates for the groups of employees defined above. The second feature of the EEH data is that they are collected from employers, rather than from households or employees. Consequently, the EEH has little or no information on the human-capital variables usually collected from employees, such as qualifications and length of experience. As suggested earlier, the best proxy for employee skill level in the EEH survey is occupation. We include occupation in our average wage estimates for this reason.

Our particular disaggregation of the EEH data – by sex, casual status, occupation and pay-setting method – yields 96 observations ($2 * 2 * 8 * 3$). However, these data have been collected on four separate occasions by the ABS, in biennial EEH surveys for the years 2000 to 2006. Reproducing the same set of data for each of the four available years, and pooling the resulting estimates into a single dataset, gives a total of 384 observations. To differentiate between the four years of data, we created dummy variables corresponding to each survey and included these in the estimation, with 2006 as the default. The final sample used for analysis had 382 observations (190 male, 192 female), as two groups with unreliable estimates were deleted.⁵⁷

Using Ordinary Least Squares (OLS), we estimate three regression equations with the EEH average hourly wage dataset. Our aim is to estimate the size of the wage differential between award-reliant and agreement-covered employees, after

⁵⁵ The *Australian Standard Classification of Occupations, Second Edition, 1996*. ‘Managers and administrators’ are excluded from this analysis because our focus is on non-managerial employees.

⁵⁶ This policy changed at the end of the current project. In April 2009, the ABS released the first CURF from the Survey of Employee Earnings and Hours, containing information collected in May 2006. While it was not possible to use this new dataset in the current analysis, it would be useful to retest our conclusions using these new data in future research.

⁵⁷ We treated as unreliable those estimates with Relative Standard Errors (RSE) greater than 0.5. The RSE is obtained by dividing the standard error of an estimate by the estimate itself. The ABS advises data users that estimates with an RSE of more than 0.5 are too unreliable for general use.

controlling for other wage-related variables available in the EEH survey. In each model, the dependent variable is the average hourly wage applicable to a group of employees and the independent variables are sex, casual status, occupation and pay-setting method. The first model is estimated using the full pooled dataset with 382 average wage observations. We include in this model a dummy variable for sex. The remaining two models were estimated separately for men and women, to test whether the greater female probability of award reliance, as noted in Chapter Four (Table 4.6), affects the size of the wage gap associated with award reliance.

The results of central interest are the estimated coefficients on the two agreement variables. We expect agreement-covered employees to have higher average wages than award-reliant employees, because this is consistent with the role of the award system in establishing a safety net above which bargaining occurs. Our aim is to estimate *how much lower* the award-reliant wages are, controlling for occupation, and whether there is any material difference in the wage gap for men and women.

Results and discussion

Table 5.1 shows the results from the three regression equations. The results for the full model confirm that there are significant wage benefits for employees covered by agreements, compared to the award-reliant reference group. Average hourly wages are \$4.20 higher for employees covered by collective agreements and \$2.60 higher for employees covered by individual agreements. The differences are both statistically significant at the 99 per cent confidence level ($p < 0.01$). These results demonstrate that award reliance does have an independent, and negative, effect on average wages. Even within the same broad occupations, award-reliant employees earn significantly less per hour than other employees. It is therefore not the case, as suggested by the submissions of ACCI and the Commonwealth government in safety net cases, that controlling for skill differences between employees removes the wage ‘penalty’ for award reliance identified by the ACTU.

TABLE 5.1 – AVERAGE HOURLY WAGE DIFFERENTIAL BETWEEN AWARD-RELIANT EMPLOYEES AND OTHERS, BY SEX (ADULT, NON-MANAGERIAL ONLY)

	Persons		Males		Females	
Female	-2.27 *** (-10.64)					
Collective agreement	4.20 *** (16.32)		5.11 *** (12.38)		3.30 *** (12.14)	
Individual arrangement	2.59 *** (10.37)		3.54 *** (8.24)		1.67 *** (7.96)	
Casual worker	0.48 ** (2.24)		0.01 (0.02)		0.92 *** (4.49)	
Professionals	13.90 *** (27.77)		14.88 *** (18.85)		12.93 *** (22.44)	
Associate Professionals	6.24 *** (16.97)		7.14 *** (12.22)		5.34 *** (16.01)	
Tradespersons	2.68 *** (7.45)		3.68 *** (6.59)		1.69 *** (4.49)	
Advanced clerical	3.73 *** (8.25)		3.48 *** (4.39)		3.90 *** (10.71)	
Intermediate clerical	2.09 *** (7.62)		2.08 *** (4.78)		2.10 *** (8.08)	
Intermediate production	1.24 *** (4.71)		2.08 *** (5.31)		0.41 (1.50)	
Elementary clerical	0.32 (1.11)		0.30 (0.65)		0.33 (1.15)	
Year 2000	-4.76 *** (-16.10)		-4.96 *** (-10.45)		-4.55 *** (-15.60)	
Year 2002	-3.36 *** (-10.80)		-3.65 *** (-7.39)		-3.08 *** (-9.62)	
Year 2004	-1.61 *** (-4.82)		-1.65 *** (-2.97)		-1.60 *** (-5.45)	
Regression constant	17.57 *** (52.81)		16.88 *** (33.97)		15.99 *** (48.75)	
R²	0.86		0.84		0.92	
N observations	382		190		192	

Source: Unpublished data from the ABS Survey of Employee Earnings and Hours (EEH).

Note: The default group is Award-only employees who were working on a non-casual basis in the occupation 'Labourers and related workers' in May 2006. T-statistics are shown in parentheses. Asterisks denote statistical significance at the 10 per cent, 5 per cent and 1 per cent levels as *, ** and *** respectively.

The results from the full model also indicate that women are paid \$2.30 per hour less than men, holding constant other differences. This gender wage gap is highly statistically significant. To separate the gender effect from the award reliance effect, we estimated sex-specific wage models. These results (also shown in Table 5.1) reinforce the conclusion that there is a large and statistically significant wage 'penalty' for employees who remain reliant on awards, relative to employees (in the same occupation) who are bargaining. The penalty for remaining award reliant

is largest for men. The average man paid by award only receives \$5.10 per hour less than a man in the same occupation paid by collective agreement. The comparable difference for women is \$3.30 per hour.⁵⁸ These results highlight the fact that the minority of male employees dependent on safety net adjustments (i.e., the 15 per cent of adult, non-managerial men in Table 4.6 from Chapter Four) are especially poorly paid relative to the average male wage-earner.

Another difference between the sexes relates to the wage effects of casual status. For women, casual employment is estimated to add approximately 90 cents to the average hourly wage, relative to otherwise similar employees in permanent or fixed-term jobs. This result suggests that women who are *both* award-reliant and casually employed will recover part of the wage disadvantage associated with award reliance, compared to women in non-casual jobs who are bargaining. This finding is of considerable practical importance, because women who rely on the award system are much more evenly divided between casual and non-casual jobs than women who rely on agreements to set their pay. According to the estimates in Table 4.6, Chapter Four, 48 per cent of (adult, non-managerial) women paid by awards were casual workers, compared to 15 per cent of women with collective agreements and 18 per cent of women with individual arrangements. The finding that casual employment raises average female wages will therefore be valuable as a corrective to the pay disadvantage experienced by women in the award system.

For men, however, we find no evidence of any significant casual wage premium. One potential contributor to this disparity is that men are less likely to get casual loadings when their jobs offer no paid leave entitlements. The 2006 ABS Survey of Working Time Arrangements, to which we have referred, suggested that 42 per cent of men in casual jobs received no loadings on their base pay, compared to 35 per cent of women in casual jobs (ABS, 2007d, Table 4, p.14). If reflected in the EEH data, this difference could explain why the average casual wage premium is lower for men than for women, but not why the male premium is effectively zero.

An area of substantial agreement between the results of the three models is that the average wage differential between award and agreement-covered workers is

⁵⁸ The male and female wage penalties are closer when expressed proportional to average wages, because men earn more. Hence, \$5.10 per hour was 19 per cent of the male average wage in 2006, whereas \$3.30 per hour was 14 per cent of the female average wage.

smaller for *individual* agreements than for *collective* agreements. This might be interpreted as evidence of the advantage gained by workers who negotiate their wages collectively, perhaps with union involvement, instead of on an individual basis. That inference has been drawn by other authors working with the EEH data to compare the wage effects of different types of bargaining arrangements (Peetz, 2006). On this interpretation, legislative changes that promote individual agreement-making, at the expense of collective and unionised bargaining, are seen as inimical to the earnings of lower-skilled workers, who possess little individual market power.

Another way of interpreting the smaller gap between awards and individual wage agreements is to see it as evidence of the safety net's continued importance as a reference point for pay determination in the informal bargaining sector. As noted in Chapter Four, 91 per cent of employees covered by individual wage agreements (other than owner-managers) have 'unregistered' agreements (ABS, 2007a, p.25). Unregistered individual agreements are typically formed when employers agree to pay employees above the minimum award rates. The ABS does not treat these overaward agreements as instances of 'award-only' employment, but safety net decisions may still be important in setting the base award rates that link to the overaward amounts. Safety net decisions are much less likely to affect employees with collective agreements, because of the larger differential in average wages.

A final point of interest in Table 5.1 is the very high R-squared statistics, all of which exceed 0.8. In models using individual-level data, values this close to unity would be abnormal. They would often indicate variable problems, such as multicollinearity. In the current analysis, however, the high R-squared results are artefacts arising from the analysis of partially-disaggregated, group-level data. The dataset contains estimates of average wages grouped by sex, casual status, occupation, pay-setting method and year of survey. These five variables were then used to 'explain' the wage differences in the dataset. The high R-squared statistics imply that our models capture much of the extant variation in average hourly wages. This is to be expected, because there is little extraneous variation in the dataset that has not been accounted for by the variables in the regression equation.

Individual hourly wages

In this section, the analysis of the hourly wage differential between award-reliant employees and other employees shifts from a group-level focus to the individual level. This transition expands our capacity to control for an array of employee attributes that are known to affect wages, but which are not available in the EEH survey for reasons already stated. Previously, we used occupation as a proxy for employee skill levels and estimated the impact of award reliance after controlling for occupation. We extend this analysis by controlling directly for differences in human capital attributes, such as education, experience and tenure in current job.

Dataset and variable preparation

We use the ‘Expanded’ version of the CURF from the ABS Survey of Education and Training (SET) 2005 for this analysis.⁵⁹ We limited the sample to employees, other than owner managers of incorporated enterprises, between 21 and 69 years of age. To maintain comparability with the EEH dataset, we deleted employees in the industry ‘Agriculture, forestry and fishing’ from the SET sample. The final sample used for estimation contained 11810 observations, divided approximately evenly between 5845 men and 5965 women.

Using the survey variables on usual weekly earnings and hours worked in current main job, we constructed a measure of hourly wages for all employees. Those with zero earnings or hours (such as those on leave or receiving payments in-kind) were deleted prior to analysis, as were a small number of employees with wages below \$1 per hour. The hourly wage variable was then transformed to its natural logarithm. The log-transformation reduces the skewness of the observed data and allows us to interpret the coefficients from the regression equations as percentage changes in wages for a unit change in each independent variable.⁶⁰ This practice is standard in econometric analyses of hourly wage differences (Preston, 2003; Rodgers, 2004; Booth and Wood, 2008).

⁵⁹ The analysis was executed through the ABS Remote Access Data Laboratory (RADL), a service which allows users to submit program code for online processing and analysis. Use of the RADL is required for interrogating ‘Expanded’ CURFs, which give greater access to the source data than ‘Basic’ CURFs released on CD. Information provided in the Expanded version of the SET CURF, and not in the Basic version, includes continuous data on weekly earnings and hours worked.

⁶⁰ No equivalent benefits were obtained from a log-transformation of wages in the previous section of this chapter, because of the small number of observations in the EEH dataset. The SET dataset exhibits greater skewness in the distribution of wages and so we use log-wages to correct this.

We control for human capital differences using a vector of seven employee attributes: labour force experience, tenure in current job, highest completed qualification, part-time employment status, training arrangement, main language spoken at home and disability.

The SET dataset does not measure total time spent in the workforce, which limits our ability to control for labour force experience. We follow Preston (2003), by defining a proxy measure of *potential* experience, equal to age minus years of education minus five – the so-called ‘Mincer proxy’ (see Mincer, 1974). We also include in our models the square of experience (divided by 10). This quadratic form of experience (the years variable plus its square) allows for the possibility of a non-linear relationship with hourly wages.

Job tenure is measured by length of service in current main job, up to 20 years. As with experience, we include in the models a quadratic form of tenure to capture potential non-linear effects.

Qualifications are included in the models using a set of seven dummy variables based on highest completed level of education. We group together the following types of qualifications: postgraduate degrees and diplomas; bachelors’ degrees; undergraduate diplomas and advanced diplomas; trade-level Certificates (Levels III and IV); Year 12 of secondary school; Year 11 of secondary school and its equivalent (Certificates I and II); and Year 10 of secondary school. The default for comparison is Year 9 of secondary school or below (including never attended school). We expect the models to show that higher qualifications increase hourly wages, consistent with earlier Australian research (Preston, 2003; Rodgers, 2004).

Part-time employment status is defined in the standard way as working less than 35 hours per week in current job. We include a single dummy variable for training arrangements, because employees working as apprentices and trainees can be paid legitimate below-minimum wages while they complete their training.

Unlike some studies which use country of birth as a proxy for English fluency, we use a dummy variable based on language spoken at home. English ability is likely to have a significant positive influence on the wages that employees can earn in the Australian labour market. The use of language spoken at home is preferable to

using country of birth, since migrants from ‘English-speaking’ countries need not themselves be proficient English speakers.

Finally, we include two dummies for long-term health conditions and disabilities. The first dummy variable applies to employees with long-term health conditions and either a mild or no ‘core activity restriction’. The second dummy variable applies to employees with moderate, severe or profound core activity restrictions. A core activity restriction is defined as a permanent health condition which causes a person difficulty in any or all of the activities of self-care, communication and mobility. Individuals without core activity limitations require no assistance with these activities, while individuals with ‘mild’ limitations typically require aids and individuals with more severe restrictions require frequent or constant assistance (ABS, 2004, pp.64 & 72). Employees with moderate, severe or profound core activity restrictions are expected to have lower wages because they receive ‘supported wage payments’ that are below the standard, adult minima. Employees without such restrictions but with other long-term health conditions are also likely to have lower wages because their poor health limits their choices in employment. The default group (omitted from the models for comparison) contains employees who reported no long-term health condition or disability.

Measuring award reliance

Although the SET dataset contains detailed human capital information, the survey has no direct measure of employees’ pay-setting methods. This is a shortcoming that the SET shares with other ABS surveys, except the EEH survey (which has very limited human-capital information). We thus cannot identify ‘award-reliant’ employees directly in the SET dataset, because the information used to construct this category of workers in the EEH dataset is not collected. To proceed with the analysis, we need a mechanism that connects the information on award reliance from the EEH to the information on individual wages and human capital from the SET.

We exploit the fact that several variables related to award reliance also appear in the SET. This overlapping information allows us to ‘import’ into the SET dataset a new measure of employees’ probability of award reliance, estimated from the EEH survey. We derive the measure using three employee attributes: sex, casual

status and industry of work. As an example of how the method is applied, the EEH data show that 8 per cent of (adult, non-managerial) men, in non-casual jobs in the manufacturing industry, were award-reliant in 2006. We therefore assign a value of '8' to men with these attributes in the SET sample. This value represents their probability of award reliance, from 0 to 100. By repeating this procedure for all employees, we generate a measure of award reliance probability which is then included as one of the explanatory variables in our log-wage regression equations.

The method of importing EEH probabilities into the SET dataset has some limitations. The main limitation relates to data quality. When preparing the source data from the EEH survey, our preference is for a highly-disaggregated measure of award reliance, because this will add specificity to our imported probability variable and increase the sensitivity of the wage equations. For practical reasons, however, it is not feasible to disaggregate the EEH probabilities beyond the present three-way arrangement of sex, casual status and industry. At further levels of disaggregation, we begin to encounter large standard errors, and the estimates become too unreliable to use. Indeed, even in the current three-way arrangement, there are some estimates with unacceptably high standard errors.⁶¹

A second, more minor, limitation of the importation method relates to the timing of the EEH survey and the SET. These do not overlap exactly. The award reliance data from the EEH survey were collected biennially in May of the years 2000 to 2006. The SET was conducted between May and August 2005. The estimates of award reliance imported to the SET dataset for this analysis were taken from the 2006 EEH survey, which is closest in time to the SET data collection period. We consider it unlikely that the alternative use of May 2004 EEH data, in place of the 2006 data, would alter the results materially, since there was minimal change in award reliance patterns between these two years.

We estimate a simple linear equation, using Ordinary Least Squares, in which the log of hourly wages is modelled as a function of employees' human capital

⁶¹ Where the full disaggregation generated an unreliable estimate of award reliance probability, we dropped the sex variable and used the estimate for casual status by industry. Where even this two-way disaggregation was unreliable, we dropped the casual status variable and assigned employees the probability estimate for their industry only. This was necessary for industries that contain very few award-reliant employees, such as government administration, finance, and mining.

attributes and the probability of award reliance. We estimate the model separately over four discrete groups of employees. We divide the sample by casual status, and estimate separately for non-casual and casual workers. This approach controls for the potential confounding effects of the variation in casual loading payments, which we do not observe in the dataset. We then subdivide the sample further by sex. The sex-specific estimations allow us to test whether one conclusion from the previous section of this chapter – that men are penalised more heavily for award reliance than women – remains true after controlling for the superior set of human capital variables available in the SET.

Sample means are reported in Table 5.2 for the variables used in the analysis. We refer to the imported award reliance probabilities as measures of award *density*.

A useful test of the quality of the importation procedure is whether the ‘densities’ in the SET dataset match the original EEH estimates. The probabilities of award reliance in the May 2006 EEH dataset (for adult, non-managerial employees) are:

Non-casual males	11 per cent
Non-casual females	16 per cent
Casual males	36 per cent
Casual females	47 per cent

The corresponding densities for the SET estimating sample, in Table 5.2, are:

Non-casual males	10 per cent
Non-casual females	15 per cent
Casual males	33 per cent
Casual females	46 per cent

Except for male casual employees, the imported densities within the SET dataset differ by no more than one percentage point from the EEH estimates. The male casual density differs by three percentage points. Their comparative imprecision may reflect the fact that we have relatively few observations for male casuals in the SET sample. Overall, the importation procedure appears to reflect successfully the EEH source estimates in the new density variable created in the SET dataset.

TABLE 5.2 – MEAN DATA FOR THE VARIABLES USED TO MODEL INDIVIDUAL LOG HOURLY WAGES, BY CASUAL STATUS AND SEX

	Non-casual		Casual	
	Male	Female	Male	Female
Award density	10.07	15.31	32.65	45.94
Experience	22.47	22.26	20.69	22.00
Experience ² (/10)	63.66	63.16	60.95	64.33
Tenure	8.00	7.44	3.73	4.37
Tenure ² (/10)	10.91	9.37	3.38	4.12
Postgraduate degree	0.11	0.13	0.06	0.06
Bachelor's degree	0.15	0.21	0.12	0.13
Diploma, Adv. diploma	0.09	0.12	0.09	0.10
Certificate III or IV	0.26	0.13	0.24	0.14
Year 12	0.15	0.15	0.20	0.21
Year 11 (and Cert I or II)	0.07	0.08	0.08	0.09
Year 10	0.12	0.14	0.14	0.20
Year 9 or below*	0.05	0.04	0.08	0.08
Part-time	0.04	0.32	0.45	0.84
Apprentice or trainee	0.02	0.01	0.01	0.01
Non-English at home	0.06	0.06	0.14	0.08
Disability: mild	0.19	0.17	0.19	0.19
Disability: severe	0.03	0.03	0.05	0.03
Disability: none*	0.78	0.80	0.76	0.78
N observations	4890	4532	955	1433

Source: ABS Survey of Education and Training (SET) 2005, Expanded CURF. Variables marked with asterisks are the default categories omitted from the regression equations.

Results and discussion

Table 5.3 shows the model results from the regression equations for *non-casual* workers. These models explain close to 30 per cent of the variation in log-wages for non-casual employees, with R-squared statistics of 0.28 for the male equation and 0.29 for the female equation. The coefficients of central interest are those on the award density variable. These show the estimated percentage change in hourly wages for a unit change in the probability of award reliance.

The results indicate that the relationship between award density and hourly wages is negative and highly statistically significant (at the $p < 0.01$ level) for non-casual employees of both sexes. All else equal, a one percentage point increase in the probability of award reliance is associated with a 0.7 per cent decrease in hourly wages for men, and a 0.6 per cent decrease in hourly wages for women.⁶² A useful

⁶² Note that the model does not give the wage effect of a *binary* change in pay-setting method from award-reliant to non award-reliant. Rather, the estimates are of the change in wage associated with a change in an employee's *probability* of award reliance, based on their industry of employment.

way of illustrating these effects is by comparison with the average employee. For instance, the average probability of award reliance for women in non-casual jobs is approximately 15 per cent (see Table 5.2). A woman with double the average probability of award reliance, due to her industry of employment, has a predicted wage that is 9 per cent lower than the average wage (i.e., $-0.6 * 15$). In dollar terms, this effect translates to a wage that is approximately \$1.10 per hour lower than for the average female non-casual employee. The negative wage effects of increasing award density are thus both economically and statistically significant.

The other control variables affect hourly wages in the expected ways. On average, wages are higher for employees with longer potential labour force experience, longer job tenure and higher qualifications, and lower for employees who work as apprentices or trainees, have a disability, or speak a language other than English at home. One interesting sex difference is that part-time employment reduces wages significantly for men, but not for women. This result has considerable importance, because one-third of women in non-casual jobs work part-time (the mean in Table 5.2 is 0.32). By contrast, very few male non-casual jobs are part-time (4 per cent). One reason why men might be less willing to work part-time is that they expect to be paid less than equivalent full-time employees, whereas women do not.

Table 5.4 shows the comparable results for *casual* employees. The results look different in some respects from the non-casual results. One difference is that the model explains less of the variation in casual wages. The R-squared statistics from the casual equations are 0.17 for both sexes, compared to values closer to 0.30 for the non-casual equations. This loss of ‘explanatory power’ suggests that there are important factors affecting casual wages that have not been included in the model.

One such factor might be the unobserved variation in casual loadings. If there is a distribution of casual loadings among employees without paid leave entitlements, this would represent a source of systematic variation in casual wages that we have not controlled for, because of data limitations. The idea of a distribution of casual loadings is consistent with the earlier evidence, reported from the ABS Survey of Working Time Arrangements, that only around half of non-managerial employees without paid holiday and sick leave are definite recipients of casual loadings.

TABLE 5.3 – ESTIMATED INDIVIDUAL HOURLY WAGE EFFECTS OF AWARD RELIANCE:
NON-CASUAL EMPLOYEES

	Male	Female
Award density	-0.007 *** (-9.20)	-0.006 *** (-10.26)
Experience	0.026 *** (12.39)	0.018 *** (10.62)
Experience ² (/10)	-0.004 *** (-9.17)	-0.003 *** (-9.23)
Tenure	0.010 *** (3.08)	0.022 *** (6.98)
Tenure ² (/10)	-0.002 *** (-1.01)	-0.007 *** (-4.75)
Postgraduate degree	0.647 *** (17.79)	0.549 *** (14.30)
Bachelor's degree	0.562 *** (16.09)	0.461 *** (12.27)
Diploma, Adv. diploma	0.436 *** (11.94)	0.302 *** (7.99)
Certificate III or IV	0.274 *** (8.42)	0.130 *** (3.50)
Year 12	0.268 *** (7.68)	0.199 *** (5.29)
Year 11 (and Cert. I or II)	0.191 *** (5.11)	0.104 *** (2.70)
Year 10	0.132 *** (3.90)	0.099 *** (2.78)
Part-time	-0.079 * (-1.81)	-0.018 (-1.57)
Apprentice or trainee	-0.251 *** (-8.43)	-0.191 *** (-6.30)
Non-English at home	-0.123 *** (-5.23)	-0.100 *** (-4.32)
Disability: mild	-0.058 *** (-3.85)	-0.027 ** (-2.03)
Disability: severe	-0.232 *** (-4.30)	-0.117 ** (-2.49)
Regression constant	2.564 *** (69.25)	2.586 *** (62.17)
R²	0.28	0.29
N observations	4890	4532

Source: ABS Survey of Education and Training (SET) 2005, Expanded CURF.

Note: Sample limited to employees aged 21-69 years, with wages of more than \$1, employed in any industry except 'Agriculture, forestry and fishing'. T-statistics shown in parentheses. Asterisks denote statistical significance at the 10 per cent, 5 per cent and 1 per cent levels as *, ** and *** respectively.

TABLE 5.4 – ESTIMATED INDIVIDUAL HOURLY WAGE EFFECTS OF AWARD RELIANCE:
CASUAL EMPLOYEES

	Male		Female	
Award density	-0.004 ***		-0.003 ***	
	(-5.24)		(-5.22)	
Experience	0.017 ***		0.018 ***	
	(3.77)		(4.73)	
Experience ² (/10)	-0.003 ***		-0.004 ***	
	(-3.09)		(-4.56)	
Tenure	-0.004		0.007	
	(-0.35)		(0.93)	
Tenure ² (/10)	0.006		0.001	
	(0.95)		(0.13)	
Postgraduate degree	0.433 ***		0.449 ***	
	(4.04)		(6.29)	
Bachelor's degree	0.332 ***		0.299 ***	
	(4.44)		(5.41)	
Diploma, Adv. diploma	0.223 ***		0.058	
	(3.05)		(1.07)	
Certificate III or IV	0.182 ***		0.045	
	(2.88)		(0.96)	
Year 12	0.068		0.070	
	(1.00)		(1.51)	
Year 11 (and Cert. I or II)	0.037		-0.065	
	(0.45)		(-1.29)	
Year 10	0.022		-0.029	
	(0.34)		(-0.71)	
Part-time	-0.036		0.069 **	
	(-1.09)		(2.39)	
Apprentice or trainee	0.108		0.122	
	(1.38)		(1.60)	
Non-English at home	-0.269 ***		-0.215 ***	
	(-5.92)		(-3.73)	
Disability: mild	-0.047		-0.038	
	(-1.11)		(-1.45)	
Disability: severe	-0.205 **		-0.186 **	
	(-2.40)		(-2.34)	
Regression constant	2.814 ***		2.720 ***	
	(34.41)		(40.84)	
R²	0.17		0.17	
N observations	955		1433	

Source: ABS Survey of Education and Training (SET) 2005, Expanded CURF.

Note: Sample restricted to employees aged 21-69 years, with wages of more than \$1, employed in any industry except 'Agriculture, forestry and fishing'. T-statistics shown in parentheses. Asterisks denote statistical significance at the 10 per cent, 5 per cent and 1 per cent levels as *, ** and *** respectively.

The size of the wage change associated with increasing award density is smaller for casual workers than for non-casuals. We estimate that a 10 percentage point increase in the probability of award reliance reduces hourly wages by 4 per cent for male casual employees and 3 per cent for female casual employees.

The results of the casual and non-casual equations, taken together, suggest that:

1. the probability of award reliance is inversely related to hourly wages;
2. the difference in wages between likely and unlikely award workers is statistically significant, after holding constant differences in human capital; and
3. the size of the marginal wage effect from increasing award density is larger for men than women, and larger for employees in non-casual than casual jobs.

Aside from award density, the other variables which influence hourly wages for casual workers are experience, post-school qualifications, part-time employment, language spoken at home and severe disability. The highest-paid casual workers are those with longer experience and tertiary qualifications. The lowest-paid are those who speak languages other than English at home or have severe disabilities. In contrast to the evidence for non-casual employees, we find no significant effect on casual wages from longer tenure in current job, from completion of secondary school, from training arrangements or from the presence of mild disabilities. The non-significant tenure result suggests substantial turnover in the casual workforce and the absence of structured career paths allowing established casual employees to advance to higher pay.

Another difference between the non-casual and casual wage models involves the effect of part-time employment. Table 5.4 shows that women in part-time, casual jobs have hourly wages 7 per cent higher than for comparable women in full-time jobs, while for men there is no significant difference. The female coefficient is significant at the $p < 0.05$ level. These results differ from the negative and mildly significant male wage effect – and the non-significant female effect – of part-time employment in the non-casual labour market.

Our results also differ from the findings of earlier research. Using HILDA data, Rodgers (2004) found no significant wage effect of part-time status for either sex, after controlling for productivity-related attributes similar to those used in the

present analysis.⁶³ A more sophisticated study by Booth and Wood (2008), also using HILDA, concluded that part-time workers of both sexes have significantly higher wages than comparable full-time workers, irrespective of their casual status. The current analysis differs from these previous studies, in terms of data source, estimation methodology and model specification. The evidence here presented of a mildly significant, negative part-time wage effect for non-casual men and a strongly significant, positive part-time wage effect for casual women offers little support to either the Rodgers or Booth and Wood conclusions. The resolution of these empirical differences is beyond the scope of the current study, but could be made the subject of further research.

Low pay mobility and persistence

The debate over low pay in safety net wage cases also included some reference to studies of upward mobility among the initially ‘low-paid’. The Commonwealth government referred to this evidence to substantiate its contentions that low pay was typically a temporary state in the Australian labour market. It submitted that one of the key functions of low-paid employment was to provide a point of entry to the labour market, from which unskilled persons (including the unemployed) could acquire necessary work experience, before moving to higher-paid positions. The Commission should therefore aim to expand the number of low-paid jobs, so as to create opportunities for unskilled persons to improve their status over time.

The Commonwealth government relied mainly on the Survey of Employment and Unemployment Patterns (SEUP), a longitudinal dataset collected by the ABS between 1995 and 1997, to support the contention that ‘for a large number of Australians, low paid employment is a short but important transitory state on the pathway to higher paid employment’ (DEWR, 2005, p. 46). It presented unpublished SEUP estimates in submissions to the 1997-98 safety net wage case. The principal finding from the Commonwealth government’s analysis was that 62 per cent of full-time employees who remained with the same employer between September 1995 and September 1996 experienced increases in their usual weekly earnings of \$40 or more. The probability of earnings growth was greatest for workers with the lowest initial earnings: more than three-quarters of workers paid

⁶³ ‘HILDA’ is the Household Income and Labour Dynamics in Australia survey.

less than \$440 per week in 1995 had experienced increases of at least \$40 by 1996 (DEWRSB, 1998, pp. 203-06).

These findings were supplemented in later cases by evidence of earnings increases over two years. Between 1995 and 1997, 76 per cent of full-time employees who remained with the same employer increased their earnings by at least \$40 per week, and earnings increased for more than 80 per cent of the employees initially paid below \$600 per week in 1995. The Commonwealth government said that the SEUP evidence made it clear 'that a high proportion of persons in employment will move up the wage distribution over a relatively short period of time, either as a result of promotion or a pay rise'. The finding that mobility was greatest for the lowest paid 'probably reflects a career effect, with higher paid employees being less likely to receive a promotion over a one or two year period' (DEWRSB, 1999, pp. 204-06).

The main objections to these findings were that they related only to the experiences of employees in continuous full-time employment; that they involved changes in weekly earnings, and so could be affected by variations in working hours and overtime; and that they provided no evidence about other possible transitions affecting the low-paid, such as into or out of unemployment. In 2000, a more comprehensive analysis of the SEUP data appeared, under the auspices of the ABS, which addressed these problems and provided specific evidence about different types of mobility from low-paid work. The study (Dunlop, 2000) was cited by the Commonwealth government in submissions to the 1999-2000 safety net review (DEWRSB, 2000, pp. 428-30). The study's findings are more equivocal about the advancement prospects of low-paid adult employees in Australia than the findings presented by the Commonwealth government.

Dunlop defined 'low paid' employees as those aged 21-59 years who received hourly wages of no more than \$10 in September 1994. This threshold was indexed to changes in average weekly earnings over the period covered by the SEUP, so that in September 1997 a low paid employee was one receiving up to \$10.76 per hour (\$1.30 above the FMW, expressed in hourly terms, at the time). Using this threshold, Dunlop estimated that approximately one million adult employees were

in low-paid work in each of the three years covered by the SEUP, representing 18 per cent of all adult wage and salary earners.

Analysing the dynamics of low pay over a two-year period, Dunlop reported that 41 per cent of adult employees paid less than the low pay threshold in September 1995 were above it by September 1997. The transition to higher paid employment was the most common form of mobility for the low paid. However, there was also evidence of substantial persistence in low pay and of subsequent employment losses. After two years, 30 per cent of the initially low-paid workers were still in this state. Another 20 per cent had fallen out of work, either into unemployment or non-participation. The remaining 9 per cent were in work, but not as wage and salary earners. Exploring the determinants of upward mobility, Dunlop found that men, younger workers and the residents of urban areas had the best advancement prospects over a year, while employees in small workplaces (under 10 workers) and those with a recent spell of unemployment were less likely to advance, all else equal.

These findings offer some support to the earlier assessment of the Commonwealth government, that there is considerable upward mobility within the low paid labour market and that many workers who hold these jobs can be expected to progress to higher pay within a short time. However, the picture provided by Dunlop is more complex in several respects. First, the extent of upward wage mobility for low-paid adults is less than that initially suggested by the Commonwealth government. Around 58 per cent of the adults who remained in continuous wage and salary employment shifted from low to high pay in the two-year period examined by Dunlop. This rate contrasts with the Commonwealth evidence of mobility rates exceeding 75 per cent for *full-time* low-paid workers in the same period. Second, Dunlop demonstrated that a significant proportion of the low-paid either remain low-paid or slide out of employment over two years. This evidence implies a level of employment instability or 'precariousness' that was not apparent in the Commonwealth government's evidence for continuous full-time workers. Finally, the Dunlop analysis highlighted the extent to which mobility is dependent on employee attributes, such as sex, age and prior work experience. For the members of the low-paid workforce who are female, middle-aged and without a stock of

recent employment experience, the progression to higher pay is not assured, and cycling between low-paid work and non-employment appears to be more typical.

The ACTU and Labor State governments referred to another study, *Low Wage Jobs and Pathways to Better Outcomes*, to reinforce the finding from Dunlop's study that low paid work is not always temporary or necessarily followed by a move into higher paid employment (the published results from this study appear in Richardson, 2005). The paper reviews international evidence on the incidence of low-paid work and the conditions under which it leads to upward wage mobility. Richardson (2005, p.162) notes that 'in most cases' the evidence from empirical studies in the United States and the United Kingdom points to 'strong persistence in low pay status'. The low-paid are more likely to exit the workforce than to find substantially higher-paid employment, and where upward mobility does occur, it typically involves a limited progression of one or two deciles up the wage distribution. The factors which most affect employees' likelihood of advancement are their sex, age and education, along with the size and productivity (and thus training propensity) of their firms. Echoing Dunlop's conclusions, Richardson noted that: 'Workers who are older, less educated, and female, and who are in small, low paying firms, are likely to find that low wages are a trap rather than the first step on the ladder' (Richardson, 2005, p.174).

In the final safety net review case in the AIRC, the Commonwealth government presented results from a new mobility analysis using the HILDA data. Defining 'low pay' as an hourly wage between the Federal Minimum Wage and the metal tradespersons' (C10) award rate, and after making an (unspecified) adjustment for casual loadings, the Commonwealth government estimated that 20 per cent of adult employees were in low-paid jobs in 2001. There was, however, considerable evidence of short-term upward wage mobility. After one year, 37 per cent of the low-paid had moved into higher-paid jobs (defined as wages above the C10 award rate). After two years, the rate of upward wage mobility had increased to 43 per cent of the original low paid group (DEWR, 2005, p. 48). This result is remarkably similar to Dunlop's conclusion – that 41 per cent of adult employees advanced from low to higher pay over a two-year period. The HILDA data thus suggested that there had been little change in the prospects of a low-wage job

acting as a ‘stepping stone’ to higher pay in the time between collection of the SEUP data (1995-97) and collection of the first three waves of the HILDA data (2001-03).

Reviewing the available evidence in 2005, the Commission concluded that there was a diversity of experience among low-paid adult workers, with no universal pattern of progression to better jobs. The Commission said:

We accept that for some employees low-paid employment is a short, transitory state... But the HILDA data confirm that for a substantial proportion low-paid employment is an enduring reality (AIRC, 2005, p.98).

Alluding to the similarities between the Commonwealth government’s analysis of the HILDA data and the earlier results of Dunlop, the Commission said that it was not evident that previous safety net increases had impeded the advancement prospects of award-reliant workers. In a partial concession to the Commonwealth government, the Commission did accept that, all else equal, ‘excessive increases in minimum award rates are likely to reduce the incentive for low-paid employees to progress’, and indicated further that the possibility this effect was relevant in determining the appropriate safety net increase (AIRC, 2005, p.98).

The extent to which such ‘disincentives’ operate in the Australian labour market has not been established empirically. We do know, however, that the incidence of advancement is related inversely to the level of earnings inequality in developed economies, in that the low paid are *less* likely to advance when overall earnings inequality is high (Richardson, 2005). Hence, while the disincentive effect identified by the Commission may operate in practice, its impact on mobility must be balanced against the positive contribution that safety net adjustments make in compressing the earnings distribution below the median and maintaining a smaller gap between the lowest paid and the rest of the workforce than would exist in a ‘deregulated’ labour market.

Conclusion

This chapter has examined the wages of award-reliant workers in order to determine how closely related is the safety net adjustment process to the concept of low pay. We have shown, using various analytical methods and national

statistical data, that award-reliant workers do have significantly lower wages than other workers whose pay is set by agreement. This conclusion applies whether we examine the distribution of wages, average wages for groups of similar employees or the wages of individual employees. Our reading of the published literature on earnings mobility and our assessment of the mobility evidence submitted by major parties in safety net wage cases shows further that the employees affected most by safety net decisions are those with the poorest prospects of advancing to higher pay over time through bargaining, job change or promotion.

The evidence presented is consistent with the safety net having two central functions. One is to provide a basic level of protection for workers who are likely to remain long-term recipients of relatively low wages. The other is to provide the opportunity for employees in stronger bargaining positions to negotiate higher pay through agreements with employers above the minimum rates required in awards. The safety net maintained by the AIRC served both purposes. We have seen that employees with the greatest probability of award reliance are the most likely to be low paid, and also that there are significant material benefits from bargaining. In light of these two observations, we conclude that the safety net was adjusted to the benefit of the lowest paid, but in a manner that retained ‘incentives to bargain’ consistent with the intent of the *Workplace Relations Act 1996*.

While we have ample evidence demonstrating that award-reliant employees are lower paid, when compared to other workers in the same occupations or with similar human capital, a proportion of safety net adjustment recipients nonetheless has quite high hourly wages. The exact proportion depends on how we define a ‘low’ wage. The submissions of the ACTU cast any wage in the bottom half of the distribution as low. On this expansive definition, approximately 80 per cent of award-reliant workers are low paid, and 20 per cent higher paid. There is, as the ACTU insisted, ‘a substantial overlap’ between the low-paid workforce and the group receiving safety net increases, on this definition.

The Commonwealth government argued instead that wages below the skill level of a metals tradesperson should be considered low. Applying this standard to the 2006 EEH data, we showed that approximately one-third of award-reliant workers are low paid and two-thirds high paid. The wide disparity between these estimates

is a reminder of the limitations of low-pay benchmarks, and helps to explain why the Commission never adopted any such benchmark in the *Safety Net Review – Wages* decisions we have discussed in this chapter.

CHAPTER SIX: Prevailing Living Standards and the Quest for Fairness

Introduction

The *Workplace Relations Act 1996* (WR Act) stipulated that, in performing its dispute prevention and settlement functions, the Australian Industrial Relations Commission ‘must ensure that a safety net of fair minimum wages and conditions of employment is established and maintained’ (section 88B(2)). The Act specified three criteria that the Commission should ‘have regard to’ when establishing and maintaining this safety net of fair minimum wages and conditions. The first criterion was ‘the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community’. The second criterion referred to ‘economic factors’, specifically productivity and inflation and ‘the desirability of attaining a high level of employment’. The third criterion introduced ‘the needs of the low paid’ as a consideration when adjusting the safety net.

While the WR Act regarded all three of the above criteria as relevant to the fairness of the wages safety net, the focus of this chapter is narrower. It examines the approach of the Commission and the major industrial parties in respect of the first two criteria, in particular their interpretations and uses of the requirement that the safety net be ‘fair’ by reference to ‘living standards generally prevailing in the Australian community’. (We examine ‘the needs of the low paid’ in the next chapter.) This chapter takes a longer-term perspective on the role of the wages safety net than other chapters in this thesis, which use mainly cross-sectional data. One of its major objectives is to show how the changes in award minimum rates of pay during the safety net era compared with the changes in other indicators of ‘general living standards’ nominated by the parties and referred to by the AIRC.

The Commission’s *Safety Net Review – Wages* decisions demonstrate its concern for providing minimum wages which met the test of fairness. In its April 1997 decision, the majority of the Full Bench of the AIRC stated unequivocally that ‘the key factor governing our considerations here is, in our view, fairness’ (AIRC, 1997, p.20). In later cases, the Commission reiterated its views about the pre-

eminence of fairness, noting in particular the safety net's role as the benchmark against which agreements were certified under the 'no-disadvantage' test (AIRC, 2001, p.43). Many other, similar comments highlight the Commission's interest in providing 'fair' outcomes.

The conception of fairness developed in this chapter is one based on the submissions of the major parties to safety net cases and the uses to which these submissions were put by the AIRC. The chapter does not draw on the broader scholarly literature about what constitutes fairness, either in wages generally, or in the special context of setting minimum wages (see Rees, 1993). Nor does it draw on historical analyses of how fairness has been interpreted in earlier periods of arbitral wage fixation in Australia (see Macarthy, 1969; Macintyre, 1985; Hancock and Richardson, 2004). Our aims are to: (1) identify the standards of fairness proposed by the main parties to safety net review cases, (2) show which of these were adopted and applied by the AIRC, and (3) assess empirically how the minimum rates set in awards evolved relative to these standards.

This introduction is followed by three sections which review the major parties' stances on fairness, as expressed in their submissions to safety net cases. We argue that there were three primary standards of fairness proposed by the parties. These were: average weekly earnings (the ACTU), productivity (ACCI) and household disposable income, as approximated by changes in the poverty line (the Commonwealth government and AIG). We show that, of these three indicators, the one which the Commission referred to most often as a measure of changes in general living standards was average weekly earnings. We discuss the basis of this choice and the objections to it raised during the safety net proceedings.

Following the review of the parties' submissions, three further sections of the chapter explore how the series of safety net wage adjustments made by the AIRC affected the levels of award minimum rates of pay compared to the measures of fairness proposed by the parties. We use historical data from the ABS for these parts of the analysis. For some of the comparisons, we reproduce or update figures from the parties' original submissions to the safety net review cases. For other comparisons, we introduce new data or new graphical representations that extend the parties' evidence. Finally, we draw conclusions from the empirical evidence

about the meaning of fairness, as it applied to recent minimum wage fixation in Australia.

The use of wage comparisons

The ACTU argued that, in determining what was meant by ‘living standards generally prevailing’ and how these standards were changing, the Commission could not avoid a consideration of the growth in employment incomes. The earnings of workers were so fundamental to their overall living standards and the economic well-being of their dependents that:

To seek to ascertain the level of, and movement in, living standards generally prevailing in the community without having regard to what is happening to market rates of pay, is an artificial and constrained exercise likely to generate erroneous results. Income and living standards are not synonymous, but the two are intimately and inextricably connected (ACTU, 1998, p.48).

In establishing how award minimum rates had fared relative to ‘market rates of pay’, the historical data of most value to the ACTU were those relating to full-time average weekly ordinary-time earnings (known as ‘AWOTE’). In graphs showing the values of key award minimum pay rates as a proportion of AWOTE between 1983 and 2001, the ACTU calculated that the C10 rate for a tradesperson had declined from 77 to 62 per cent of full-time average weekly earnings, while the C14 rate – the equivalent of the FMW after April 1997 – fell from 61 to 50 per cent of full-time average weekly earnings (ACTU, 2002, Figure 2.13, p.36). By 2004, the C10 award rate was worth less, as a proportion of AWOTE, than the C14 rate had been in 1984 (ACTU, 2005, p.56).

The ACTU asserted that this divergence between the award rates and AWOTE was not the product of accelerating growth in average weekly earnings, but was due to ‘a falling behind in the growth rate of award rates of pay, beginning in the early 1990s’ (ACTU, 2002, p.32). The divergence provided a justification for the Commission to deliver larger wage increases, sufficient to ‘reverse this trend, and restore some of the relative value lost in award rates’ (ACTU, 2003, p.32).

Other parties challenged the ACTU comparative method and its use of AWOTE data to establish that award-reliant workers were ‘falling behind’. The Joint Governments (including the Commonwealth government) said that there was no

requirement for the Commission to reflect ‘market rates of pay’ back into the safety net minima. To do so would be antithetical to the objective of having wages and conditions determined as far as possible through direct bargaining, and thus ‘completely untenable under the [Workplace Relations] Act’ (DEWRSB, 1996, p.6). Any direct linkage between award rates and the rest of the market would imperil the Objects of the WR Act, as ‘many workers would receive real wage increases without having to engage in agreement making. This would create a serious disincentive for unions and employees to negotiate enterprise or workplace agreements’ (DEWRSB, 1996, p.97). Such an approach would also ‘raise the potential for an undesirable interaction between awards and agreements, which could lead to inflationary pressures’ (DEWRSB, 1996, p.102).

The Joint Governments said that ACTU allegations about low-paid workers falling behind were inconsistent with the evidence of real wage gains across the distribution since the start of the safety net era. Using estimates of weekly earnings for full-time, adult, non-managerial employees from the Survey of Employee Earnings and Hours (EEH), adjusted for quarterly increases in the Consumer Price Index (CPI), the Joint Governments calculated the real growth in earnings at different points of the full-time distribution. Between May 1991 and May 2000, real earnings increased by 11 per cent for the employee at the 10th percentile of this distribution. During the same period, the growth in real earnings was 13 per cent at the 25th percentile and 17 per cent at the median (DEWRSB, 2001, Table 4.3, p.46). These estimates demonstrated that there was strong growth in real earnings for the lowest-paid full-time employees throughout much of the safety net period.

The Joint Governments’ evidence also confirms that there was growing earnings inequality in the full-time labour market. While real earnings increased across the distribution, the *rate* of increase was comparatively faster for employees at higher percentiles. This evidence is similar to that used by the ACTU in contending that the full-time earnings distribution had become ‘more polarised’ during the safety net era (ACTU, 2000b, p.148).

The Commonwealth government (appearing on its own in cases after 2001) did not seek to counter this ACTU contention, but argued that the most pertinent

result regarding fairness was the improvement in real earnings for employees at the bottom of the distribution. The growth in earnings inequality was a long-term phenomenon, which partly reflected market forces driving demand higher for skilled workers unaffected by safety net decisions. Increasing earnings dispersion could also serve a useful ‘allocative’ function, by encouraging investments in human capital and rewarding other efforts to improve productivity (DEWR, 2003, p.87). The critical point for the Commonwealth government, in relation to living standards generally prevailing, was that:

real wages have risen for all parts of the earnings distribution, including the low paid... This real growth in wages (plus the effect of the tax transfer system) has helped to lift the overall income of low paid people (DEWR, 2002, pp.85-86).

There was also a debate in safety net cases about whether the fairness of award rates of pay could be inferred accurately from their growth compared to *earnings* measures, such as AWOTE. The Joint Governments said:

It is simply invalid to compare growth in AWOTE with changes in award rates of pay and reach the conclusions that the ACTU does, because AWOTE is affected by compositional change while award rates are not. It is wrong to effectively assume that employees just stay on one award rate – we have shown that there is a substantial amount of upward earnings mobility in Australia, particularly for low paid employees (DEWRSB, 1999, p.211).

The main alternative to AWOTE was a ‘Wage Cost Index’ (WCI), developed by the ABS specifically for the purpose of measuring the change over time in base hourly rates of pay, rather than the changes in earnings. The Joint Governments said that the Wage Cost Index was the more suitable indicator for the types of comparisons the ACTU (and other parties) were making, because it was not affected by underlying compositional changes in the workforce, such as the expansion or contraction of particular industries or occupations. The WCI attempted to measure the growth in wage costs for a ‘fixed basket’ of jobs over time, much as the Consumer Price Index measures the growth in prices for a fixed basket of goods and services. The Commonwealth government expounded the benefits of the WCI, noting that:

The Commission determines wage levels, not earnings. Employers may counter the cost of wage increases by reducing employee hours, so that changes in employee earnings do not reflect the change in their wages...

[The Wage Cost Index] specifically adjusts for changes in the number of hours and the quality of work. It therefore represents changes over time in the pay received by a worker performing the same tasks with the same requisite skill level. This is analogous to analysing the same award rate over time (DEWR, 2003, pp.18-19).

The Commonwealth government prepared a graph comparing the Wage Cost Index to two key award classification rates – the FMW and C10 – as part of its submission to the 2004 safety net review case. It showed the percentage growth in the WCI and the two award rates for the period September 1997 (the first quarter for which WCI data are available) to September 2003. The analysis used the WCI series for ‘total hourly rates of pay excluding bonuses’; unlike earlier estimates for ‘ordinary-time’ earnings, this series includes overtime payments. The graph shows that the WCI series grew by slightly more than the change in the C10 award rate, but by less than the FMW. This comparison implies that, between 1997 and 2003, the Federal Minimum Wage increased more quickly than wage rates generally (DEWR, 2004, Chart 3.5, p.27). Relying on this evidence, the Commonwealth government insisted that the Commission should ‘disregard’ the ACTU assertion, based on AWOTE data, that ‘safety net adjustments have not kept pace with the growth in earnings generally’ (ACTU, 2000b, p.142). The graph prepared by the Commonwealth government also shows, however, that award rates at or above the tradespersons’ (C10) level did not increase as quickly as wage rates generally. We have shown in Chapter Five that most award-reliant employees receive these higher classification rates.

The ACTU commented on the different wage measures and their limitations and uses in Appendix A to its submissions in 2002 (ACTU, 2002, p.169). Its argument, summarised in the main part of the submission, is that ‘whilst the Wage Cost Index provides a useful indicator of *wage costs*, the wages bill measures [such as AWOTE] provide the best indicator of movements in *living standards* (i.e., of wages as earnings)’ (ACTU, 2002, p.12). Elaborating this comment in the Appendix, the ACTU said that the choice of indicator should be guided by its intended use. If the Commission wanted to know how wages had changed ‘as a cost to employers’ – for instance, in order to assess the likely impact of any adjustment on employment rates – the Wage Cost Index was the most appropriate measure. The WCI was not as useful, however, in considering how wages affect

living standards generally prevailing – that is, their role in providing an income for workers (ACTU, 2002, p.173).

Over the series of *Safety Net Review – Wages* decisions between 1997 and 2005, the Commission accepted three central tenets of the ACTU submissions around fairness and living standards. The Commission: (1) confirmed that changes in average weekly earnings were useful in assessing living standards generally prevailing; (2) stated that earnings series such as AWOTE were to be preferred over the WCI for this particular assessment; and (3) acknowledged the growing ‘gap’ between wages for award-reliant workers and for other workers covered by agreements. The Commission’s acceptance of these points represented major victories for the ACTU side of the ‘fairness’ debate.

In April 1998, the Commission accepted the ACTU claim that: ‘Since 1992-93 there has been a growing disparity between growth in AWOTE and increases in award rates of pay’. The Commission said further on that occasion that ‘the gap between income levels established as a result of bargaining and those determined by the award system is widening’ (AIRC, 1998, p.39). This disparity in outcomes was noted more forcefully in the April 1999 decision, where the Commission said: ‘There is clearly a gap between income levels derived from bargaining and those provided by the award system’ (AIRC, 1999, PN 81, p.31). In deciding to award a ‘tiered’ safety net adjustment (\$12 per week to employees on award rates up to \$510 per week, and \$10 per week to employees on higher rates), the Commission observed that: ‘Over the two years up to the end of December 1998 increases in award rates arising from safety net adjustments have not kept pace with the growth in earnings generally. Nor have they kept pace with increases resulting from enterprise agreements’ (AIRC, 1999, PN 84, p.32). The Commission added that its tiered increase meant that ‘wages at the lower levels of the award classification structure will increase broadly in line with the increase in earnings generally [and] the real value of wages at the higher classification levels will be maintained’ (AIRC, 1999, PN 87, p.33).

There is no sign that the Commission changed position significantly on these matters in its later decisions. In June 2005, the Commission reiterated its view about the value of earnings measures for evaluating changes in living standards:

In dealing with an application to keep the safety net of minimum rates in good repair, the Commission is required to have regard to living standards generally prevailing in the Australian community. This requirement invites a comparison between the rates of pay in the Commission's awards and rates of pay generally... While the WCI is a better indicator of changes in remuneration for a particular job than AWOTE, it is not a good indicator of changes in earnings in the Australian community (AIRC, 2005, pp.106-107).

A similar view was expressed in an important speech given by Justice Giudice to the Industrial Relations Society of the Northern Territory in September 2005. Discussing the Commission's experience of minimum wage fixation between 1996 and 2005, His Honour spoke of the requirement to consider living standards generally prevailing and said:

This issue, like the others, we hear evidence and submissions on, and strive to reach a conclusion... There is a lot of data to consider. Much of the data is ambiguous and there is a deal of subjectivity in the arguments. *One objective measure of living standards generally prevailing is growth in average weekly earnings* (Giudice, 2005, PN 20-21, p.8, italics added).

Using evidence from the 2005 *Safety Net Review – Wages*, Justice Giudice noted the continuing inequalities in wages growth for award and agreement-covered employees:

Since 1996, growth in average weekly earnings has outstripped growth in the minimum wage by a significant margin and growth in award wages at the other [higher classification] levels by correspondingly more... The market, fuelled by enterprise bargaining, is moving away from the award safety net (Giudice, 2005, PN 22-23, p.9).

These comments from the President of the AIRC, read alongside the unanimous views of the various Full Benches from earlier *Safety Net Review – Wages* cases, leave little doubt about the Commission's positive stance toward the use of average earnings data in understanding changes in Australian living standards. The Commission did not say that these data should be used to the exclusion of other comparators, such as the WCI, but its comments imply that average earnings were the most important in judging whether the safety net was 'fair' by the standards provided in section 88B(2) of the WR Act.

The importance of productivity growth

Although the Commission was satisfied that movements in average weekly earnings could be used to understand changes in living standards, it was also acutely aware of the economic limits to safety net adjustments. The majority of the Full Bench in 1997 expressed concern that, unless aggregate wage growth was restrained by the voluntary actions of unions and employers negotiating agreements, the bulk of the gains arising from productivity growth would be captured through bargaining, leaving little 'space' for the Commission to grant similar increases to workers still dependent on the award safety net, without adding to inflation and unemployment. There was an onus on the participants in bargaining to moderate their claims and concessions, 'in recognition of the new, non-inflationary environment' which had come with the economy's recovery from recession in the early 1990s. Otherwise, the Commission believed,

...[we] may be faced with either accepting the growing disparity between wage levels in the two [award and agreement] sectors, or seeking to reduce the disparity in a manner which might prove incompatible with national inflation and employment objectives. Neither course commends itself to us (AIRC, 1997, p.50).

The Australian Chamber of Commerce and Industry (ACCI) was strongly of the view that productivity growth, rather than the growth in average earnings, should determine the level of safety net wages. ACCI said that the root source of Australia's prosperity, and hence its living standard, was industry productivity. Considerations about equity and fairness were not irrelevant in minimum wage fixation, but were secondary to the issue of whether the growth in production gave employers the 'capacity to pay' higher labour costs. These sentiments are summarised usefully in the following passage from the ACCI submissions to the 1996-97 safety net review case:

The ACTU claims that there is a right of all Australian workers to a decent standard of living. It is not clear where this 'right' comes from, given that the Australian standard of living is based on the productivity of the private sector... While equity will always be a guiding objective, the notion of what is equitable is not capable of precise definition in wage fixation, and the use of terms such as fairness does not take the matter much further. Does it mean that there is a right to own a video recorder as well as a television, to smoke or gamble, or to own a car? ... A more appropriate principle for the Commission to adopt would be that wage

increases must be based on productivity improvement (ACCI, 1996a, pp.58-59).

The rate of ‘productivity improvement’ represented for ACCI an effective limit to the rate of growth in wages generally, and award wages in particular. At the level of the whole economy, ‘higher wages not supported by greater productivity simply lead to more unemployment and increases in the rate of inflation... There is no magic pudding – wages can only rise in the aggregate if output per person also rises’ (ACCI, 1996b, pp.29-30). At the microeconomic level, ACCI said, there were hazards in assuming that the aggregate productivity growth rate was universal across firms:

The economy does tend to become more productive at the rate of around 2 per cent a year, but not every business increases its productivity at the average rate. And, because for employees paid according to the award there are no systematic improvements in productivity associated with a bargaining process, it is probable that productivity growth is lower in firms that largely employ those on minimum award rates (ACCI, 2002, p.87).

The ACTU had referred to evidence of productivity growth to argue that award-reliant workers should get an increase in their wages equivalent to the percentage increase obtained by agreement-covered workers. ACCI said, however, that this approach was simplistic and inappropriate, because the Commission was not setting wages for all workers, but only for a specific minority. It was not reasonable to raise award rates in line with agreed increases, because agreements were often negotiated in the context of bargaining between employers and employees about how to reform work practices to raise efficiency. Award workers were not expected to give similar commitments as a pre-condition of receiving safety net wage adjustments.

The risk that safety net increases would not be ‘supported’ by productivity gains was also increased, in the ACCI submission, by the fact that productivity is not a ‘stored commodity...which can be kept on ice until such time as the Commission or someone else makes a decision to distribute it’. Whatever the value of productivity created in the economy since the previous safety net adjustment, ‘it has already been distributed, some of it in lower prices, some in higher wages, and some in lower rates of interest’ (ACCI, 1996b, pp.18-20). Some of it was also

distributed, as we show below, through an increase in the profit share of national income during the safety net era.

It was partly in response to the fact that productivity improvements were unable to be kept in reserve for award-reliant workers, and were instead being ‘captured’ largely by workers in the bargaining sector, that the majority of the Full Bench of the AIRC called for moderation in agreed outcomes in the April 1997 decision quoted earlier in this section. As economic conditions stabilised and improved in subsequent years, the Commission’s capacity and willingness to grant increases which would halt a further deterioration in the relative wages of award-reliant workers grew in response to these conditions. In 1998, the Commission unanimously granted a \$14 per week increase in all award rates, noting that ‘current economic conditions provide an opportunity for a safety net adjustment which will constitute an increase in real wages for employees at the lower award levels’ (AIRC, 1998, p.40).

That decision drew sharp criticism from ACCI in 1999. The real wage increase, which the Commission had plainly intended, was characterised as endangering the economic recovery:

It cannot be emphasised too greatly that moderation in the growth in labour costs ranks high amongst the most important pre-conditions for keeping an economy growing rapidly and without inflation. That is why we state categorically that even with the economy having continued to grow, last year’s decision was totally inappropriate. The decision to increase award rates by up to \$14 per week was fundamentally unsound (ACCI, 1999, p.39).

Despite their strong rhetoric around productivity, the ACCI submissions were in most cases not supported by concrete evidence showing that award rates grew more rapidly than productivity, whether in real or nominal terms, in the aggregate or in particular sectors, or for all or part of the safety net era. ACCI was in the difficult position of opposing wage increases on the grounds that they overextended industry’s capacity to pay during a period when most measures of productivity grew strongly (see Figure 1.1, Chapter One, and later in this chapter). This position unwittingly gave the impression that ACCI would not oppose safety net increases which approximately matched the growth in average productivity over a period of several years.

The Commission referred specifically to ‘the growth in GDP and productivity’ in making one of its largest safety net adjustments. In May 2002, the Full Bench granted an \$18 per week increase in all award rates – the largest nominal increase up to that time, and the second-largest in the entire safety net era. Explaining its reasons for the increase, the Commission said: ‘In the circumstances, *particularly the growth in GDP and productivity over recent years*, the outcome is a fair one which properly balances the range of matters which we are obliged by the [WR Act] to take into consideration’ (AIRC, 2002, p.58, italics added). This comment is among the clearest evidence anywhere in its recent decisions that the Commission was doing as ACCI had urged it to do: using productivity growth as one indication of what constituted a ‘fair’ safety net adjustment.

Tax-transfer policies and poverty rates

Another important area of debate over the living standards criterion related to how the Commission’s decisions should respond to and accommodate the occasional changes in government taxation and social welfare policies affecting low-income households. The Joint Governments said that ‘living standards generally prevailing’ could not be ascertained fully by reference to labour market indicators, such as average earnings or labour productivity. It was also necessary for the Commission to take heed of the cash benefits provided through regular income-support payments and, more generally, the effects of a progressive taxation system on household incomes. While critical of the methods used to develop ‘poverty lines’, the Joint Governments said that the ACTU analysis ‘singularly fails to make the case that, for a range of notional households, low award rates are insufficient, *when cash transfers are taken into account*, to lift these households above the poverty line’ (DEWRSB, 1996, p.96, italics added). This criticism implies that the Joint Governments saw the poverty line as one useful indicator of living standards generally prevailing in the Australian community.

There is no universally accepted measure of poverty. One measure in widespread use in Australia is the Henderson Poverty Line (HPL), which derives from the 1973 Commission of Inquiry into Poverty established by the Commonwealth government and chaired by Professor Ronald Henderson of the University of Melbourne. The HPL is an income measure, and is adjusted (using an equivalence

scale) for households of different size and composition (DEWRSB, 1996, pp.112-14).⁶⁴ For the period relevant to this study, the Henderson Poverty Lines were updated quarterly by the Melbourne Institute of Applied Economic and Social Research, using estimates of per capita household disposable income from the Australian Bureau of Statistics.⁶⁵

The Joint Governments used the Henderson Poverty Lines in their submission to the 1996-97 safety net review to argue that the combination of wages and cash transfers was highly successful in keeping poverty rates close to zero for working households. Based on the tax-transfer arrangements which existed in October 1996, they estimated that disposable income exceeded the HPL (after housing costs) for every type of family with an adult wage-earner employed full-time at the C14 award rate of \$349.40 per week. A single person employed at the C14 rate had a disposable income equivalent to 128 per cent of the single-person HPL. A single parent with one child under 5 years was at 145 per cent of the relevant HPL, and a couple with two children under 5 years (with only one of the parents working) was at 112 per cent of the relevant HPL (DEWRSB, 1996, p.118). These data were said to refute the ACTU claim that some of the lowest award rates leave workers in a state of poverty (DEWRSB, 1996, p.117).

The tax and transfer arrangements reflected in the Joint Governments' initial evidence were changed substantially by the introduction of 'A New Taxation System' (ANTS) in July 2000. This package included a new tax on goods and services (GST), with the associated price increases offset by reductions in other personal income tax rates. For the 2002 safety net review case, the Commonwealth government commissioned data from the National Centre for Social and Economic Modelling (NATSEM) to show the proportion of total cash income contributed by cash transfer payments under the new tax system. Its estimates divided the population of working families (defined as those with at least one adult wage-earner) into income quintiles. On average, families in the

⁶⁴ See further discussion of the derivation and use of 'equivalence scales' in Chapter Seven.

⁶⁵ Another way of deriving poverty estimates is to calculate the number of persons in households with income less than half (or some other fraction of) the average income. Yet another approach is to derive 'consensual' poverty lines, based on community opinions about the minimally necessary income to allow a household of given size to 'just make ends meet' (Ross, 1997, pp.21-23; DEWRSB, 1998, pp.212-18).

bottom quintile received 27 per cent of their total cash income in the form of transfer payments. Their average total cash income was 37 per cent higher, as a result of their access to transfer payments, than it would have been if they were dependent solely on private incomes (including wages). The comparable proportions for working families in all other income quintiles were less than 10 per cent (DEWR, 2002, Table 6.1, p.84). The Commonwealth government said that these data highlighted the significant contribution that transfer payments continued to make to the living standards of low-income families. If wages were considered in isolation from this source of assistance, as in some of the ACTU evidence, the analysis would ‘tend to overstate the incidence of poverty or financial distress in the community’ (DEWR, 2002, p.85).

The Australian Industry Group (AIG) shared the Commonwealth government’s view that changes to taxation arrangements or income support payments could reduce or eliminate the need for a safety net wage increase. On several occasions, AIG argued that the Commission should recognise these changes by ‘discounting’ the safety net adjustment it would have awarded in their absence.

In 2004, AIG said that ‘significant changes’ in the past year to income support and taxation arrangements should bear on the Commission’s safety net wage decision. It said that lower income tax liabilities, increases in income support payments and the ‘easing’ of income tests for eligibility for some types of income support ‘have had positive material impacts on the living standards of the low paid’ (AIG, 2004, p.46).⁶⁶ AIG calculated the impact of these changes on disposable incomes for a range of notional households. It also estimated the increase in earnings that would be needed to deliver an equivalent increase in disposable income for each type of household. Its calculations showed, for instance, that a single-income household comprising a couple with two dependent children would require a \$20 per week increase in its earnings to match the increase in income delivered by the changes to taxation and income support arrangements. A single person would require only a \$10 per week increase in earnings to achieve the same outcome (AIG, 2004, Annexure 4). AIG said that

⁶⁶ The major changes reported in the submission were increases in income tax thresholds (the points at which higher marginal tax rates apply), increases in Family Tax Benefits and rent assistance, and an increase in the value of the tax offset for low-income earners, from \$150 to \$235 per annum.

these benefits ‘reduce the requirement that increases in award wages be pursued to meet the needs of the low paid’ (AIG, 2004, p.52-55).

AIG used stronger rhetoric to explain to the Commission a number of further policy changes introduced in the year preceding the 2005 safety net review case. It said:

Over the past year, the low paid – particularly those with children – have received massive increases in income support payments... The safety net adjustment that the Commission would otherwise have awarded in these proceedings should be substantially discounted to take account of the recent increases to income support payments (AIG, 2005, pp.7-8).

AIG again sought to estimate the disposable income effects of the ‘massive increases’ it described. A single-income family with a couple, two dependent children, and an earned income of \$450 per week, was said to have received a 5.5 per cent increase in its disposable income – equivalent to a \$53 per week increase in pre-tax wages (AIG, 2005, p.30). A single parent with one child and the same earned income saw its disposable income rise by 6.6 per cent – equivalent to a \$110 per week increase in pre-tax wages (due to a very high effective marginal tax rate for this type of family) (AIG, 2005, p.32). AIG said: ‘If the *2005 Safety Net Review decision* applied only to families with children, [we] could see no reason to grant an increase in safety net wage rates at all this year’ (AIG, 2005, p.33). It acknowledged, however, that single people and families without children had not benefited from the changes in income support payments (AIG, 2005, p.34). This facet of the changes will be important if most safety net adjustment recipients are people without children (see further in the next chapter).

The ACTU accepted that some changes to government policy were of benefit to some low-income families. In 2005, it conceded that ‘increases in the real value of income support system payments do have an impact on the disposable income of low paid employees (albeit only those eligible to receive such payments)’. But the ACTU did not accept the premise that safety net adjustments should be ‘discounted’ in response to these changes. Its main argument against discounting was that the WR Act did not compel it: ‘There is no statutory direction to discount

wages for social wage factors' (ACTU, 2005, PN 7.55, p.111).⁶⁷ In an earlier case, the ACTU maintained that 'The Commission's duty with respect to low paid workers is not usurped, lessened or obviated by the social security system' (ACTU, 2000b, p.120). This position is in stark contrast to the Commonwealth government's stance, shared by AIG, that 'the living standards of the low paid are best addressed through the tax-transfer system' (DEWR, 2004, p.71).

The Commission's views were, in one respect, sympathetic to the ACTU's position. In 2005, the Full Bench discussed the interaction between wages and welfare and said that 'all other things being equal it is preferable that income be sourced from earnings rather than welfare' (AIRC, 2005, PN 414, p.111). But the Commission's role was limited to fixing the wages component of the broader social safety net. It could not ignore the fact that many low-paid workers were in families entitled to some form of government income support. Referring to submissions from the Australian Catholic Commission for Employment Relations, which argued that workers' needs were met to whatever extent they received social-welfare payments, the Commission said:

As a matter of logic if the tax transfer system is enhanced to the benefit of low-paid employees then it assists in meeting their needs. It would follow that such enhancements would be a factor to which we would have regard when considering the needs of the low paid (AIRC, 2005, PN 352, p.96).

Although the Commission held that tax-transfer policy changes could, in principle, be grounds for awarding a lower safety net adjustment, it found that, in practice, few of the changes brought to its notice were of sufficient magnitude to warrant such action. Many of the benefits described by AIG were either: one-off compensation for changes in other parts of the taxation system (e.g., the package accompanying the introduction of the GST in 2000), limited in terms of their immediate material benefits (e.g., rules affecting superannuation), or targeted exclusively to families with dependent children (e.g., the 2004-05 Budget tax changes). In some cases, the Commission found that the changes merely represented the indexation of existing benefits to increases in the cost of living, as measured by the Consumer Price Index (CPI). In the 2004 safety net case, for instance, the Commission responded to what AIG had represented as 'significant'

⁶⁷ The 'social wage' is the term used by the ACTU for what other parties generally described as the tax-transfer system or, in some case, the 'broader social safety net'.

changes, by noting that ‘...in oral submissions no party contested the proposition that the increases in income support payments reflected only CPI adjustments’ (AIRC, 2004, PN 302, p.85).

Other cases were decided in the context of an essentially unchanged social welfare system. In 2002, and again in 2003, the Commission had no proposals before it recommending a ‘discounted’ safety net adjustment on the basis of specific changes in the social safety net (AIRC, 2002, pp.54-55; 2003, p.72). The Commission acknowledged repeatedly the limitations of its powers under the WR Act, but contended that it was merely responding to the wage-fixing criteria. Other parties were responsible for designing a better system:

The variation of awards to provide wage increases is the only tool available to the Commission to address the “*needs of the low paid*” in the “*context of living standards generally prevailing in the Australian community*” and having regard to economic considerations... The Commission must utilise that tool from time to time, notwithstanding the fact that it is an imperfect and partial mechanism for addressing the needs of the low paid. If the Commission was presented with alternative proposals that more effectively addressed the needs of the low paid this may enable the object of maintaining a safety net of fair minimum wages to be achieved in a way that better balances meeting the needs of the low paid with the economic considerations (AIRC, 2003, p.72, italics in original).

The major ‘alternative proposal’ was that safety net adjustments be replaced by a new tax concession for workers in low-income families, similar to the Earned Income Tax Credit (EITC) operating in the United States. This idea was brought to wider attention in Australia by an open letter to the Prime Minister from five prominent economists in October 1998. Under their proposal, ‘the needs of the low paid’ would be met through the taxation system, with a credit to eligible workers, rather than through increases in award wages. The expanded role of the taxation system would improve the ‘targeting’ of welfare payments to the most needy families, while the reduction in real wages for low-paid workers would accelerate the reduction in unemployment (Dawkins, 2002). The ‘Five Economists’ plan’ was discussed in safety net cases, but at no stage did the Commonwealth government propose the adoption of such a scheme. This left the plan as a theoretical alternative, with endorsement from key parties such as AIG, but without any realistic prospect of being enacted into law. As AIG recognised,

the adoption of the plan was dependent on political will and, ultimately, ‘...not within the control of the Commission or employers’ (AIG, 2002, pp.4-5).

Real wage outcomes

A central consideration in deciding whether safety net cases provided ‘fair minimum standards’ is their impact on the real value of award rates. Workers whose pay rises exceed increases in living costs, usually as measured by changes in consumer prices, are said to enjoy higher living standards from increased purchasing power and greater command over material resources. Over long periods, the *average* real wage tends to rise with economic growth and technical progress, but real outcomes at the margins of the labour market, for low-skilled workers, may differ from the average improvement. For workers whose pay is determined by legal minimum rates, there is the risk of real earnings being eroded by rising living costs if the minima on which they depend are left on hold for long periods. This fate has recently befallen minimum-wage workers in the United States, whose real earnings fell by 15 per cent between 1997 and 2006, as a result of inaction by the US Congress (Bernstein and Shapiro, 2006, Table 1, p.5).

The Federal Minimum Wage

The simplest way of evaluating the real effects of safety net decisions is to focus first on the Federal Minimum Wage. Figure 6.1 plots the evolution of the FMW over the time period March 1992 to March 2006. The appearance of the graph follows Leigh (2007, p.435), but uses the weekly values of the FMW and covers a longer time period. Figure 6.1 shows three separate lines, all of which are derived from the same data on award rates of pay, taken from AIRC decisions. The dashed line represents the nominal dollar values of the FMW. This line steps up to progressively higher levels over the time period shown, increasing from \$325.40 per week in 1992 to \$484.40 per week in 2006, for a full-time adult worker. There were regular increases in the FMW – the product of an annual review process which avoided the problem of long-term real wage erosion described earlier for the United States.

The two solid lines in Figure 6.1 represent alternative versions of the real FMW. The data were obtained by ‘deflating’ the nominal FMW values by quarterly

values of the Consumer Price Index (CPI). The two lines use slightly different inflation series. The thinner solid line, marked ‘Real (ABS data)’, shows the nominal FMW deflated by the original CPI figures published by the Australian Bureau of Statistics (ABS). The thicker solid line, marked ‘Real (RBA data)’, uses a modified CPI series produced by the Reserve Bank of Australia (RBA). The RBA series adjusts the ABS estimates to remove the one-off price impact of the Goods and Services Tax (GST) introduced by the federal government in 2000. This alternative series is instructive, because the price increases associated with the GST were largely offset by reductions in personal (and some business) income taxation rates (Leigh, 2007, p.434, footnote 6). The real values of the FMW in Figure 6.1 are expressed in June 2005 dollars. This quarter was selected because it coincided with the final *Safety Net Review – Wages* decision of the AIRC.

FIGURE 6.1 – NOMINAL AND REAL INCREASES IN THE FEDERAL MINIMUM WAGE (C14): 1992-2006



Sources: AIRC *Safety Net Review – Wages*, various years; ABS ‘Consumer Price Index’ Time series spreadsheet Table 1 (catalogue no. 6401.0); and Reserve Bank of Australia ‘Consumer Price Index excluding tax effects’, accessed at http://www.rba.gov.au/statistics/measures_of_cpi.html

The RBA adjustment affects only the four quarters of data from December 1999 to September 2000, but Figure 6.1 shows that its impact on the estimated real values of the FMW, over the whole safety net period, is substantial. Over the period shown, the FMW increased in real terms by 5 per cent if the ABS deflator is used, or by 9 per cent if the adjusted RBA deflator is used. The real increase in the FMW thus appears more generous when the GST effect is removed. The two real FMW lines diverge until the September 2000 quarter, when the GST introduction brings the ABS series into line with the RBA series.

An area of potential controversy in measuring changes in the real FMW is the choice of beginning and end points for the analysis. The preceding paragraph noted that the real FMW increased by between 5 and 9 per cent, depending on the choice of deflator. This is true for the period March 1992 to March 2006. But this period includes the inflation which occurred in three quarters after the final AIRC decision in June 2005. Between September 2005 and December 2006, the nominal FMW was ‘on hold’, as the power over its adjustment passed from the AIRC to a new wage-fixing body, the Australian Fair Pay Commission. In October 2006, this new Commission determined a FMW of \$511.76 per week, to operate from 1 December 2006 (not shown in Figure 6.1). If June 2005 is selected as the end-point for measuring the real effect of AIRC decisions, to exclude this subsequent period of transition, the real FMW increase rises from 5 to 8 per cent on the ABS data, and from 9 to 11 per cent on the RBA data. This revision maximises the apparent positive impact of safety net decisions of the AIRC.

A final issue with Figure 6.1 is whether the real FMW growth over the full 1992-2006 period adequately describes the trend. Instead, the Figure suggests it would be better to think of two distinct safety net ‘periods’ operating between these years. The first is from 1992 to 1996, when the real FMW declined, no matter which deflator is chosen. This period represents the end of, and initial stages of recovery from, an economic recession. The real value of the equivalent FMW (C14) fell, as the Labor government, in the final phases of its Accord with the ACTU, placed heavy emphasis on reducing unemployment, controlling inflation and creating ‘incentives’ for enterprise bargaining. Wages policy was one vehicle through which these economic and industrial goals were pursued. The equivalent

FMW reached its lowest point in real terms during this first period, in December 1995.

The years 1997-2006 represent a second distinct period. The early part of this period saw the installation of a new Coalition federal government, a significant change in the wage-fixing powers of the AIRC, and changes in the composition and leadership of the Commission, including the appointment of AIRC President, Justice Giudice, in 1997. Also, and perhaps most significantly, this was a period of initially very low, and later well-controlled, inflation. The calendar years 1997, 1998 and 1999 had annual inflation rates of -0.1, 1.6 and 1.6 per cent. The first three safety net decisions under the new wage-fixing powers were thus flowing through the economy at a time of very low inflation. Their real impacts were correspondingly large. The April 1998 decision, to increase the FMW by \$14 per week, was the largest real increase awarded by the Commission in the whole safety net era (a 3.2 per cent increase). That decision also raised the FMW substantially above its real level at the start of the safety net era, for the first time.

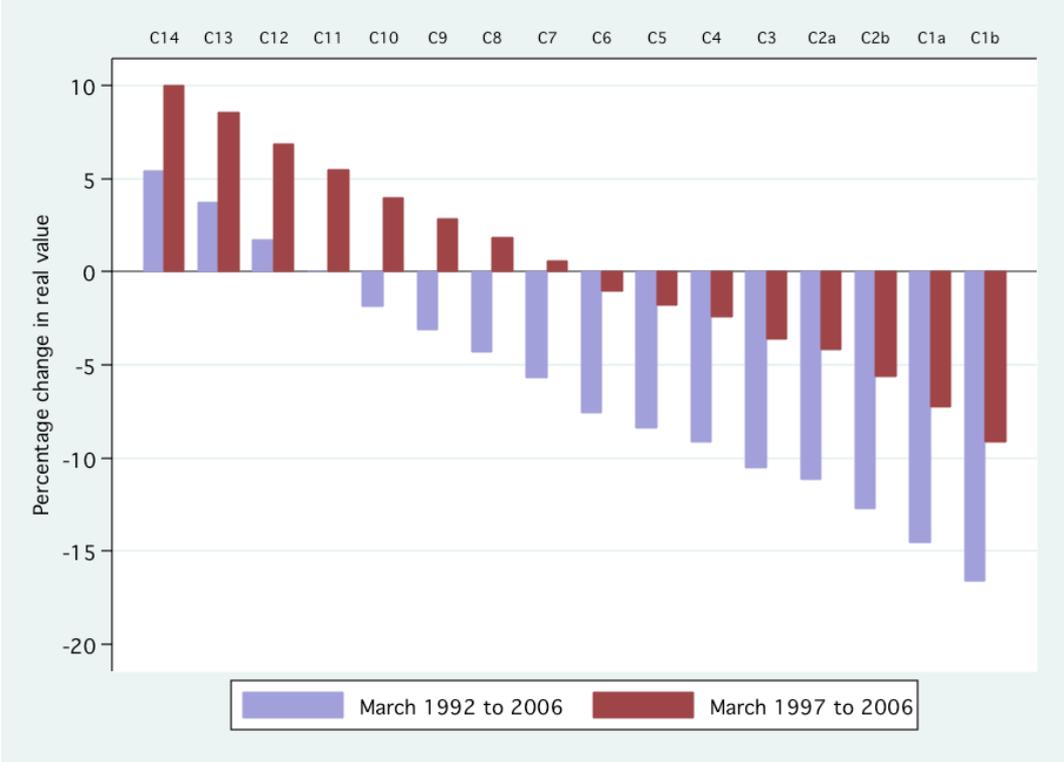
Other award rates

The real FMW describes part of the earnings impact of safety net cases, but ignores the other award classification rates. If the story of the FMW is one of initial erosion, followed by sustained growth after 1997, the story of other award rates is more varied and, for highly-skilled workers, less favourable.

Figure 6.2 shows real changes in all 14 classification rates from the Metal Industries Award. While based on data readily available to the Commission and the parties, the representation of these data in Figure 6.2 is original, and illustrates more clearly the disparate trends in real wage growth for award workers. The Figure distinguishes two time periods – 1992 to 2006, and 1997 to 2006 – recognising the divergent outcomes before and after 1997. The real changes were calculated using the unadjusted (ABS) CPI data, rather than the adjusted (RBA) data. We made this choice because it reflects the data which the AIRC had available to it at the time of its original decisions. Since the AIRC was referring to unadjusted prices, the ABS series allows the Commission's intentions to be compared retrospectively with their actual effects. The estimated real impacts of

safety net decisions will be smaller than if the RBA data were used, as the inflation rate over the whole safety net era was higher in the ABS series.

FIGURE 6.2 – REAL WAGE CHANGES ACROSS THE AWARD CLASSIFICATION STRUCTURE: 1992-2006



Sources: AIRC *Safety Net Review – Wages*, various years; ABS ‘Consumer Price Index’ Time series spreadsheet Table 1 (catalogue no. 6401.0).

Figure 6.2 shows that most award classification rates increased in real terms during the 1997-2006 period, which corresponds to the operative years of the *Workplace Relations Act 1996* (prior to the *Work Choices* amendments of 2006). The real FMW increased by 10 per cent during this period. Workers below the C10 tradespersons’ rate received real increases of at least 5 per cent, while workers above C7 experienced real wage declines. To give some sense of what this means in terms of workers’ skills, the C7 rate in the Metal Industries Award applied to workers with a ‘Certificate IV’ vocational qualification in engineering, or its equivalent.

Real outcomes were less favourable for award-reliant workers over the longer period from 1992 to 2006. The point separating workers with real wage increases from those with real declines now occurs further down the skills hierarchy, closer to the FMW. Real increases were obtained, over this period, only by workers

below C10. Above this rate, there were real declines of progressively greater magnitude. Workers above C3 had real declines of at least 10 per cent over the whole safety net period. These are workers with advanced diplomas in engineering or higher qualifications (or the equivalent in on-the-job experience).

An important conclusion from Figure 6.2 is that the ‘cap’ on safety net adjustments, which the Commonwealth government and ACCI supported, but which the Commission rejected repeatedly (see Chapter Four), was effectively delivered anyway by the interaction of flat increases with award rates and prices, over the longer period from 1992. If the aim of capping was to reduce employers’ costs for hiring skilled workers, then one possible reading of Figure 6.2 is that this aim was achieved, even without the Commission formally adopting any cap. This ‘effective’ cap is an important legacy of the safety net era, because it resulted in real wage cuts for most award-reliant workers. In Chapter Five, we estimated that 65 per cent of award-reliant workers (in the population of adult, non-managerial employees) were employed on rates above the C10 classification in May 2006 (see Figure 5.1). The effective cap at C10 was thus not an outcome of minor consequence. It was a result with significant negative implications for the living standards of most workers reliant on safety net decisions of the AIRC.

Award versus non-award outcomes

How can we reconcile the evidence from Figure 6.2, which shows real wage declines for most award-only employees, with the Commonwealth government’s submissions, noted earlier in the chapter, which showed real wage *increases* across the distribution, including for the very lowest paid workers?

Figure 6.3 uses data from the same ABS survey as that on which the Commonwealth government relied on for its evidence: the Survey of Employee Earnings and Hours (EEH). It shows estimates of real changes at different points of the hourly wage distribution between May 2000 and May 2006 for adult, non-managerial employees.

There are two major differences between the data in Figure 6.3 and those presented by the Commonwealth government in safety net cases. First, we use hourly ordinary-time wages, rather than weekly earnings. We do this to avoid the

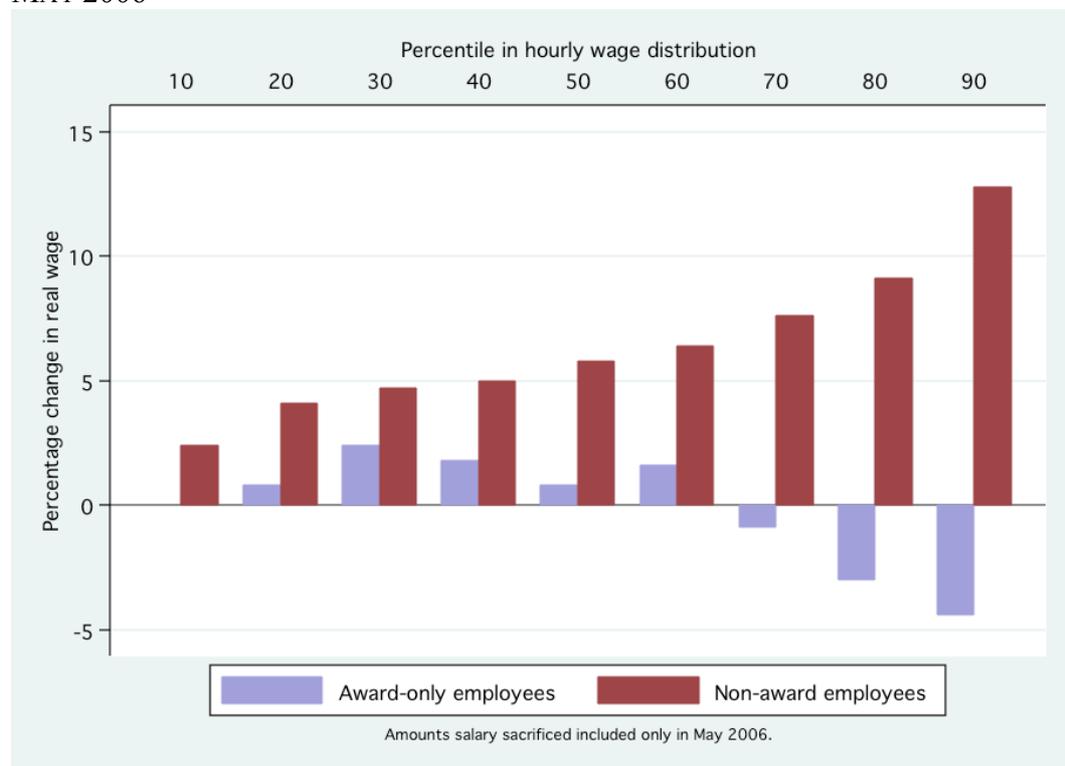
confounding effects on earnings of workers changing their hours of paid employment, for instance by moving between part-time and full-time positions. The use of ‘ordinary-time’ wages means that we also exclude the confounding effects of overtime hours paid at penalty rates. The second difference is that we distinguish between methods of setting pay. As with the previous analysis in Chapter Five, we differentiate between ‘award’ workers (those whose wages were fixed in safety net decisions) and ‘non-award’ workers (a special category that includes all other methods of setting pay). This distinction is necessary, since we want to explore how real wages have changed for the specific group of workers reliant on award rates of pay. We include the results for non-award workers as a comparison.

The Commonwealth government was not able to distinguish award-only workers in its analyses, because the necessary data on pay-setting methods were not collected by the ABS until May 2000. (This is also why the comparison period in Figure 6.3 starts at May 2000.) Like the Commonwealth government, we converted the raw wage data to real estimates by using quarterly values of the Consumer Price Index (our base quarter remains June 2005, for reasons discussed earlier). We then estimated the real change in hourly wages for employees at the top of each decile. Our aim is to determine whether the patterns of real wage growth, evident in these superior data, accord with or differ from the patterns reported earlier by the Commonwealth government.

Figure 6.3 depicts clearly the strong real wage gains attained by employees who were *not* dependent on safety net adjustments. At every percentile for the non-award group, there was real growth of at least 2.4 per cent between May 2000 and May 2006. There was also a more rapid improvement in real earnings for employees who were already closer to the top of this distribution, consistent with the accounts of a ‘polarisation’ in earnings outcomes. We estimate that hourly wages for non-award workers increased in real terms by 2.4 per cent at the 10th percentile, by 6 per cent at the median, and by almost 13 per cent at the 90th percentile. There is no significant disagreement between these results and those reported by the Commonwealth government for all full-time employees.

The results look very different for award-reliant employees. The *maximum* real wage gain for this group (2.4 per cent at the 30th percentile) was equivalent to the *minimum* gain for the non-award group. For the median award worker, wages grew marginally in real terms (by 0.8 per cent). For the top three award deciles, real wages declined by steadily larger amounts moving closer to the top of the distribution. And, for workers paid less than the median award wage – except the bottom 10 per cent – wages rose modestly in real terms. The main insight from these data is that our understanding of what happened to the real wages of safety net reliant workers is thoroughly different, when we focus specifically on award-based wages, than when we do not control for pay-setting methods. Our data show that award workers did not share in the generally ‘rising tide’ of real wages for non-award workers in the bargaining system. Analyses without the pay-setting dimension, such as the Commonwealth government’s, miss this important result.

FIGURE 6.3 – REAL CHANGES AT DIFFERENT POINTS OF THE WAGE DISTRIBUTION, BY PAY-SETTING METHOD (ADULT NON-MANAGERIAL WORKERS): MAY 2000 – MAY 2006



Source: ABS Survey of Employee Earnings and Hours, unpublished data, May 2000 and May 2006 (catalogue no. 6306.0).

A puzzling result in Figure 6.3 is why real wages for the bottom two deciles of award workers were either stable at their 2000 level (as for the 10th percentile), or increased only marginally (as for the 20th percentile), despite the large real increases in award rates close to the Federal Minimum Wage shown in Figure 6.2. This result appears to be due to a redistribution *within* the award-only workforce, between non-casual and casual employees. In May 2000, 41 per cent of all award workers, and 4 per cent of workers in the bottom two deciles of the award wage distribution, were working on a casual basis.⁶⁸ As noted in Chapter Five, these workers typically have higher wages than non-casuals, because of the payment (in many cases) of ‘loadings’ to compensate for the loss of permanency benefits. By May 2006, casual employment had increased to 55 per cent of all award workers, but had declined to just 3 per cent of the bottom two hourly wage deciles.

This ‘compositional change’ led to a repositioning of casual workers further up the award-reliant wage distribution.⁶⁹ It explains at least part of why real wage growth for workers at the bottom of the award-reliant distribution was weak or non-existent, since non-casuals were replacing casuals in the lowest deciles of the distribution between May 2000 and May 2006. In separate analyses, not shown in Figure 6.3, we compared the growth in wages for casual and non-casual workers in isolation. In both cases, the largest real gains were made by workers at the 10th percentile.⁷⁰ These results are entirely consistent with Figure 6.2, which shows that the largest real gains were for award workers on the lowest rates of pay.

Wages growth generally

The real values of the Federal Minimum Wage and other award rates offer a simple test of whether the living standards of workers employed at these minima improved. But real award rates of pay are a poor measure of changes in average incomes in the whole Australian community. This is because, in times of generally rising prosperity, faster increases in incomes for some groups, such as workers with qualifications that are in high demand, create or deepen existing

⁶⁸ All estimates provided in this paragraph are based on the author’s calculations from unpublished EEH data provided by the ABS. The estimates refer to adult, non-managerial employees.

⁶⁹ Another way of stating this point is to note that the 10th percentile casual worker was positioned at the 20th percentile of the award wage distribution in 2000, but the 25th percentile in 2006.

⁷⁰ Among casual award workers, real wage growth was 4.7 per cent at the 10th percentile, 2.6 per cent at the median, and -0.7 per cent at the 90th percentile. Among non-casual award workers, the changes were 0.8, -0.4 and -5.5 per cent, respectively, at the same three points of the distribution.

differences in *relative* living standards. The facts of rising or falling real award rates thus do not reveal the extent to which the recipients of safety net wage adjustments ‘kept pace with’ or ‘fell behind’ community expectations of what constitutes a basic, or average, standard of living.

We have already seen that award wages fell behind the growth in non-award wages for the period between May 2000 and May 2006, according to the EEH data depicted in Figure 6.3. In this section, we compare the changes in two key award classification rates to the growth in wages which occurred generally in the labour market over a longer time period. The award rates on which we focus are the Federal Minimum Wage (or its equivalent before April 1997, the C14 award rate from the Metal Industries Award) and the C10 minimum tradespersons’ rate.

We know from the previous section that the FMW rose more in real terms than any other award classification rate. It follows that if the FMW fell behind the rate of growth in wages generally, the other award minima also fell behind, by correspondingly larger amounts. We examine outcomes at the C10 level to provide an indication of this for trade-qualified workers. We first compare the award rates to the growth in full-time average weekly earnings for the period 1992 to 2006. Then, for the shorter period from 1997 to 2006, we compare the award rates to the Labour Price Index (formerly the Wage Cost Index), which measures the change in base hourly rates of pay for a set of constant-quality jobs over time.

Some of our comparisons resemble information presented originally by the major parties in safety net cases and discussed earlier in the chapter. We revisit these comparisons in order to improve on some of the parties’ graphical representations of the data and to show the changes over a longer time period than was available to them.

Average Weekly Earnings

Figure 6.4 provides one indication of how the relative values of the Federal Minimum Wage and the C10 rate declined during the safety net era. It does this by plotting the value of each award rate as a proportion of average weekly earnings at different points in time. Two different earnings series inform Figure 6.4. The first is average weekly ordinary-time earnings (AWOTE) for full-time,

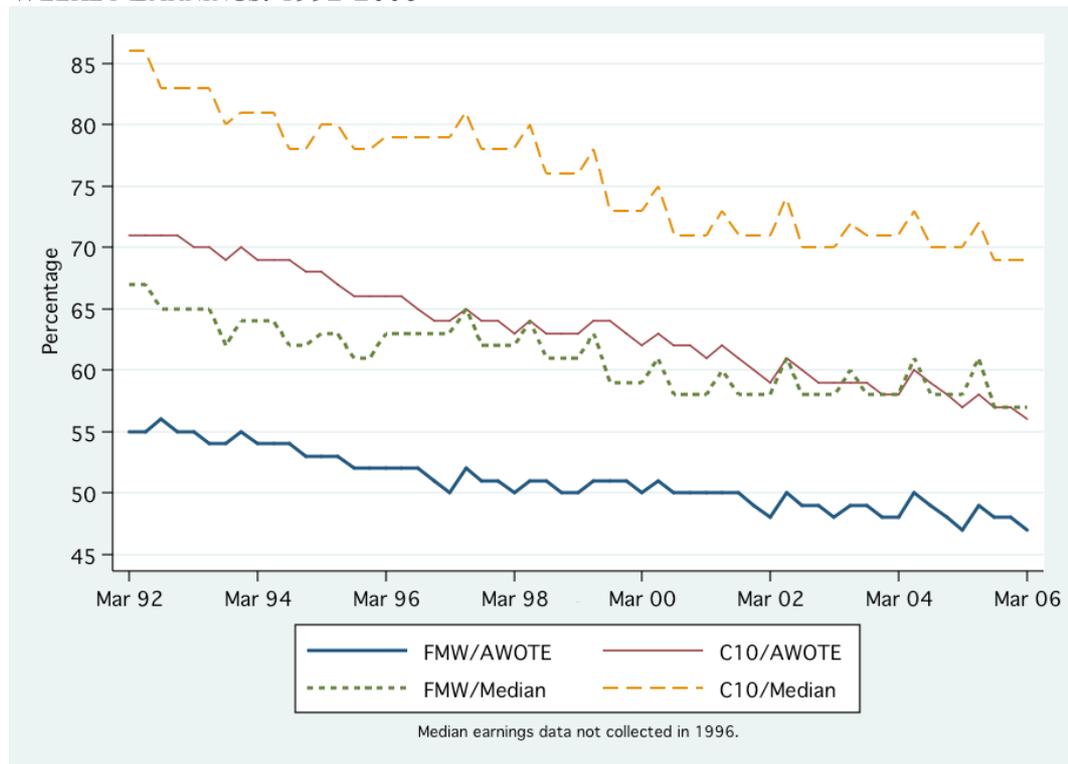
adult wage and salary earners. This is the series used most frequently by the ACTU in its submissions to safety net cases, and which the Commission accepted as ‘a good indicator of changes in earnings in the Australian community’ (AIRC, 2005, PN 403, p.107). The AWOTE data are highly comparable with the award minimum rates of pay, because the series excludes overtime payments (hence, ‘ordinary-time’ earnings) and workers on junior pay rates (which are lower than the adult minima). The AWOTE data are produced quarterly by the ABS from surveys of employers.

The second data series used in Figure 6.4 is ‘median weekly earnings in main job’ for full-time employees. The data are taken from the ABS Survey of Employee Earnings, Benefits and Trade Union Membership (EEBTUM), a household survey conducted annually in August as a supplement to the monthly Labour Force Survey. The median data represent the change in earnings for an employee at the middle of the full-time earnings distribution. Whereas AWOTE is calculated by dividing the total earnings by the total number of employees, the median is calculated by splitting the distribution of earnings into two halves, with one above and the other below the median amount. The median is less affected than AWOTE by changes at the extremes of the distribution, such as the rapid growth in earnings at the very top of the distribution documented by Saunders (2005) and others for Australia (Atkinson and Leigh, 2007; Stilwell and Jordan, 2007, Chapter 2).⁷¹

The two solid lines in Figure 6.4 show the values of the FMW and C10 as proportions of (full-time adult) AWOTE in the period March 1992 to March 2006. The two dashed lines show the same award rates as proportions of full-time median weekly earnings in main job. Although these data were discussed extensively in safety net cases, Figure 6.4 unifies the different sources and provides a clearer representation of the long-term trends than any of the graphs or tables submitted by the main parties.

⁷¹ Aside from their method of calculation, the median data differ from the AWOTE data in referring to full-time employees in their ‘main’ job (that in which most hours are usually worked), rather than to all full-time, adult employees (ABS, 2007b, p.63).

FIGURE 6.4 – VALUE OF THE FMW AND C10 AS A PROPORTION OF AVERAGE WEEKLY EARNINGS: 1992-2006



Sources: AIRC *Safety Net Review – Wages*, various years; ABS ‘Average Weekly Earnings, Australia’, catalogue no. 6302.0, Time series spreadsheet Table 3 (for AWOTE data); and ‘Employee Earnings, Benefits and Trade Union Membership’, catalogue no. 6310.0, various years (for Median data).

Figure 6.4 shows that both award rates fell progressively as a proportion of AWOTE. In March 1992, the C14 rate was worth 55 per cent of AWOTE. It fell to 50 per cent following the Commission’s April 1997 decision (the first under the WR Act) and then remained at or near this level between 1998 and 2001. From 2002, the FMW fell further as a proportion of AWOTE (to 47 per cent by March 2006), although the 2002 and 2004 *Safety Net Review – Wages* decisions both had the effect of temporarily restoring it to 50 per cent of AWOTE. The C10 comparison shows a more precipitous decline. As a proportion of AWOTE, the C10 award rate fell from 71 to 56 per cent over the time period covered in Figure 6.4. The tradespersons’ minimum pay rate, as a proportion of full-time adult average weekly earnings, was therefore at about the same level, in 2006, as the unskilled C14 rate had been, in 1992. Safety net cases did not arrest this decline.

The evolution of the award rates as a proportion of full-time *median* earnings shows a similar, but more gradual, decline. The C14 rate (FMW) fell from 67 to 57 per cent of median earnings, and the C10 rate fell from 86 to 69 per cent, over

the fourteen years shown in Figure 6.4. There were steep declines for both rates between 1992 and 2000, a deterioration not interrupted by the Commission's initial *Safety Net Review – Wages* decisions (1997, 1998 and 1999) under the *Workplace Relations Act 1996*. From about the time of the May 2000 decision (the largest safety net adjustment up to that point in time), however, the FMW and C10 stabilised as a fraction of full-time median earnings (at approximately 58 per cent for the FMW and 70 per cent for C10).

Their maintenance at or near these levels, for the remainder of the safety net era, is all the more remarkable for the fact that median earnings growth accelerated relative to its earlier growth rate. Over the six years from March 1994 to March 2000, when both award rates were falling in relative terms, full-time median weekly earnings increased by 24 per cent. Over an equivalent period from March 2000 to March 2006, when the award rates remained fairly constant in relative terms, median earnings increased by 29 per cent. The constancy of the award ratios in the latter period is therefore not due to slowing median earnings growth. Rather, it is due to the larger safety net adjustments that the Commission granted to award-reliant workers, beginning with the \$15 per week increase in May 2000.

It is relevant to note in this context that, while the Federal Minimum Wage declined as a proportion of both average and median full-time earnings during the period of its maintenance by the AIRC, it remained at a very high level by international standards, even at the end of this period. According to comparative data compiled by the Low Pay Commission in the United Kingdom from records maintained by the Organisation for Economic Cooperation and Development (OECD), the Federal Minimum Wage in Australia was the highest among 13 developed economies in 2004, as a proportion of full-time median weekly earnings (based on the same data source as used above). The Australian FMW was 59 per cent of full-time median earnings, compared with 57 per cent in France and 54 per cent in New Zealand (the second and third highest). The relevant proportions in the United Kingdom and the United States were 43 and 32 per cent, respectively (LPC, 2005, Table A4.2, p.237).

In safety net cases, employers' groups and the Commonwealth government submitted that the high ratio of the Australian FMW was an obstacle to continued

employment growth. They urged the Commission to slow the rate of increase in safety net minima (ACCI, 2000, pp.46-57; DEWR, 2005, p.1). In defending its approach, the Commission emphasised that the comparatively high Australian minimum wage was long-standing, and not a product of ‘excessive’ safety net decisions:

...For most of the [past] 19-year period Australia has had the highest minimum wage compared with median earnings in the OECD. The suggestion that this is a recent development, on the data provided, is wrong. More importantly... the relationship between the minimum wage and median earnings has been in decline since 1996 (AIRC, 2005, PN 404, p.107).

Labour Price Index

As several parties noted in their submissions to safety net cases, measures of average earnings, such as AWOTE and the median, are affected by compositional changes in the make-up of the Australian workforce. The Commonwealth government criticised the ACTU comparisons between the Federal Minimum Wage and average earnings on the basis that much of the average earnings growth arose from an increase in the share of the workforce employed in highly-paid occupations. Based on an analysis of ABS Labour Force Survey data, the Commonwealth government submitted that:

A major factor pushing up the earnings measures is the increasing proportion of workers in higher paying occupations. Since 1996, the number of full-time employees [in the occupation] Managers and administrators has grown by 30.5 per cent, and the number of professionals by 26.6 per cent... Over the same period the number of full-time Elementary clerical, sales and service workers decreased by 1.4 per cent (DEWR, 2004, p.18).

The Australian workforce has also become more highly educated. According to ABS statistics on educational attainment, the proportion of Australians in the labour force who had completed a post-school qualification rose from 47 to 58 per cent between 1997 and 2006.⁷² This increase in average education level, along with the change in occupational composition documented by the Commonwealth government, will push up the average earnings estimates against which we compared the FMW and C10 rate in Figure 6.4. In contrast, these two award

⁷² See ABS ‘Transition from Education to Work, Australia, May 1997’ (cat. no. 6227.0, Table 11) and ‘Education and Work, Australia, May 2006’ (cat. no. 6227.0, Table 8).

classification apply, by definition, to low- and semi-skilled workers. They represent minimum *rates* of pay for specific types of work done at a consistent level over time. Under conditions such as those prevailing recently in the Australian workforce, a comparison between the values of the award minima and the level of average earnings will show award workers ‘falling behind’ in relative terms, because the earnings data are affected by compositional changes while the award rates are not. Their comparison, in effect, sets one group with a fixed skill profile (award workers) against another whose average skills have improved steadily (the workforce generally).

Dealing with this inconsistency requires a different type of wages growth measure, one which removes the effects of compositional change. The quarterly ABS Labour Price Index (LPI) is one such measure. (It was originally known and referred to in safety net cases as the Wage Cost Index, or WCI.) The LPI removes that part of earnings growth attributable to changes in occupational composition, educational attainment and the balance between casual and non-casual working arrangements, to isolate wage movements that are due to changes in rates of pay. A consistent LPI time series is available from the September quarter of 1997.

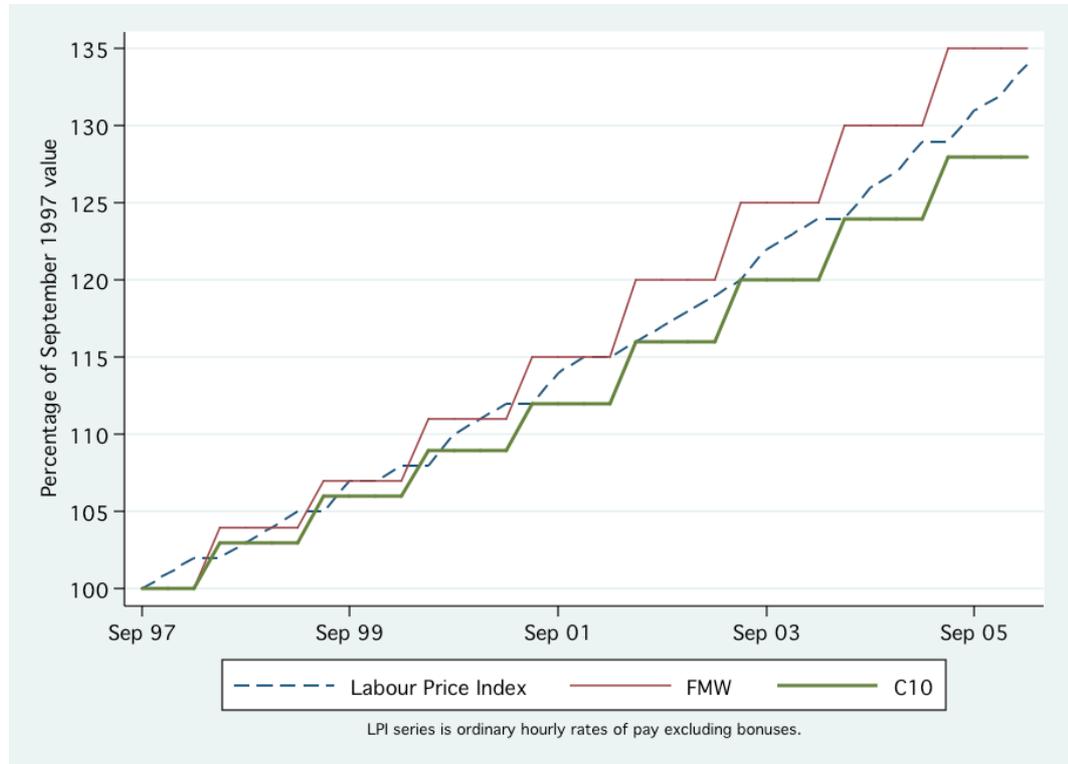
Figure 6.5 shows the percentage growth from the base quarter, September 1997, in the Labour Price Index, the Federal Minimum Wage and the C10 award rate. This Figure is similar to another constructed by the Commonwealth government (DEWR, 2004, p.27), except that we use the LPI series for ‘ordinary-time’ hourly rates of pay (rather than ‘total’ rates including overtime) and show a longer time period.⁷³

Between September 1997 and March 2006, ordinary hourly pay rates increased by 34 per cent, compared to a 35 per cent increase in the FMW and a 28 per cent increase in the C10 rate. For much of this period, the steady growth in the LPI effectively bisects the trajectory of the Federal Minimum Wage and C10 rate. From about the time of the 2002 *Safety Net Review – Wages* decision, the FMW moves consistently ahead of the LPI, while C10 falls behind. These quite different growth paths are a consequence of the uniform dollar safety net adjustments in

⁷³ ABS catalogue number 6345.0, Time series spreadsheet Table 8b.

2002, 2004 and 2005, which delivered the largest increases, in percentage terms, to workers on the Federal Minimum Wage.

FIGURE 6.5 – GROWTH OF FMW AND C10 COMPARED TO THE LABOUR PRICE INDEX: 1997-2006



Sources: AIRC *Safety Net Review – Wages*, various years; ABS ‘Labour Price Index, Australia’, Time series spreadsheet Table 8b (catalogue no. 6345.0).

The fact that FMW recipients kept pace with or exceeded the wages growth achieved by other workers generally is an important outcome of safety net cases. It implies that, even though the value of the minimum wage was outstripped by the growth in average earnings, the workers receiving this rate saw their wages increase at least as rapidly as those of other workers in constant jobs. This finding challenges the notion that the lowest-paid workers did not benefit to the same extent as most workers from Australia’s steadily rising prosperity. It is important to keep this outcome in perspective, however, in view of the evidence in Chapter Five that relatively few award-reliant workers get the Federal Minimum Wage. The two-thirds of award-reliant workers employed at or above the C10 level did not keep pace with the general growth in hourly pay between 1997 and 2006.

Other living standards

Several of the major participants in safety net cases argued that the Commission could not comprehend fully the nature of ‘living standards generally prevailing’ by looking solely at measures of real and relative wages. These parties, foremost among them the Commonwealth government and employers’ associations such as ACCI and AIG, said that broader measures of living standards were needed and intended by the *Workplace Relations Act 1996* to be the basis for assessing the ‘fairness’ of the safety net. In this section we compare the growth in the Federal Minimum Wage and the C10 minimum award rate to two other indicators of movements in living standards, recommended by these parties opposing the ACTU claims.

First, we compare the award rates to labour productivity growth, as measured by changes in real Gross Domestic Product (GDP) per hour worked. ACCI submitted that productivity was the ultimate determinant of how quickly award rates could increase, without reducing employment and hours worked. We test whether there is evidence that safety net decisions increased the award rates ahead of the sustainable pace which was, according to ACCI, dictated by the growth in labour productivity. We then compare the key award rates to an index of per capita household disposable income (HDI), which was used to update the Henderson Poverty Lines in the safety net era. The Commonwealth government submissions implied that the Henderson Poverty Line was one useful source of information on living standards prevailing. We examine how closely the FMW and C10 tracked the movements in per capita HDI, and hence changes in the Henderson Poverty Lines (HPL).

Labour productivity growth

Figure 6.6 compares the percentage growth in two measures of GDP per hour worked to the growth in the two award classification rates, from the March quarter 1992 to the March quarter 2006. The four lines on the graph (two dashed lines for the productivity data and two solid lines for the award rates) show cumulative changes as a percentage of the values observed in the base quarter March 1992. This particular depiction of the productivity data was not used by

any of the major parties, although several graphs on industry-level output in the ACTU submissions take a similar approach (ACTU, 2004c, pp.12-13).

There are two areas of potential controversy in the construction and interpretation of Figure 6.6. The first issue is whether to measure productivity for all industries or only for the ‘market sector’ of the economy. The market sector is a subset of 12 industries, from the 17 that comprise the Australian economy.⁷⁴ It represents ‘a special industry grouping... related broadly to marketed activities for which there are satisfactory estimates of the growth in the volume of output’ (ABS, 2000, p.363). The five industries *outside* the market sector are: Property and business services; Government administration and defence; Education; Health and community services; and Personal and other services. There are no separate estimates of productivity in the ‘non-market’ sector, but these five industries appear in the data for all sectors.

In the 2000 *Safety Net Review – Wages*, ACCI compared the ‘all’ and ‘market’ sector productivity estimates, and recommended that the Commission focus on the latter:

The full economy measure is theoretically the most useful because it is the full economy that we are interested in, in terms of the productivity of Australian industry. However, it has certain limitations because some components of GDP are, by definition, zero productivity because of measurement problems... Where productivity is measurable is in the market sector... Although more limited in scope, [this] is more accurate as a measure of those facets of the economy that are at least capable of being measured (ACCI, 2000, p.94).

Although concerns about measurement reliability are certainly relevant, we argue that a more central consideration, when using labour productivity measures to evaluate the fairness of safety net adjustments, is whether the beneficiaries of these adjustments work in predominantly market sector industries. If they do not, there is little reason to expect that the market sector data give a more accurate representation of the growth in output from which the employers of award-reliant workers can sustain higher wages.

⁷⁴ Represented by the coding framework adopted in the *Australian and New Zealand Standard Industry Classification 1993* (ANZSIC), ABS catalogue no. 1292.0.

We investigated this issue using unpublished data from the 2006 EEH survey and found that award-reliant workers were approximately evenly divided between the market and non-market industries. Just over half (53 per cent) were in the market sector, with 47 per cent in the non-market sector. The largest concentrations of award-only workers were in two non-market industries: Health and community services and Property and business services.⁷⁵ In light of the distribution of award-reliant workers by industry, and the concerns raised by ACCI, we have taken the approach of including in Figure 6.6 the labour productivity growth estimates for both the full economy and the more restricted market sector.

The second issue with Figure 6.6 is how to adjust the award pay rates to obtain a time series that is comparable to the productivity data. ‘GDP per hour worked’ is expressed in real terms, since the component of increasing output attributable to price movements is removed using an ‘implicit price deflator’. The award rates of pay, however, are in nominal terms. If increases in award rates are not converted to real terms (or, alternatively, if increases in GDP are not recalculated in nominal terms), the comparison between wages and productivity will be distorted by price effects. Such a comparison would be unable to show whether safety net increases are outpacing employers’ capacity to pay higher wage costs and thereby ‘placing intolerable pressures on the economy and on the employment prospects of the unemployed’ (ACCI, 1999, p.39).

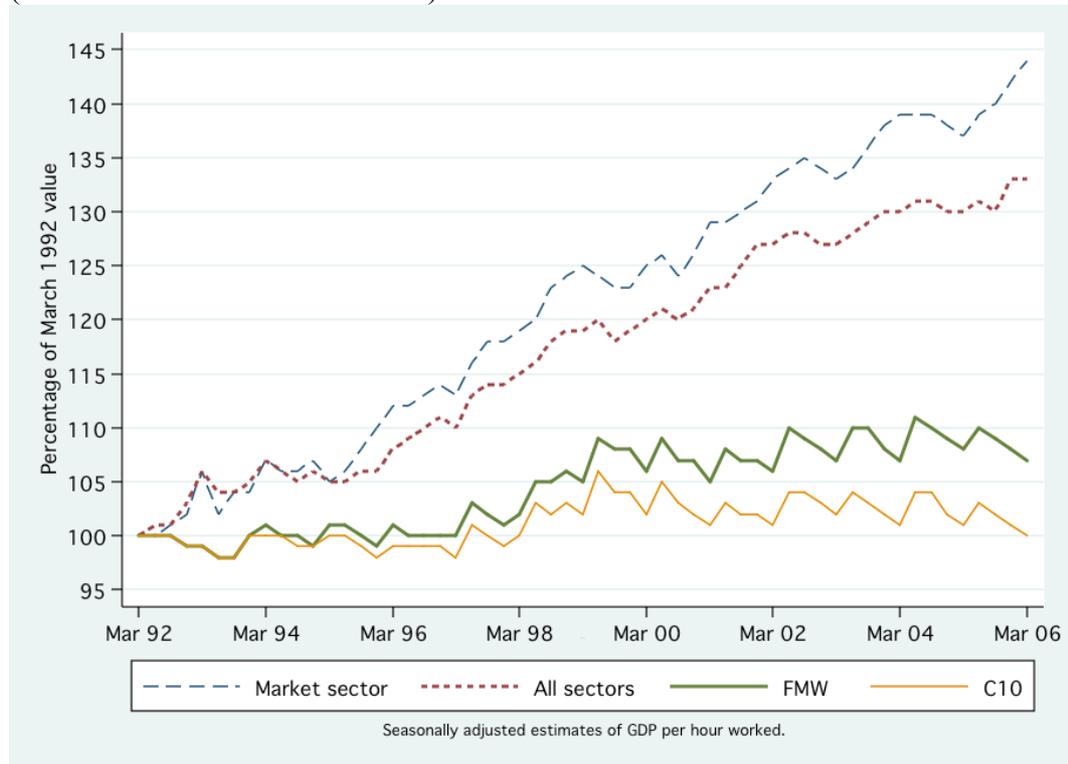
The ACTU recognised this issue in its use of the productivity data, and submitted that it was appropriate to deflate the award rates using quarterly values of the Consumer Price Index (CPI), to bring them into line with the price-adjusted estimates of GDP (ACTU, 2004c, pp.12-13 and footnote 2 on p.12). There is the potential for bias in this approach too, however, because the implicit price deflator for the GDP did not increase as quickly as CPI during the safety net era.⁷⁶ The ACTU approach will thus tend to show award rates ‘falling behind’ to a larger extent than would be evident with a consistent deflator. In Figure 6.6, we adjust the FMW and C10 by the same price deflator as that used for GDP per hour

⁷⁵ Unpublished estimates for adult, non-managerial employees. See Chapter Four for this evidence.

⁷⁶ From March 1992 to March 2006, the GDP deflator increased by 39 per cent, compared to a 41 per cent increase in the CPI. This is not a large difference, but it does have the effect of biasing downwards the adjusted value of the FMW (using the ACTU method), relative to the apparent increase in GDP.

worked. This comparison gives a clearer picture of whether safety net adjustments tracked the real increase in labour productivity that determines their effective cost to employers.⁷⁷

FIGURE 6.6 – GROWTH OF FMW AND C10 COMPARED TO LABOUR PRODUCTIVITY (REAL GDP PER HOUR WORKED): 1992-2006



Sources: AIRC *Safety Net Review – Wages*, various years; ABS ‘Australian National Accounts: National Income, Expenditure and Product’, Time series spreadsheet Table 1 (catalogue no. 5206.0).

Figure 6.6 shows that the growth in GDP per hour worked exceeded the real growth in award rates by a substantial amount over the whole safety net era. After adjusting for price effects, the FMW increased by less than 10 per cent between 1992 and 2006 and the C10 rate by less than 5 per cent. By comparison, labour productivity in the whole economy grew by 30 per cent, and by close to 45 per cent in market-sector industries. The two award rates were essentially stagnant in real terms between 1992 and 1997. Their main period of growth was 1997-1999, as price increases eased. In subsequent years, however, the FMW grew only slightly compared to its 1999 value, and the C10 rate declined marginally. Over the whole period shown in Figure 6.6, a substantial gap opened between the real value of award minimum rates of pay and the value of output from which

⁷⁷ For consistency with earlier Figures in this chapter, we use June 2005 as the base quarter for deflation purposes.

employers fund higher labour costs. This gap is even more evident when we examine productivity increases in the market sector.

In short, we find no evidence for the ACCI implication that safety net pay rates were rising ‘too quickly’ by comparison with productivity. This contention is not supported by the economy-wide data, and is even less viable on the market-sector data. Instead, our results suggest that employers benefited significantly from falling ‘real unit labour costs’ in the safety net era. This is consistent, too, with other data from the Australian National Accounts, which show that (in seasonally adjusted terms) the profit share of national income rose during the safety net period. In the period shown in Figure 6.6, the profit share rose from 22 to 27 per cent.⁷⁸ Both estimates are above the long-term average for the profit share in Australia, 21 per cent, in the period 1959 to 2008. The Commission was aware of this rebalancing of income shares, and commented in its final *Safety Net Review – Wages* decision that: ‘The shift in shares from wages to profits since 1996 is undeniable and significant’ (AIRC, 2005, PN 411, p.110).

The large difference between labour productivity growth and the real value of award rates of pay does not mean, however, that the Commission could have granted much larger safety net adjustments without reducing employment. This conclusion does not follow from the evidence in Figure 6.6, because the increase in productivity is determined in part by compositional changes similar to those affecting the average weekly earnings data in Figure 6.4. Over time, labour productivity grows because of technological and educational improvements that enable employees to produce more output in a fixed quantity of working time. In contrast, any given award rate of pay applies over time to a class of workers that is of near-constant quality. Entry-level unskilled workers get the FMW, trades-qualified workers get the C10 rate, and so on up the award classification scales. The workers who remain on a given award rate therefore cannot expect their pay to increase as rapidly as aggregate labour productivity, because the dynamics of job change occurring in the labour market are not reflected in their rates of pay.

⁷⁸ ‘Australian National Accounts: National Income, Expenditure and Product’, Time series spreadsheet Table 20: Selected analytical series, ABS catalogue no. 5206.0.

Income per capita

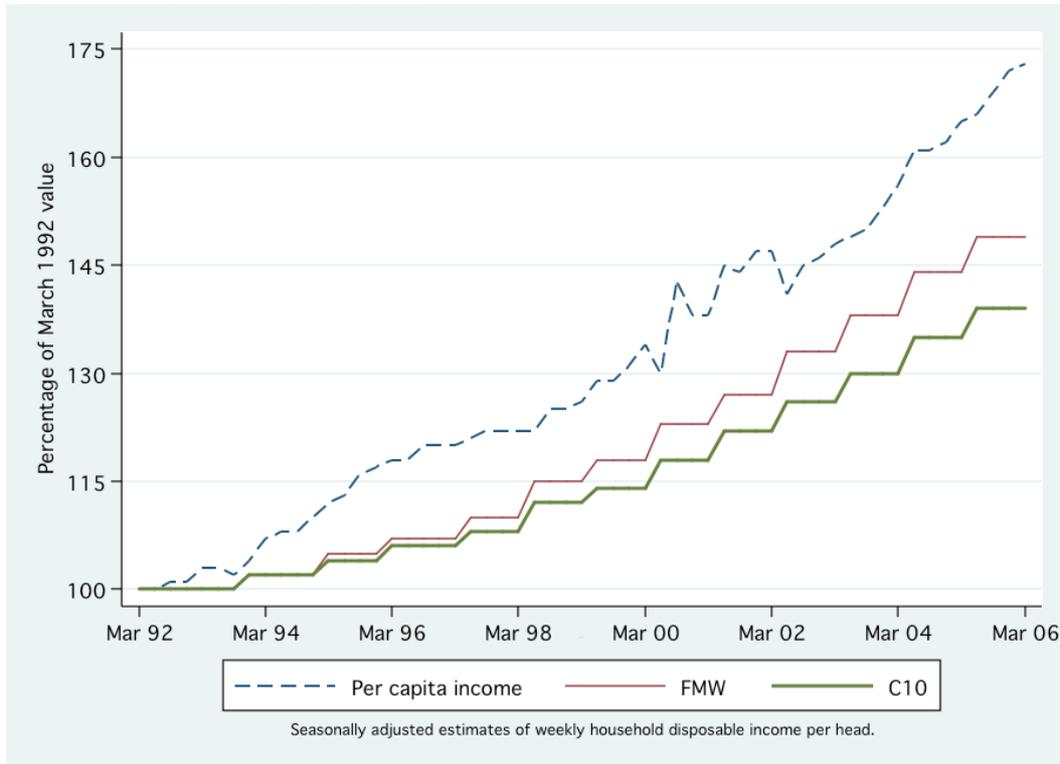
Our final comparison in this chapter is between the growth for the two award rates of pay and an index of per capita household disposable income (HDI) which was used to update the Henderson Poverty Lines. Our motivation for this comparison is the claim by the Commonwealth government in safety net cases that, after taking into account cash transfer payments provided through the social welfare system, no household with a member earning the full-time Federal Minimum Wage is left below the poverty line (DEWRSB, 1996, pp.117-118).

We use as our comparison series the HDI index used to update the poverty lines each quarter, rather than the poverty lines themselves, because these differ by household size and composition. The income implying poverty is therefore different (and lower) for a single person than for a couple with dependent children. We cannot take account of these differences when comparing the award minimum pay rates, however, as these rates do not vary by household size and composition. Hence, if we were to compare the Federal Minimum Wage to the poverty line, we would have to choose one or more of the different ‘poverty lines’ to use in the comparison. Such a selection is difficult, in light of the evidence of earlier research (and in the next chapter) that safety net adjustment recipients are found in all types of households.⁷⁹ We avoid selecting a particular poverty line by using the HDI index which is used to update them all. This approach was not used by any of the parties to safety net cases. We improve on their evidence by removing the arbitrariness of poverty line selection.

Figure 6.7 shows the results of the analysis for the period March 1992 to March 2006. The HDI index increased by 73 per cent, compared to 49 and 39 per cent increases in (the nominal values of) the FMW and C10. As a result of these differences, the award rates fell well behind the growth in per capita incomes for the whole safety net period.

⁷⁹ According to a recent Australian study, the population of employees paid ‘near-minimum’ wages has similar numbers of single people and parents with dependent children (Leigh, 2007, Figure 4).

FIGURE 6.7 – GROWTH OF FMW AND C10 COMPARED TO HOUSEHOLD DISPOSABLE INCOME PER CAPITA: 1992-2006



Sources: AIRC *Safety Net Review – Wages*, various years; Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, December 2008.

It is important to notice, however, that a large part of the total cumulative difference between the FMW and the HDI index develops in the period 1992 to 1996, before the safety net adjustment criteria pertaining to ‘living standards generally prevailing’ and ‘needs’ were introduced in the *Workplace Relations Act 1996*. Over the shorter period March 1997 to March 2006, the growth in the key award rates of pay, particularly the FMW, was much closer to the increase in household incomes. (The HDI increase was 45 per cent, compared to increases of 39 and 31 per cent for the FMW and C10.) This difference supports our argument, based on the real earnings data in Figures 6.1 and 6.2, that there were, in effect, two distinct ‘periods’ of safety net adjustment under the AIRC. The outcomes of the Commission’s actions look quite different, depending on which evaluation period is chosen, and whether safety net cases decided before 1997 are included in the analysis.

Conclusion

We do not arrive at the end of this chapter with any simple diagnosis of whether the wages safety net met or failed the test of ‘fairness’ during the period of its

adjustment by the Australian Industrial Relations Commission. This assessment depends on three factors. First, it is affected by which standards of fairness we apply. Although the WR Act called for the safety net to be fair when compared with ‘living standards generally prevailing’, the Commission did not resolve the question of *which* indicators to use in evaluating living standards. Its various decisions refer to, and use approvingly, *all* the indicators proposed by the major parties to safety net cases – average earnings, labour productivity and poverty lines – without signalling a preference for any of these. The closest the Commission came to endorsing any particular indicator was when Justice Giudice described the growth in average weekly earnings as ‘one objective measure of living standards generally prevailing’, in a conference presentation (Giudice, 2005, p.8). The *Safety Net Review – Wages* decisions otherwise contain few specific observations from the Commission about which standards it was applying in fulfilling the legislative requirements for fairness.

Related to the choice of fairness standard is the issue of how the standards suggested by the parties should be compared with the changes in award rates of pay. As noted in the chapter, underlying compositional effects limit the utility of some of the proposed standards. Inferences about whether safety net adjustment recipients ‘kept pace with’ or ‘fell behind’ the living standards of other workers are dogged by considerations of compositional change. Comparisons based on average earnings or productivity growth are particularly afflicted by this problem. There are relatively few measures that allow us to ascertain whether the outcomes from safety net cases represent an improvement in living standards for award workers, but the Consumer Price Index and Labour Price Index are two current indicators which offer information unaffected by compositional change. Our conclusions about the fairness of the wages safety net are guided most by these two indicators. Where the comparisons do not control for compositional changes (as with the data on average earnings, labour productivity and household income), the evidence consistently shows award workers losing ground in relative terms.

A second major determinant of how we judge the safety net’s fairness is which of the award minimum rates of pay we examine. For illustrative purposes, we focused on two indicative award rates: the FMW (or C14), and the tradespersons’

rate (C10) from the Metal Industries Award. Workers at the bottom of the award hierarchy, including those on the Federal Minimum Wage, were the main beneficiaries of safety net wage adjustments. Consistent with the emphasis on ‘the needs of the low paid’ in the WR Act, these workers saw their wages rise in real terms, and in parallel with the increase in ordinary-time hourly rates of pay generally, over the whole the safety net period. In contrast, workers reliant on award rates at or above the tradespersons’ minimum saw their wages fall in real terms and relative to the general level of hourly pay. We stressed in the chapter that these, less favourable, outcomes are not of minor note. They are a major legacy of the wages safety net maintained by the AIRC because they applied to most (around two-thirds) of the adult, non-managerial employees reliant on awards to set their pay.

Some parties to safety net cases, including the Commonwealth government, suggested that a ‘cap’ on wage increases at the C10 level would provide a desirable incentive for high-skilled workers to negotiate their pay through bargaining (DEWRSB, 1998, p.61). We showed in this chapter that an *effective* cap on real wage increases operated at the C10 level over the safety net period. If the incentive effect suggested by the Commonwealth government applied, we would expect, under these conditions, that there would be few highly-skilled workers reliant on the wages safety net by the end of the period. In contrast, the data we have obtained from the ABS Survey of Employee Earnings and Hours indicate that the median award worker had an hourly wage exceeding the C10 award rate in May 2006. This was also true in May 2000.⁸⁰ There appears to be a significant number of highly-skilled workers who, despite experiencing sharp real wage reductions as a consequence of safety net cases, nonetheless remained reliant on awards to determine their pay. We conclude from this evidence that safety net decisions can have only a limited impact on skilled workers’ propensity to bargain. Consistent with this argument, we contend that the Commission was right to conclude, as it did in the 2004 *Safety Net Review – Wages* decision, that:

Bargaining is not a practical possibility for employees who have no bargaining power. It is to be inferred from the statutory scheme that the

⁸⁰ Unpublished estimates for adult, non-managerial employees. Full details on the EEH dataset and the evidence supporting these claims about the award-reliant workforce were given in Chapter Five.

award safety net should be adjusted with the interests of these employees in mind (AIRC, 2004, PN 325, p.90).

A third issue that affects our assessment of the safety net's fairness is the time period selected for analysis. We showed in this chapter that there were significant differences in the outcomes of safety net cases before and after commencement of the *Workplace Relations Act 1996*. Between 1992 and 1996, the period of the first three safety net review and adjustment decisions by the Commission, pay rates fell across the award structure, relative to price increases, other wages and per capita household incomes. Macroeconomic stability was the foremost concern in this period, as economic growth resumed from the recession of the early 1990s. The period from 1997 to 2005, under the operation of the wage-fixing criteria of the WR Act, coincided with an essentially uninterrupted economic expansion. In this period, the lowest-paid award workers saw persistent real wage gains, exceeding the improvements of other workers, while award workers on the skilled classifications above C10 lost ground, but at a slower rate than before 1997.

How much of this reversal of fortunes was the consequence of wage-setting criteria in the *Workplace Relations Act 1996*, with its references to fairness, living standards and needs, as opposed to the general improvement in economic conditions? In our view, both were necessary. The improvement in economic performance was necessary as a prerequisite for the Commission having the confidence to address the needs of the low paid. We infer this from references in various *Safety Net Review – Wages* decisions to economic conditions that 'warranted' particular increases, such as the moderation in inflation and the growth in labour productivity and profits. Once the Commission was satisfied that economic conditions permitted assistance to the low-paid, the criteria in the WR Act compelled it to provide this assistance.

To test the independent role of the wage-fixing criteria referring to fairness and need, we should assess in future research what occurred after 2005, under similar economic conditions, when these criteria were repealed with the shift to the Australian Fair Pay Commission (AFPC). Evidence that the changes noted in this chapter were continued after 2005, despite the lack of any requirement for the AFPC to act 'fairly' or to have regard to 'needs', would suggest that the 'social' criteria for minimum-wage fixation remain subordinate to economic conditions.

CHAPTER SEVEN: Household Needs and the Adequacy of the Safety Net

Introduction

This chapter moves the analysis beyond the individual level of preceding chapters by developing a household-level perspective on needs and the adequacy of the safety net. The notion that ‘needs’ should be evaluated for households or families, rather than for individuals, was accepted gradually by the major parties to safety net cases. The Joint Governments referred to this consensus in 2001, saying: ‘we agree with the ACTU that a focus on families is a relevant consideration when assessing the needs of the low paid... It is not possible to assess needs without recognising that most people live in families’ (DEWRSB, 2001, p.72). This consensus was only reached, however, after the Commission declined to set the value of the minimum wage using ‘benchmarks’ recommended by welfare organisations and church groups based on the assessed needs of people living alone.

Our aim in this chapter is to understand what role safety net wage adjustments play in alleviating needs in the households where we find the recipients of these adjustments. By locating these workers in their households or families, we evaluate their needs in light of a set of factors broader than their own earnings.⁸¹ These factors include the earnings of other people living in their household, the number of dependent children and their access to non-wage incomes, particularly social welfare benefits or ‘transfer payments’ provided by governments.

Previous studies of this kind have shown that the lowest-paid workers in Australia do not necessarily live in households where the overall level of income is low. In one recent paper, Leigh (2007) estimated that around one in four employees in the bottom 20 per cent of the *hourly wage* distribution were members of families in

⁸¹ ‘Households’ and ‘families’ are not the same, although the terms are sometimes used interchangeably. The household level is the broadest possible level of analysis, applicable to all persons living together in the same place of residence. The family level is narrower, and refers to people within a household who are related biologically or by marriage, and single people. In practice, households and families are often the same, as few households contain multiple families. In the dataset we use for this chapter, only 2 per cent of adults are in households containing more than one family.

the bottom 20 per cent of the (size-adjusted) *family income* distribution.⁸² Persons outside the workforce were much more likely to be members of ‘low-income’ families. Using a different dataset, another set of authors estimated that 13 per cent of the lowest-paid adult employees were members of households with incomes in the bottom 20 per cent of a (size-adjusted) net income distribution (Wooden, et al., 2007, p.302).

The current study is motivated, in part, by a concern that these earlier studies do not represent accurately the circumstances of workers receiving safety net wage increases, because the award-reliant workforce is different from the bottom 20 per cent of hourly wage-earners. We base our statistical analysis on a new, and more precise, method of locating award-reliant workers in the household income data collected by the Australian Bureau of Statistics. We also argue that the focus of prior researchers on household *income* is too narrow to understand properly ‘needs’ and whether these are provided for adequately by the minimum rates of pay currently set by the safety net. In addition to an incomes analysis, this chapter explores whether the households in which we find award-reliant workers are affected by ‘financial stress’.

The chapter integrates qualitative and quantitative evidence about household needs and their relationship to the wages safety net. Three sections immediately following this introduction summarise the evidence on needs from safety net cases. We are interested in how the main participants in these cases defined ‘the needs of the low paid’, the quality of their evidence relating to needs and how they formed views about the appropriate role of the wages safety net in addressing needs. We evaluate the evidence provided in relation to adequacy ‘benchmarks’, such as the poverty line and budget standards, evidence in the form of witness statements and oral testimony from low-paid workers, and statistical evidence developed from household surveys.

For each type of evidence, we discuss how the Commission responded to the material and the limitations of submissions made. In particular, we contend that

⁸² The process of adjusting income on the basis of household size (and sometimes composition) leads to the construction of an ‘equivalent’ income distribution. This allows comparison between the ‘needs’ of different types of households, based on their equivalent income and expenditure. We discuss the use of equivalent income and its derivation later in this chapter.

much of the evidence presented by the major parties to safety net cases was compromised by a failure to demonstrate empirically a connection between the groups identified in the submissions and the actual beneficiaries of safety net adjustment decisions. With one exception, the parties showed surprisingly little interest in demonstrating empirically that their findings about needs were relevant to the group of workers receiving safety net adjustments, rather than to another generic group with which they intersected only imperfectly. The exception was a ‘matching’ analysis devised by the Commonwealth government, which attempted to identify more rigorously the award-reliant workers in the available household income data. This approach exerted apparently little influence over the approach of the Commission, however, and we explain the reasons for this outcome.

Following the discussion of the safety net case materials, another four sections of the chapter contribute a new statistical analysis of the household-level needs of safety net adjustment recipients. We use the latest versions of two ABS datasets – the Survey of Income and Housing (SIH) and the Household Expenditure Survey (HES) – for this analysis. We first explain our approach to identifying the workers affected by safety net decisions in these datasets. We then analyse three broad determinants of the needs of the households in which we find safety net adjustment recipients: their composition (e.g., number of earners and children), their incomes and their exposure to financial stress.

Throughout the analysis, our main point of comparison for safety net adjustment recipients is persons in households where wages and salaries are the main source of income. This approach allows us to determine whether there are important ways in which ‘award-reliant’ households differ from other ‘working’ households.

Adequacy benchmarks

The parties appearing before the Commission in safety net cases included a number of church and social welfare organisations that had not previously sought to intervene in the wage-setting process. Prominent among these groups were the Australian Council of Social Service (ACOSS), the Brotherhood of St Laurence (BSL) and the Australian Catholic Commission for Employment Relations (ACCER), a research and advocacy body established by the Catholic Church in Australia to expound Catholic teaching on matters related to employment and

social justice.⁸³ Each of these groups participated in the safety net cases out of a shared concern: that existing problems of wage inequality and working poverty would deepen in a system divided between those workers able to bargain and other, less fortunate workers reliant on award minimum rates of pay.

The Brotherhood of St Laurence told the AIRC that, while its traditional concern had been with alleviating social disadvantage for the unemployed, ‘a decline in real earnings at the bottom of the wages distribution’ had seen this focus shift increasingly to the issue of whether ‘employment is, and will be, a secure route out of poverty’ (BSL, 1996, p.13). Explaining its involvement in the 1996-97 case that decided the ‘Living Wage’ claim of the ACTU, the Brotherhood said:

This wage case marks a fork in the road. [It] has the potential to produce even greater wage inequality and pressure on living standards for unskilled, low-paid workers. Down this path lies the example of the United States with waged poverty of great proportions. Alternatively, the AIRC could insist upon a strong, central wage-fixing structure to underpin the living standards of Australians, particularly the low paid. [We] believe that this wage case must focus upon the needs of this group (BSL, 1996, p.14).

ACOSS expressed similar concerns. It said that the historical divide between workers (whose interests were met through wages policy) and income-support recipients (whose interests were met by governments and welfare organisations) had weakened. There was now a much greater intersection between the wage and welfare systems, as a result of: increasing earnings inequality among full-time workers, unequal access to full-time jobs, and the growth in female workforce participation, especially of married women with children, which had ‘deepened the divide between families drawing two wages, one wage and no wage at all, and raised the benchmark for “average” family living standards’ (ACOSS, 1996, p.3). The increase in inequality in developed market economies had been ‘significantly mitigated’ in Australia by a combination of minimum wage regulation, such as indexation in the 1980s and safety net adjustments in the early 1990s, and generous income support arrangements based on current needs rather than past incomes. However, if these two components of the Australian welfare state did not adapt further to changes in the labour market and in family preferences, ‘there

⁸³ ACCER was known as the Australian Catholic Commission for Industrial Relations (ACCIR) prior to 5 July 1999.

is a risk that Australia will become a deeply divided country within the space of a decade' (ACOSS, 1996, p.4). The urgency of action had been intensified by recent legislative changes affecting the roles of the award safety net and the AIRC:

The present shift towards enterprise bargaining outside the award system is the most fundamental change in the industrial relations landscape in the past 90 years... Unless action is taken now to substantially strengthen and renew either the system of minimum wage regulation or the systems of income and tax support, or both, then more low wage-earning households will fall behind and social divisions will become entrenched (ACOSS, 1996, pp.4-5).

The case for benchmarks

An area of common interest for church and welfare organisations was their support for income or poverty 'benchmarks' as tools for determining the needs of the low paid and the adequacy of award minimum wages in meeting needs. ACOSS recommended that the AIRC use an 'integrated approach' to define a minimum wage benchmark and to monitor progress towards attaining 'decent living standards' for the low-paid. This approach was consistent with the long-standing Australian model of providing a 'solid minimum wage "floor" for low paid workers, in tandem with a secure income support safety net to ensure that low wage households with additional needs (especially those with dependent children) do not fall into poverty' (ACOSS, 1996, p.6).

In the short term, the Commission would adjust award minimum wage rates so as to prevent them falling behind either increases in prices 'or improvements in the living standards of households securing "average" wage increases' (ACOSS, 1996, p.8). These adjustments would preferably occur alongside 'new mechanisms...to ensure that the restraint in aggregate wage levels needed to support sustained employment growth is achieved in an equitable way: that is, without imposing the heaviest burden on low paid workers' (ACOSS, 1996, p.8). Over the medium term (ACOSS proposed a timeline of 'the next twelve months'), the Commission would inform itself further about needs and general living standards by undertaking an inquiry. Its purpose would be 'to assist in developing an appropriate benchmark for minimum wages that is both robust and capable of attracting widespread community endorsement' (ACOSS, 1996, p.9). After

seeking advice from experts on existing income standards and data sources, and other interested parties, the Commission would implement the minimum wage benchmark either ‘as a fixed proportion of average earnings’, or through another similar linkage with movements in community living standards.

ACOSS accepted that the notion of ‘living decently’ varied across time and across countries, but maintained that it was possible to determine an *objective* benchmark, ‘using contemporary social research methods, by testing existing benchmarks in social research and the social security system against the living standards which can be attained at these income levels’ (ACOSS, 1998, p.3). ‘In the absence of such a benchmark,’ ACOSS argued, ‘it is difficult to envisage how the Commission can fulfil its responsibilities under section 88B(2) of the Workplace Relations Act (1996) to establish and maintain a safety net of fair minimum wages’ (ACOSS, 1999, p.2).

The Australian Catholic Commission for Employment Relations (ACCER) also called for the AIRC to conduct or sponsor an inquiry leading to adoption of a benchmark for the minimum wage. ACCER said: ‘the [Workplace Relations] Act quite clearly and specifically requires the Commission to have regard to the needs of the low paid when adjusting the safety net. Therefore, this does entail the development and establishment of some form of benchmark’ (ACCER, 1998, p.11). It was incumbent on the Commission to debate and articulate further the meaning of terms specified in the WR Act such as ‘needs’ and ‘prevailing living standards’. These issues had not been dealt with conclusively in the 1996-97 Living Wage case, in part because of the division of opinion between members of the Full Bench (with Ross VP dissenting), and ACCER said ‘it is probable that they will reappear at each and every application with regard to a “Living Wage” unless they are answered’ (ACCER, 1998, p.11). Invariably, there would be disagreement over how to define and measure concepts such as needs. However, this was not a sufficient reason to abandon the benchmarking effort: ‘...an attempt should be made to establish criteria and measures – however imperfect or subjective – so that the needs of the low paid are understood and adequately reflected in adjustments to the Federal Minimum Wage’ (ACCER, 1998, p.11). There was an urgent need for the Commission to undertake its own inquiry into

needs, since it was not possible, in 1998, ‘to identify any precise definitions or benchmarks at this point in time’ (ACCER, 1998, p.16).

The choice of family unit

ACCER disagreed with those parties, including ACOSS and the BSL, who viewed the income support system as an acceptable means of supplementing the waged incomes of low-income families with dependent children. For ACCER, ‘an adequate minimum wage is one that allows a worker *and his or her family* not to be dependent on the social welfare system to supplement their income’ (ACCER, 1999, p.8, italics added). ACCER acknowledged that ‘for many years there has been a drift away from the family-based test established in [the ‘Harvester’] case’ (ACCER, 2003, p.12). It submitted, however, that this process was incomplete. There was an informal division of responsibilities, and Governments (on behalf of tax-payers) had not yet assumed full responsibility for meeting the financial needs of non-workers dependent on their parents’ or spouses’ wages.

ACCER argued that the Commission should not relinquish the principle of a family wage in favour of a single-person criterion, ‘unless and until... it is satisfied that there are adequate mechanisms in place, by way of the taxation and welfare systems, that would guarantee the proper financial needs of the wage earner’s dependants’ (ACCER, 2003, p.12). Existing welfare payments, although providing direct material benefits to many families, ‘have not been fixed on the basis that they are to cover the full living costs of the dependents of low paid workers’. These payments, accordingly, are ‘not a reason for avoiding the obligation to fix wages partly by reason of the needs of the wage-earner’s dependents’ (ACCER, 2004, pp.10-11). It was reasonable for the Federal Minimum Wage to be based on family needs, even though some of its recipients do not have partners or children, because ‘the wage must allow the worker to provide for the future and acquire the personal property needed for the support of a family’. A single person needed to make provision for marriage, while couples without children needed to save and prepare for when children are eventually born (ACCER, 2005, p.34).

The two other key welfare organisations participating in the safety net cases opposed the ACCER calls for adoption of a family-based minimum wage benchmark. In 1996, ACOSS submitted that:

The appropriate benchmark household type for wage fixation purposes is now single [person] households without children, as trends in female labour market participation have rendered the “family wage” redundant... However, minimum wages still have a role to play alongside income support payments in preventing poverty within families (ACOSS, 1996, p.31).

The Brotherhood of St Laurence also rejected the ACCER case for a family wage. In noting the problems such an approach would create for employers of the low paid, the BSL invoked one key line of opposition to the ‘Harvester’ Basic Wage ruling of 1907, which employers in the early phase of the arbitration system said obliged them to pay the costs of thousands of non-existent children and spouses (see Hancock, 1998, pp.45-46). Similarly, if the wage were to vary according to the number of dependents, workers with larger families would be put at a severe disadvantage in obtaining work relative to single people. In 1996, the BSL argued, like ACOSS, for a ‘single-person’ benchmark, supplemented by welfare payments to low-paid workers with families:

Because of the variation in household types and workforce participation in Australia today, it is difficult to address the relationship between wage determination and need on a household unit basis, and therefore wages should be determined on the basis of the individual. Considerations of the needs of different household types cannot be addressed by the wages system – not least because of the complexity this would introduce for employers – and should more usefully be addressed via the tax/transfer system on the basis that children represent both a significant cost to families and a community asset and are, therefore, a collective responsibility (BSL, 1996, p.15).

The case against benchmarks

The Commission was not favourably disposed, at first, to the use of benchmarks for quantifying needs. In 1997, the majority of the Full Bench of the AIRC surmised two options for interpreting the ‘needs’ criterion in section 88B(2)(c) of the *Workplace Relations Act 1996*. The first option, which the Commission favoured, did not require the specification or measurement of needs. Rather, needs would be ‘construed simply as an adjunct of “low paid”’, with an assumption that wages and needs are negatively related (AIRC, 1997, p.65). The second option

was for needs to be quantified, and for the Commission to attempt, as far as possible within economic constraints, ‘to ensure that wages are sufficient to provide for them’ (AIRC, 1997, p.64).

The majority of the Full Bench of the AIRC in 1997 perceived ‘formidable problems’ and ‘serious difficulties’ with this second approach to interpreting the needs criterion, which it said was ‘associated with benchmarks’ (AIRC, 1997, pp.66-67). The majority called attention to three main problems with the benchmarking approach. First, there was the challenge of selecting ‘an appropriate standard of living to which a benchmark is related’. If ‘poverty lines’ were used to measure changes in living standards – and several parties raised doubts about the validity of these measures – there would remain the separate issue of whether to set the minimum wage standard at the level of the poverty line, or at some other, undetermined point above it.

To show how contentious this issue would be, the majority referred to the ACOSS submission that setting the minimum wage at a ‘poverty’ level was not acceptable, because ‘...the community expects full-time wages, together with income support payments where appropriate, to provide a standard of living *significantly above* “poverty” levels’ (ACOSS, 1996, p.5; AIRC, 1997, pp.57-58, italics added). The margin to be set between the Federal Minimum Wage and the poverty line could be informed by expert opinion about living standards, but could not be settled solely on this basis, without further consideration of industry’s capacity to pay and the likely effects of the margin on work incentives facing the unemployed.

A second, related problem was how to recognise the diversity in household size and composition among the recipients of award wages. While some parties recommended a ‘single-person’ standard, the majority of the Full Bench noted that many low-paid workers choose to support other persons from their earnings. And, because needs tend to be greater for workers with dependents, it was ‘not desirable for the Commission to identify any family unit as appropriate for a benchmark’ (AIRC, 1997, p.66). This view is close to the position taken by the Australian Chamber of Commerce and Industry (ACCI), which had argued that raising award rates ‘indiscriminately’ for all households, or for a notional

household type, ‘takes a blunderbuss approach to doing anything about actual economic need’ (ACCI, 1996b, Tag 1, p.13).

The third issue raised by the majority of the Full Bench related to the interaction of wages with the broader social welfare system. An adequacy benchmark set for award wages could not ignore the benefits provided by government assistance to different types of low-paid workers, and the periodic changes in the levels and eligibility rules for accessing these benefits. A benchmark for wages would frequently be faced with the question of whether wages ‘should be increased or reduced to offset reductions or increases in social welfare benefits’, especially since these changes ‘will not affect all wage-earners identically’ (AIRC, 1997, p.66). The Commission seems to have accepted the Joint Governments’ advice that adopting a benchmark specifically tied to social welfare entitlements would be unworkable, because ‘the relationship between the level of the social safety net and minimum award wages is not a fixed one and realistically could never be treated as though it were fixed’ (DEWRSB, 1996, p.105).

For these three reasons, the majority of the Full Bench of the AIRC expressed ‘strong doubts’ in the 1997 decision ‘about the practicality of a benchmark approach to wage fixation’. It concluded that the first of the two options for interpreting ‘needs’, that which treated them ‘as an adjunct of “low paid”’, was ‘the only one which is now practical’ (AIRC, 1997, p.67). Because of its reservations about benchmarks, the majority of the Full Bench declined to act further on proposals for an ‘inquiry’ into needs, saying that by doing so, ‘the Commission might create a false expectation that a benchmark was likely to be established’. However, the 1997 decision left open the option for parties advocating benchmarks to submit further material demonstrating ‘that our misgivings about the approach are ill-founded’ (AIRC, 1997, p.67).

Budget Standards

As ACCER had foreseen, the issue of benchmarks did not disappear from the safety net cases, despite the Commission’s initial misgivings. Major welfare groups, such as ACOSS, persisted with the argument that the Commission could not fulfil its statutory duties without undertaking an inquiry leading to the establishment of a new adequacy benchmark for the Federal Minimum Wage. The

Commission continued to resist calls for it to conduct such an inquiry, in part because this move was not supported by the Commonwealth government or key employers' groups, but mainly because it saw this type of involvement as outside the proper role of an industrial tribunal (as opposed to a regulatory or investigatory body) (AIRC, 1997, p.67).

Little progress was made until the May 2003 *Safety Net Review – Wages* decision, which drew a distinction between the Commission's own unwillingness to sponsor an inquiry, and the usefulness of benchmarks *per se*. The Commission's stance was more open than it had been at any time since the April 1997 majority decision:

Our rejection of the proposals for an inquiry should not be taken as a rejection of the utility of empirically determined 'benchmarks' such as the poverty line. Indeed, it seems to us that the use of such measures is relevant to an assessment of the needs of the low paid (AIRC, 2003, PN 222, p.69).

Perhaps encouraged by this observation, the ACTU based its evidence on needs in the next (2004) safety net case largely on a set of benchmarks developed from the Budget Standards research project conducted at the Social Policy Research Centre (SPRC), at the University of New South Wales. A 'budget standard' is a fully-costed household budget, specifying all the expenses involved for a household of given size, structure and location to obtain a predetermined standard of living. The budget standards are developed from research which 'identifies the needs associated with a given standard of living and constructs the budgets required to purchase the goods and services that satisfy them at existing prices' (Saunders, 2006, p.156).

In Australia, attempts to ascertain needs, value them at prevailing prices, and link the resultant standards to minimum wage benchmarks have a long history. Applications of methods resembling the contemporary budget standards research began with the establishment of the Basic Wage and its linkage to ordinary family needs in the Harvester decision of 1907, were developed further in the (Piddington) Royal Commission on the Basic Wage which reported in 1920, and have subsequently been used to set poverty benchmarks, such as the Henderson Poverty Line, which is still widely used (Hancock, 1998; Saunders, 2006, pp.157-

60). In their modern form, the budget standards link normative judgments about needs to an extraordinarily detailed accounting of costs for each item comprising the household budgets. The level of detail required by the method is both a strength and limitation of the budget standards, for while their supporters can claim that the approach makes underlying judgments explicit, exposing them to scrutiny and debate, their detractors contend that the quantities chosen are ultimately arbitrary, and easily divorced from what families actually buy (Hancock, 1998; Saunders, 2006, pp.160-63).

The budget standards which the ACTU relied on in the 2004 safety net review case were an ‘updated’ version of the original research conducted by the SPRC in 1995-98, the results of which were initially discussed by the Commission in the 1999 decision (AIRC, 1999, pp.25-31). The original cost estimates were amended in a report by Professor Peter Saunders, Director of SPRC, to reflect prevailing consumer prices in September 2003 (ACTU, 2004b, Tag 8).

The Saunders report prepared for the ACTU shows two separate budget standards. The first, referred to as a ‘modest but adequate’ standard, was intended to ‘describe the situation of a household whose living standard falls somewhere around the median standard of living experienced within the Australian community as a whole’. The second, ‘low cost’ standard, was designed to represent the living standard ‘achievable at about one-half of the median for the Australian community as a whole’ (ACTU, 2004c, p.102). The Saunders report argued that, for the purposes of developing a benchmark for setting the Federal Minimum Wage, the low cost standard was too low, as it was designed to capture the living standards of families reliant on income support payments, not wages, while the modest but adequate standard was probably too high, being set for a ‘median’ family. The appropriate FMW benchmark was somewhere between the two budget standards, but ‘which precise point to choose on the continuum that separates the two standards is a complex decision that involves judgment’ (ACTU, 2004a, Tag 8, p.81). A case could be made for setting the FMW close to the modest but adequate standard if the whole population was used to locate the ‘median’ family, but not if the population was restricted to ‘working’ families.

The Saunders report provided the ACTU with updated budget standards for five types of indicative working families, comprising: a single man, a single woman and couples with zero, one and two children. Each family was assumed to contain a single worker, paid the full-time Federal Minimum Wage. The ACTU said that its analysis focused on single-income households ‘not because [we] make any normative judgment about such a household model being “ideal” but because if the adequacy of safety net wage income is to be assessed then single income households are the appropriate household type to consider’ (ACTU, 2004c, p.107). In the case of couple households, the male partner is assumed to be the wage-earner on the weekly FMW, while the female partner is assumed to be outside the labour force.

The next step in the ACTU analysis was to compare the respective budget standards with the disposable income available to each household, after taking account of their tax liabilities and any income support payments to which they are entitled (couples with children receive parenting payment, Family Tax Benefits A and B, and rent assistance). These comparisons demonstrated that the net value of the Federal Minimum Wage was insufficient to finance a ‘modest but adequate’ living standard for all the household types included in the analysis. The income shortfall ranged from \$67 per week for the single male household, to \$180 per week for the couple with two children (assumed to be a girl 6 years of age, and a boy 14 years of age). Additionally, the ACTU showed that two household types – a couple without children and a couple with two children (as defined) – were unable to afford the ‘low cost’ budget where their family included a single breadwinner on the FMW. The ACTU submitted on the basis of this evidence that its claimed increase of \$26.60 per week in award minimum rates would ‘substantially reduce the shortfall’ between working families’ current disposable incomes and the incomes required to satisfy their needs, as represented by the budget standards (ACTU, 2004c, p.111).

Church and welfare organisations participating in the safety net cases welcomed the new evidence available from the budget standards research. ACOSS used the material in the Saunders report to argue that:

...The most appropriate benchmark available *at the present time* for fixing minimum wages is the ‘*Modest But Adequate*’ benchmark for a single

person of workforce age living alone and renting privately. Its current value stands at approximately \$450 per week. This is a *consumption* benchmark, and as such it corresponds more closely to *disposable* income than gross income. The equivalent before-tax wage is approximately \$550 per week (ACOSS, 2004, p.12, italics in original).

Note that, at the time of this submission, the Federal Minimum Wage was \$448.40 per week (as per the May 2003 *Safety Net Review – Wages* decision), and the ACTU was applying to have it increased to \$475 per week. If the ACTU claim had succeeded, it would have left the FMW \$75 per week *below* the amount (before-tax) which ACOSS calculated was necessary to obtain a ‘modest but adequate’ living standard. Conscious of the implications of this difference, ACOSS said that the budget standards should be seen only as an input to the inquiry it believed the Commission should conduct, rather than a substitute for that process.

ACCER said that the budget standards research answered several questions about the poverty line and its value relative to the FMW, which had not been answered satisfactorily in previous safety net review cases. The Saunders report ‘comprises the best empirical material available to the Commission in its task of identifying the needs of the low paid’ (ACCER, 2004, p.13). In particular, ACCER submitted that the low cost budget was of assistance to the Commission in ‘identifying a bare minimum standard of socially perceived necessities’ (ACCER, 2004, p.16). This low cost budget was not appropriate for wage-fixing purposes, however, because the *WR Act* required the Commission to set “*fair* minimum standards”, not “*bare* minimum standards’ and because wage-earners, in recognition of their productivity, required and deserved an income above that provided freely to unemployed persons (ACCER, 2004, p.12, italics in original). Irrespective of where the benchmark wage was set between the ‘low cost’ and ‘modest but adequate’ budget standards, ACCER said that the research served the purpose of highlighting ‘a considerable gap between the current Federal Minimum Wage and its appropriate level... The [ACTU] claim of \$26.60 is a modest first step in the transition to a fair minimum wage, as required by the [WR] Act’ (ACCER, 2004, p.16).

Objections to the budget standards evidence took two main forms. The first attacked the method itself, and the value judgments used to determine what items,

and in what quantities, were ‘needed’ by different types of families. The Joint Governments said, in the first major discussion of the SPRC research in the 1999 safety net case, that:

It is important to remember that the Budget Standards are *normative* standards. That is, they identify an expenditure level required to meet a specified standard of living. Consequently, such standards do not necessarily reflect actual living standards within the community... This does not de-legitimise the budget standards... [However,] living standards generally prevailing in the community can only be measured empirically, not *normatively*... In other words, data about median incomes and expenditures for various household types are what identifies general community living standards, not budget standards (DEWRSB, 1999, pp.226-27, italics in original).

This submission overlooks the fact that the ACTU usage of the budget standards was mainly concerned with providing an empirically justifiable quantification of ‘needs’, rather than informing the Commission about generally prevailing living standards. It implies that the budget standards will not be of great assistance to the Commission in deciding whether the safety net is ‘fair’ relative to community living standards (the criterion in section 88B(2)(a) of the *WR Act*), but it does not deal with the more important issues of whether the budget standards reflect ‘needs’ and whether they might be used to define medium-term benchmarks for the level of the FMW.

A second line of challenge to the budget standards criticised specifics of the method’s application in the Saunders study and the ACTU submission. The Australian Chamber of Commerce and Industry (ACCI) said that ‘the fundamental fault’ with the budget standards was the focus on ‘one conception of needs in a unique area of Australia’s atypical, internationalised and most costly capital city’ (ACCI, 2004, p.11-15). Both the original and updated budget standards were calculated for households in the Hurstville local government area of Sydney. For ACCI, ‘significant national cost of living differences’ between inner Sydney and other parts of Australia meant that the research had ‘very limited application’ (ACCI, 2004, pp.13-1 to 13-2).

ACCI also criticised the ACTU focus on selected, notional household types, with only one wage-earner. It submitted that: ‘The [Saunders] report relies on a limited set of potentially atypical “types of household” whose appropriateness for setting

minimum wages in a contemporary setting is questionable' (ACCI, 2004, p.13-1). More critically, the budget standards were evaluated for households with only one worker getting the Federal Minimum Wage. ACCI described this as 'a very limited analysis', arguing that 'a broader analysis which takes account of the various rates in awards... is necessary' (ACCI, 2004, p.13-2). ACCI relied on ABS survey data to assert that 'less than a quarter [23%] of couple families have a single wage earner' (ACCI, 2004, p.13-8).⁸⁴ Since this type of household was 'the only scenario the ACTU brings forward to the Commission', its conclusions should be seen as 'selective' and 'unrepresentative' (ACCI, 2004, p.13-8). As to the focus on the FMW, ACCI said that in many awards this was a transitional rate, with the effective minimum often being several classification levels higher. ACCI examined the contents of 25 federal awards, and found that only 10 included any direct reference to the FMW. Moreover, in most of these 10 awards, the FMW was 'effectively a transitional rate of pay only', and could not be used indefinitely. ACCI said that these examples of actual practices meant that the ACTU comparisons between the budget standards and the FMW were a very poor representation of the likely living standards of the workers affected by safety net adjustments. In its attempt to portray the existing award wage structure as inadequate, the ACTU had focused on the worst-case scenario: a household with only one wage-earner (where most had more than one) and with that worker getting only the FMW (where in most cases award-reliant workers are paid much higher rates). The ACCI submission raised, but did not answer, the question: what proportion of the workers receiving safety net adjustments are FMW recipients in one-income families?

The Commission made a number of comments on the budget standards evidence and the various objections to it. Its main conclusion was that:

...there are significant difficulties in adopting the SPRC budget standards as an Australian benchmark. There is substance in a number of ACCI criticisms of the SPRC budget standards...[including that] the housing component of the budget, based as it is on the cost of rental in the Hurstville area of Sydney, cannot be generalised across Australia. Further, the very construction of the budgets ultimately turns on value judgments. On the material presently before the Commission, we do not

⁸⁴ The source for this estimate was the ABS publication, *Labour Force Status and Other Characteristics of Families*, June 2000, cat. no. 6224.0, page 6.

think that we can responsibly attempt to establish such a benchmark (AIRC, 2004, PN 283, p.80).

These observations sustain the ACCI criticism about the geographic specificity of the budget standards, and lend support to the Commonwealth government's concern that they embody normative, rather than actual current, living standards. The Commission was, however, less accepting of other criticisms made by ACCI. It said that ACCI was wrong to portray the budget standards as 'unrepresentative' merely because they were constructed in the ACTU submission only for households with one wage earner. The Commission said that while 'a significant proportion of Australian families continue to rely upon a single wage as their sole source of income, the needs of single-income families will continue to be relevant in connection with a consideration of the needs of the low paid' (AIRC, 2004, PN 275, p.78). The Commission also rejected the ACCI suggestion that the evidence was 'selective' because it focused on a comparison between the budget standards and the Federal Minimum Wage. The Commission said that, since the FMW was within the 'safety net of fair minimum wages' it was asked to maintain, the comparison was instructive. It was 'not to the point that the federal award structure provides for many levels of wages significantly above the federal minimum wage' (AIRC, 2004, PN 285, p.81). On this view, the experiences of minimum-wage workers in single-income households provided a test of the adequacy of the safety net. If 'needs' were met for this group, it followed that they were also met for the larger portion of award-reliant workers on rates of pay above the FMW.

Qualitative evidence from low-paid workers

Another important component of the ACTU submissions on needs was the series of 'witness statements' provided by workers reliant on award rates of pay. In most cases, these statements were provided by members of trade unions affiliated with the ACTU, including the National Union of Workers; the Liquor, Hospitality and Miscellaneous Workers' Union; and the Textile, Clothing and Footwear Union of Australia. Over the eight *Safety Net Review – Wages* cases conducted in the 1998-2005 period, the ACTU provided to the Commission some 85 separate witness statements.

The stated purpose of this material was to bring before the Commission personal narratives of life on low award wages – an insight into private circumstances and aspirations that would not be apparent from an analysis based only on statistical information. The ACTU hoped that the statements would ‘place the empirical evidence in a human context’, allowing the members of the Commission to empathise with the hardships and stresses of low pay (ACTU, 2005, p.96). There was also a sense in which the witness evidence was immune from direct criticism by the parties opposing the ACTU claims, since, as the ACTU observed, ‘all witnesses are volunteers. It is not an easy task to provide the Commission with details of capacity to meet needs out of low award wages’ (ACTU, 1999b, p.49). Although the witnesses called by the ACTU were well-placed to describe their own circumstances, they claimed no formal expertise in economics or other disciplines relating to the task of wage-setting. In criticising the ways the ACTU *used* the witness materials, the other parties would therefore have to exercise care not to be seen as insensitive to the circumstances of the low paid. It is no coincidence that much of the witness evidence was ‘uncontested’ (ACTU, 1998, p.29).

The ACTU summarised the ‘key points arising from the witness evidence’ in the 1999 safety net case. It said that the lives of those receiving award minimum pay rates were characterised by problems and strictures that would be unrecognisable to the majority of Australian workers. The low-paid witnesses worked hard, in laborious, unedifying, unglamorous and sometimes dangerous jobs. They were employed as cleaners, carers, labourers, machine operators, waiters and drivers. Social lives beyond the workplace were ‘simple or non-existent’ (ACTU, 1999b, p.50). There was a pervasive and inescapable feeling of ‘struggling’ or ‘falling behind’ associated with the need to keep rigid budgets, going into debt (including high-interest debt vehicles such as credit cards), running down or never having savings, and denying certain things to oneself or one’s children (such as furniture, clothing or, in extreme cases, food). For many witnesses, the probability of advancement to a better-paying positions was low, since many were of middle age and had already been in their current jobs for several years. The ACTU said that the witness evidence ‘supports the conclusion that low paid workers continue to find it hard to make ends meet, and have unmet needs’ (ACTU, 1999b, p.51).

In 2005, the ACTU summarised what it believed were the main conclusions which the Commission had accepted from the witness evidence. It described as ‘an established matter’ the notion, essential to the debate over needs, ‘that many low paid employees experience difficulties in making ends meet and are unable to afford what are regarded as necessities by the broader Australian community’ (ACTU, 2005, p.96). The ACTU provided citations to four earlier safety net decisions in which the Commission had reached conclusions to this effect (in 1999, 2001, 2002 and 2004).

ACCI did not seek to deny that low-wage workers confront difficulties and pressures unfamiliar to the higher-paid. It submitted, however, that these ‘needs’ considerations were subordinate to the risk of higher inflation and unemployment arising from safety net adjustments. ACCI conceded the central point of the ACTU submission, that ‘it is not easy to live on’ the incomes provided by low award wages (ACCI, 1999, p.89). It also acknowledged the discipline and sacrifice required of the lowest-paid:

They may have to share accommodation, they may find that their ‘cash margin’ remains very thin, they may have to buy second-hand cars and have them maintained at home or by their friends, they may have to restrict their forms of entertainment and recreation, there may be little capacity for saving, and they may spend their holidays at home in some kind of simple activity. The kinds of goods and services bought by those with higher incomes may not be affordable, and they may have to cut down on other items that they would like to have because their incomes are relatively low in comparison with the average (ACCI, 1999, p.91).

The compromises expected of the low-paid were not sufficient grounds for adjusting the safety net, according to ACCI, ‘unless the economy becomes more productive or they individually become more productive’. Safety net increases awarded without the attainment, or the realistic prospect, of offsetting improvements in productivity would merely lead to higher prices or lower employment. The inflationary effect was said to be demonstrated by the ACTU witness statements. In particular, ACCI highlighted the evidence of one witness, who said: ‘Whenever I receive a pay increase, the costs of public transport and other items such as milk and bread seem to go up as well. I never seem to get ahead’ (ACTU, 1999a, Tag 28, PN 9). This witnesses’ experience was, for ACCI, a compelling example of how increases in nominal wages are quickly eroded by

concomitant increases in living costs. Less fortunate still are those workers whose jobs become more precarious or disappear altogether due to rising labour costs: ‘The true need of the lower paid is primarily to keep their jobs... Secure employment is, and always has been, the number one priority’ (ACCI, 2001, p.85). ACCI said that the central challenge for the Commission was not to recognise the obvious – that those on low wages have inferior living standards to those on high wages – but to determine whether the actual and expected growth in productivity (‘the only source of sustainable improvements in real incomes’) enabled another increase in safety net pay rates without adding to inflation and unemployment (ACCI, 1996a, p.28). In later cases, ACCI expressed concern about what it saw as an ‘over-consideration’ of needs (ACCI, 2004, p.11-6). However, the Commission said this concern was ‘unwarranted’, since economic and social considerations were recognised equally by the wage-fixing criteria in the *Workplace Relations Act 1996* and the Commission had never expressed a preference for one set of considerations over the other (AIRC, 2004, PN 260, p.73).

The Commonwealth government’s reservations about the ACTU qualitative evidence related not to the risk of its displacing economic considerations, but rather to the issue of its ‘representativeness’. The Commonwealth government said that, in determining the living standards and material needs of low-paid workers, the Commission should be ‘cognisant of the fact that the evidence is in no way representative of all low paid employees, but rather is [drawn from] a small subset, chosen by the ACTU for their own purposes’ (DEWR, 2002, PN 6.18, p.80). At the time this submission was made, the ACTU had presented testimony from 67 witnesses, with the largest number of these (24) submitted as evidence in the 1998 safety net review case.

To demonstrate the limits of the witnesses’ testimony, the Commonwealth government compared some of the key attributes of the witnesses (as reported in their statements) with the conclusions reached in a study of the characteristics of low-paid workers in Australia using a random sample of households collected by the ABS (Harding and Richardson, 1999). The Commonwealth noted that only six of the 67 ACTU witnesses worked part-time, whereas one-third of the low-paid

workers in Harding and Richardson's study (34 per cent) were part-time. Similarly, only four of the ACTU witnesses were under 25 years of age, whereas Harding and Richardson found that this group represented around one-third of all the low-paid workers across Australia. The witnesses called by the ACTU were also more likely to be the sole wage-earner in their household, more likely to be living alone, and more likely to be renters, than the ABS data suggested was representative. The Commonwealth government submitted that these were 'important biases', which risked giving the Commission a 'misleading impression' of the circumstances actually facing the beneficiaries of safety net wage adjustments (DEWR, 2002, p.81).

ACCI was even more scathing than the Commonwealth government about the limits of the witness testimony relating to non-randomness. ACCI submitted that it was not open to the Commission to infer from the ACTU evidence what the living standards of the majority of low-paid workers were. It was impossible, ACCI said:

...to gauge whether their testimony is typical of 'many', 'few' or no other workers. Indeed, the fact that [these witnesses] have consented to submit evidence itself suggests they are probably atypical (for most workers are not actively involved in union business). This sort of evidence can illustrate statistical findings but cannot substitute for them. The quantitative claims made on the basis of this qualitative evidence should be dismissed (ACCI, 2005, PN 5-97, p.5-33).

These criticisms, however legitimate, did not persuade the ACTU or the Commission that the witness evidence was entirely without value. The ACTU continued to include the personal reflections of low-paid workers in its submissions, although by the time of the final safety net review of the AIRC in 2005, the number of witnesses involved had dwindled to just one (ACTU, 2005, p.95). We assume that, by continuing to place witness evidence before the Commission, the ACTU perceived some ongoing benefit in doing so, an advantage at least partly related to the opportunity for award workers to speak directly and 'in their own voices' to those who would set their pay. The Commission did, however, accept the thrust of the ACCI criticisms when it said, in the May 2003 decision, that the witness statements were:

...at best, illustrative in a general qualitative sense of some of the difficulties encountered by some low paid employees. It is not reasonable

to extrapolate such material and draw general conclusions about the needs of the low paid (AIRC, 2003, PN 200, p.65).

Statistical evidence from household surveys

To counter concerns about the representativeness of the witness evidence and some of the adequacy benchmarks, the parties also presented the Commission with an array of statistical evidence relating to needs and financial hardship. These data were drawn primarily from two periodic household surveys conducted by the Australian Bureau of Statistics: the Survey of Income and Housing (SIH) and the Household Expenditure Survey (HES). The SIH collects information on the sources and levels of income for households, and for persons within those households. Its major analytical advantage is the ability to link these two levels of information to determine, for instance, whether persons with low wages live in households with low overall incomes. The SIH data were used extensively for this type of analysis, in particular by the Commonwealth government. The HES is conducted less frequently (every four years during the safety net era) and contains detailed information about household expenditure patterns. The survey enables the expenditure information to be related to household income, so that, for instance, spending priorities for 'low income' households can be ascertained. The ACTU submissions on needs routinely used the HES data for this type of analysis.

In 1998-99, the ABS introduced to the HES a set of new questions relating to 'financial stress'. These questions provided another perspective on financial management and hardship, by asking families to disclose information about goods, services or activities they had been unable to buy or participate in because of a shortage of money (such as heating in the home and new clothes). The capacity of these financial stress data items to elucidate the 'needs of the low paid' was debated at length in the safety net cases.

Submissions using SIH data

The Commonwealth government's submissions (made jointly with conservative State governments between 1996 and 2001) focused strongly on the issue of where safety net reliant employees were situated in the overall distribution of household disposable incomes. In the 2001 case, the Joint Governments sought to summarise and review the evidence on the 'distributional impact' of safety net

adjustments. While accepting that ‘...on average, employees with low hourly wages are more likely than those with high hourly wages to live in low income families’, the Joint Governments contended that ‘...the main beneficiaries of safety net adjustments, as they currently operate, are not low income families’ (DEWRSB, 2001, p.75). This reference to the ‘current operation’ of the safety net system reflected the Joint Governments’ (failed) attempt to persuade the Commission to ‘cap’ its adjustments at the minimum award rate for a tradesperson (as discussed in Chapter Four), on the grounds that increases in rates above this level redistributed income predominantly to families who were already in the top half of the income distribution.

The task of identifying where award-reliant workers are situated in the distribution of family incomes has been complicated by persistent data limitations. The key problem is that the household surveys which collect information on incomes and expenditures do not include questions about the methods used to set employee pay. Conversely, the employer surveys which cover pay-setting methods do not collect any information on household incomes.

The Joint Governments explained this limitation in the following terms in their 2000-2001 submissions:

The data from the various income surveys that underpin this analysis do not separately identify employees who are paid at award wage rates. Unfortunately these surveys will probably never allow such an identification as they are household surveys and previous experience suggests that the only way to obtain accurate data on payment system coverage in Australia is from employers (DEWRSB, 2001, p.75).

The main method of overcoming this data ‘matching’ problem has been to examine the family income situations of more readily identifiable groups of low-paid workers. This approach is consistent with the orientation towards ‘the needs of the low paid’ in the *Workplace Relations Act 1996*, but may not provide a good representation of the circumstances of employees actually dependent on awards and safety net adjustments, since these employees are spread throughout the wage distribution (as seen in Chapter Five).

To substantiate their claims about the ‘inefficiencies’ of safety net adjustments, the Joint Governments used SIH data to find where the lowest 20 or 30 per cent of

wage-earners were located in the distribution of family incomes, adjusted for family size (i.e., equivalent income). The Governments described this approach as ‘conservative’, since ‘the Employee Earnings and Hours Survey suggests that a high proportion of employees who are paid at award wage rates fall outside these [hourly wage] ranges’ (DEWRSB, 2001, p.78). The Governments’ data showed that 56 per cent of employees in the bottom 20 per cent of hourly wages, and 64 per cent of employees in the bottom 30 per cent of hourly wages, lived in families with incomes *above* the median for all Australian families. The Governments said that these estimates showed the ineffectiveness of safety net adjustments in redistributing income to families in need: ‘...even with extremely conservative assumptions, the majority of the dollar benefit of safety net adjustments as they currently operate is captured by the top half of the income distribution’ (DEWRSB, 2001, p.78).

To provide a more representative account of where award-reliant employees sit in the family income distribution, the Joint Governments applied in the 2000 case another, more experimental method of analysis. Their method involved a ‘matching exercise’, intended to identify safety net adjustment recipients in the SIH incomes data, absent a specific data item relating to pay-setting methods. Prior to May 2000, when the ABS first collected data on pay-setting methods, the only national survey with comparable information was the Australian Workplace Industrial Relations Survey (AWIRS) from 1995. In collaboration with the National Centre for Social and Economic Modelling (NATSEM), the Joint Governments used the AWIRS data to model the probability of employees being paid at minimum award rates, based on attributes such as their age, gender, industry of work, occupation and earnings. The resultant model coefficients represented a set of probability weights, which could be ‘matched’ with the relevant individual attributes in the sample of employees from the SIH, to generate a synthetic cohort of ‘award-reliant’ workers. The Joint Governments then analysed where these likely safety net adjustment recipients were located in the family income distribution, and compared the results with the more ‘conservative’ analysis using the bottom 20 or 30 per cent of wage-earners.

The results of the Joint Governments' matching exercise showed that 74 per cent of likely safety net reliant employees were in families with disposable incomes above the (equivalent) median of the distribution in 2000 (DEWRSB, 2000, Table 10.2, p.227). These employees were significantly more likely to be in such 'high-income' families than employees in the bottom 20 or 30 per cent of hourly wage-earners. The Governments' matching exercise thus appears to substantiate their assertion that the circumstances of the likely beneficiaries of safety net adjustments are not the same as, and indeed appear to be more favourable than, the circumstances of employees in the lowest deciles of the hourly wage distribution. The Joint Governments said that the AIRC could continue with a practice of granting 'uncapped' safety net increases to all award-reliant employees only if it accepted that the bulk of the redistributive benefits from its decisions were captured by relatively affluent families, rather than the poor.

The Joint Governments encountered two significant impediments to the acceptance of this conclusion. The first challenge was the Commission's hesitation about the quality of the matching exercise. The Full Bench saw the analysis as 'problematic', because:

The family income data does not directly identify award dependent wage and salary earners [sic]. The Joint Governments sought to overcome this problem by matching data from the 1995 AWIRS with the family income data, using common characteristics in both data sets to infer where award dependent wage earners fall within the distribution of family income... It is not clear to us that the matching provides a good fit or reliable information (AIRC, 2000, PN 105, p.35).

This data quality issue was revisited in the safety net review case of 2001. The Joint Governments said that they were unable to respond to the Commission's reservations about the matching exercise, because the 2000 decision did not explain the reasoning behind the adverse judgment excerpted above (DEWRSB, 2001, p.82). The wording of the Commission's decision on the matching analysis suggests that further clarification of the methodology underpinning the analysis might have relieved some of its initial concerns. The Joint Governments' submissions on the matching analysis in the 2000 case provided remarkably little detail about the econometric methodology, its strengths and limitations, and why the Commission should prefer the results of the matching analysis to other, computationally simpler, methods of locating the workers on award pay rates in

the household income distribution. The Joint Governments had an opportunity to provide the necessary clarification in the 2001 safety net review, but they declined to do so. While defending the matching analysis and insisting that it remained valid, the Joint Governments did not ask the Commission to reconsider the implications of the matching exercise based on additional information or refinements to the original method. Instead, the Governments dismissed the methodological debate as a distraction: ‘its validity is peripheral when the substance of our arguments does not depend on it’ (DEWRSB, 2001, p.76). The central issue, the Governments said, was that few low wage-earners (however defined) were in low-income families.

After the 2001 safety net review case, the Commonwealth government, now acting independently, abandoned any reference to the earlier matching exercise. It returned to the simpler comparisons between ‘low’ hourly wages and low incomes, which the Joint Governments had previously derided as ‘extremely conservative’. By turning away from the matching exercise, and reprising a method of analysis that they already knew to be flawed, the Joint Governments (and later the Commonwealth government) seemingly justified the Commission’s concerns about the original analysis. By leaving unchallenged these concerns, the Commonwealth also portrayed the underlying effort to improve the method of ‘identifying’ safety net adjustment recipients as a minor part of the debate over needs. This chapter argues, instead, that the quality of identification method is critical to the quality of estimates about whether or not safety net dependent workers are in needy households. Taking a lead from the Joint Governments’ analysis, we propose a simplified version of the matching exercise, as the basis of an evaluation of where likely safety net adjustment recipients were located in the household income distribution during 2003-04.

The second challenge to the Joint Governments’ conclusions about the ‘distributional impact’ of safety net adjustments related to their choice of comparison population. In assessing where low-paid and likely award-reliant workers ‘sat’ in the family income distribution, the Joint Governments generally included in the distribution all families, including those without anyone employed (such as retired couples or families headed by a single, non-working parent). This

analytical approach was strongly criticised by social welfare organisations and trade unions participating in the safety net cases. For instance, ACOSS submitted that: ‘...the conclusion that most low paid workers come from the top 50% of households only holds (if it does at all) if retired households are included in the income distribution’ (ACOSS, 2001, p.5). The ACTU argued, similarly, for the comparison population to be restricted to families with at least one person in work. Many of the unions’ statistical submissions focused on families where the main source of income was from wages and salaries, as discussed further below.

In answer to these criticisms, the Joint Governments said that, irrespective of whether the comparison population included *all* families or only *working* families, it remained the case that many low-paid and award-reliant workers were found in families above the median income. Drawing on the evidence from their matching analysis of 2000, the Joint Governments showed that likely award-reliant workers were split exactly evenly between families above and below the median equivalent family disposable income in a distribution confined to families where wages and salaries represent the main source of income (DEWRSB, 2000, Table 10.4, p.234). However, this result implies that, by limiting the reference population to *working* families, the proportion of likely award-reliant workers below the median income doubles from 26 to 50 per cent.⁸⁵ This difference implies that the choice of comparison population is a major determinant of whether we see most award-reliant workers as relatively affluent or relatively poor.

This definitional problem defied any easy resolution in the safety net era, because of a fundamental tension between two elements of the *Workplace Relations Act 1996*. On the one hand, the Act instructed the Commission to have regard to ‘the needs of the low paid’, when adjusting the safety net (section 88B(2)(c)). The Commission resisted calls from employer groups for the meaning of ‘low paid’ to encompass those without work, declaring in the 1999 decision (and affirming in successive cases) that the Act’s reference to ‘the low paid’ was ‘intended to refer to persons who are in employment’ (AIRC, 1999, PN 81, p.31). This treatment of

⁸⁵ The proportion of award-reliant workers in families below the median equivalent income, based on an ‘all families’ comparison, was estimated by the Joint Governments (and reported earlier) at 74 per cent (DEWRSB, 2000, p.227).

needs is most consistent with an analytical approach that excludes non-working families from the population used to determine whether low-wage workers are poor.

On the other hand, the Act required the Commission to set minimum pay rates which were ‘fair...in the context of living standards generally prevailing in the Australian community’ (section 88B(2)(a)). The natural reading of this provision supports the inclusion of retirees and non-workers in the comparison population, since they are part of the ‘general community’. Nothing in the specific wording of the *Workplace Relations Act 1996* required that award minima be fair when assessed relative to the living standards of working families, or another similar subpopulation.

Outside of the safety net review proceedings, some analysts have criticised those who would remove non-workers from the comparison population, arguing that the whole population is the only ‘policy-relevant’ reference point (Wooden, et al., 2007, p.300). This position, while contestable, misinterprets the legislative framework under which the AIRC operated in the safety net era. There could be no permanent agreement on the distributional effects of safety net increases, because the WR Act permitted competing interpretations of the central concepts of ‘needs’ and ‘fairness’, and because the results from income survey analyses were so strongly affected by the choice of reference group.

Submissions using HES data

The ACTU relied extensively on data from the ABS Household Expenditure Survey (HES) to support its submissions on the needs of the low paid. Its focus was mainly on the circumstances of households in the bottom 20 per cent of the income distribution, where the population was restricted to households with wages and salaries as their principal source of income. To simplify, we refer to this group as the first or lowest quintile of ‘working’ households.

In 1996-97, the ACTU presented data showing that expenditure exceeded income for first quintile working households in 1993-94. It estimated that average expenditure on goods and services was 22 per cent (or \$88 per week) higher than average income for households in this group. If the comparison was made using

disposable income (after tax liabilities were taken into account), average expenditure exceeded average income by 36 per cent for first quintile working households. No similar excess of expenditure over income was apparent for households in the other four quintiles. The ACTU said that these differences ‘dramatically illustrated the inadequacy of household income for the 1st quintile’ (ACTU, 1996, Section C, p.46).

The Joint Governments contested this interpretation of the HES data. They submitted that the focus on *average* income and expenditure was misleading, because some of the lowest income households, even in the population of ‘working’ households, were those that incurred losses from businesses in the previous year. The presence of these households would skew downwards the average income for first quintile households. By treating the averages as if they applied to *all* households in the first quintile, the ACTU analysis gave the appearance of income being deficient relative to expenditure. In reality, most first quintile working households were not spending 22 per cent more than their incomes, as the ACTU suggested, although it was to be expected that their absolute expenditures were lower than for households in the higher income quintiles (DEWRSB, 1996, pp.122-23).

The Commission accepted this part of the Joint Governments’ arguments, concluding that there was nothing in the ACTU evidence from which to form a view about needs and whether they were provided for adequately by the wages safety net:

...at higher incomes there is a greater opportunity to save, just as there is greater scope to buy goods and services: the differences in expenditure and saving are simply the consequences of unequal incomes and, as it seems to us, throw little light on actual or unmet need (AIRC, 1997, p.59).

A second and more successful strand of the ACTU submissions outlined differences in the expenditure patterns and priorities of high and low income working households. These comparisons reflected the *proportions* of income spent on different goods and services, rather than the absolute values of expenditures. In the safety net review cases of 1996-97 and 1998, the ACTU provided HES data on the purchasing patterns of the average first quintile

working household, under the heading ‘What does \$400 buy?’ (This amount was \$20 per week above the minimum unskilled award rate claimed by the ACTU in both cases.) The data showed that the average working household in the first income quintile spent the largest proportion of the \$400 per week on food and non-alcoholic beverages (23%), the second-largest proportion on transport (21%), and the third-largest proportion on holidays and other recreation costs (14%).⁸⁶

The ACTU said that this evidence was indicative of:

...what people on low wages actually can and do buy – it shows the severely constrained and restricted capacity of these workers to experience a decent standard of living in contemporary Australian society. Clearly, an expenditure of \$400 per week barely provides a basic standard of living (ACTU, 1998, p.44).

A problem with this conclusion, however, is that higher-income working households seem to allocate their expenditure in similar proportions to the same groups of goods and services. Calculated on the same basis as the ACTU estimates, the 1993-94 HES data showed that working households in the highest income quintile spent 19 per cent of their average expenditure on food and non-alcoholic beverages, another 19 per cent on transport, and 17 per cent on recreation. These proportions are very similar to, and in the same order as, the expenditure priorities evident for working households in the lowest income quintile. On its own evidence, therefore, the ACTU submission seems to refute the notion that high and low income households exhibit markedly different expenditure priorities (for the source data, see: ACTU, 1996, Material in Support of Section C3, Tag 4, p.1). The results also raise the question of what constitutes a ‘basic’ standard of living. Even relatively poor households seem to spend a significant proportion of their incomes on holidays and recreation costs, which might legitimately be considered outside the scope of ordinary ‘needs’.

The Commission encouraged interest in a third type of expenditure analysis when the majority of the Full Bench observed, in the April 1997 decision, that ‘...evidence of hardship among the low paid would support [us] giving greater weight to increasing the relative wages of the low paid than [we] might otherwise have given’ (AIRC, 1997, p.66). With a view to providing the Commission with

⁸⁶ These calculations excluded expenditure in the category of ‘current housing costs’. The reasons for this exclusion are not stated in the ACTU submissions, and this approach is inconsistent with their later treatment of housing costs as a ‘necessity’ (see discussion in main text).

such ‘evidence of hardship’, the ACTU obtained from the Australian Bureau of Statistics a number of unpublished data tables based on the ‘financial stress’ questions in the 1998-99 HES. These questions were included in the HES to complement the existing questions about income and expenditure by providing specific information on the goods, services and other activities that are enjoyed by most Australian families, but which some families do not purchase or participate in due to a lack of money. The indicators of ‘financial stress’ include pawning or selling something to raise money, going without meals or heating in the home, and seeking assistance from welfare or community organisations. Families are regarded as being financially stressed or in a state of material ‘deprivation’, depending on the number, and in some cases the specific types, of goods, services and activities that they report being unable to afford.

In the 2002 safety net review, the ACTU presented the Commission with evidence of financial stress for working households. Following an article by members of the ABS research staff, the ACTU placed households into one of three categories.⁸⁷ Households reporting five or more financial stress indicators were ‘highly stressed’; households reporting between two and four indicators were ‘moderately stressed’; and households reporting one or none of the indicators were treated as having ‘no stress’. The ACTU split working households into income quintiles, and calculated the proportion in each quintile falling into the three financial stress categories. Results were presented for several types of income (gross, disposable, equivalent). We reproduce the estimates of financial stress incidence based on equivalent household disposable income. This measure recognises that household ‘needs’ vary according to the number of people its income supports.⁸⁸

The ACTU estimated that, of working households in the bottom quintile of equivalent disposable incomes, 46.5 per cent reported no financial stress, 34 per cent reported moderate stress, and 19.5 per cent reported higher stress. Thus 53.5

⁸⁷ ‘Household Income, Living Standards and Financial Stress’, *Australian Economic Indicators*, June 2001, cat. no. 1350.0, pp.13-32. Canberra: Australian Bureau of Statistics. The ACTU reference to this article appears in the written submission to the 2002 safety net review (ACTU, 2002, p.136).

⁸⁸ The ACTU made this adjustment using the ‘revised OECD equivalence scale’, where the adjustment factor is determined by the number of adults and children present in a household. See further comment later in this chapter.

per cent of the working households in the bottom income quintile experienced moderate to high financial stress. Households in the lowest income quintile were by far the most likely to report at least moderate financial stress. Comparing across income quintiles, the ACTU estimated that households in the bottom group were around twice as likely to experience financial stress as households in the middle group, and about eight times as likely to experience financial stress as households in the top quintile (53.5% versus 6.5%). The ACTU said that these data demonstrated both significant exposure to financial stress in low-income working households and a strong, negative correlation between earned incomes and the likelihood of experiencing financial stress (ACTU, 2002, Table 6.7 and Figure 6.4, pp.146-47).

The Commonwealth government denied that there was ‘anything inherently special’ in the ACTU evidence. It said that higher levels of financial stress for households in the bottom quintile were the corollary of their having lower incomes: ‘As financial stress is highly likely to be inversely related to income, any split between high and low incomes [as in the ACTU analysis] will result in higher average stress levels for the lower income cohort’ (DEWR, 2005, p.52). It said that a better approach would be to estimate the proportion of all households in financial stress who also have low incomes. This approach was said to show that a large proportion of households in financial stress have relatively high incomes. The Commonwealth government argued that this raised questions about ‘whether some of the financial stress indicators reflect factors other than absolute incapacity to pay, such as issues related to management of resources and consumption preferences’ (DEWR, 2002, p.79).

We can re-use the ACTU data to determine how ‘financially stressed’ households are distributed across the five income quintiles, following the method recommended by the Commonwealth government. (Their approach uses the number of households in financial stress, rather than the number within an income quintile, as the denominator in the calculations.) We find that 37 per cent of working households in moderate to high financial stress (on the ACTU definitions given earlier) were in the first (lowest) income quintile. About the same proportion of working households in financial stress (35 per cent) were spread

across the third, fourth and fifth (highest) income quintiles.⁸⁹ These results offer some support to the Commonwealth government's contention that working households in financial stress do not necessarily have low incomes. But their strongest support is for the ACTU contention that income is related inversely to the probability of financial stress. On the data available in submissions, we estimated that two-thirds (65 per cent) of working households with two or more financial stressors were in the bottom two quintiles of equivalent disposable income in 1998-99.

A more fundamental objection to the ACTU evidence from the HES, overlooked by the parties opposing its Living Wage claims, was the assumed connection between the recipients of safety net wage adjustments and households in the first income quintile. One example of this assumption is the ACTU submission to the 2002 safety net case, which concluded an analysis of the 1998-99 HES data on financial stress by saying:

...On any income measure, the first quintile [of working] households report significantly greater levels of financial stress than the higher quintiles. Because award dependant workers predominate at the bottom of the earnings distribution the benefit of the Commission's decision in this case is greater for those who need it most (ACTU, 2002, p.147).

This comment blurs the distinction between two overlapping but quite different income distributions: the first a distribution of *individual earnings*, the second a distribution of *household incomes*. While it may be true that many of the workers receiving safety net adjustments are found in the lowest income households, this is a proposition that requires empirical confirmation, rather than one that can be safely assumed to be true. We referred earlier to an analysis by the Joint Governments which found that the likely recipients of safety net adjustments are divided equally between low (below-median) and high (above-median) income households, when the distribution is confined to households where wages and salaries are the main source of income. This government analysis implies that the connection between the individual earnings and household income distributions is weaker than the ACTU supposed. We seek to clarify this, and other related issues about the needs of safety net recipients, in the statistical analysis described below.

⁸⁹ Author's own calculations, based on the population estimates and proportions shown in Table 6.7 of the ACTU written submission to the 2002 Living Wage Case (ACTU, 2002, p.146).

New empirical evidence from ABS household surveys

The remaining sections of this chapter present updated statistical evidence about the economic circumstances and ‘needs’ of the households in which employees receiving safety net wage adjustments are found. The analysis examines various aspects of households’ financial status, including their size and composition, annual income and extent of financial stress. It involves comparisons between the households containing safety net recipients and several other types of households, including those which have wages and salaries as their principal source of income. The purpose of the analysis is to appraise and extend the statistical evidence presented to the Commission in safety net review cases. We do this mainly by improving the method that is used to ‘locate’ award-reliant employees in the household survey information collected by the ABS.

The 2003-04 SIH/HES dataset

The data are taken from the Confidentialised Unit Record Files (CURFs) of the ABS Survey of Income and Housing (SIH) and Household Expenditure Survey (HES), for 2003-04. These surveys were undertaken concurrently for the first time in 2003-04, having occurred previously at different intervals with different samples of households. The complementary nature of the two surveys means that it is now possible to investigate a broader range of economic well-being measures for a single sample of households (and persons comprising these households) than was the case when the surveys were conducted separately (ABS, 2006b, p.66). The SIH has a larger sample than the HES, but is narrower in scope. We use the SIH to analyse household characteristics and incomes, and the HES to analyse the incidence of financial stress.

We use the ‘Basic’ versions of the CURF datasets from both surveys. The SIH Basic CURF has 11361 household observations and 22286 observations for persons aged 15 years and over within those households. The HES Basic CURF has 6957 household observations and 13726 observations for persons aged 15 years and over within those households. (The HES samples are approximately 61 per cent of the SIH samples.)

Identifying safety net adjustment recipients

The principal challenge for an analysis of this kind is how to identify the target group of employees reliant on award minimum rates of pay and safety net adjustments. This challenge arises because ABS household surveys, including the SIH and HES, do not collect information on pay-setting methods. As the Commonwealth government noted in the 2001 *Safety Net Review – Wages* case, households surveys are unlikely ever to include pay-setting information, because it is widely believed that employers are the only reliable source for this type of information (DEWRSB, 2001, p.75).

With the exception of the Joint Governments’ ‘matching exercise’ in 2000, the parties to safety net review cases did not seek to identify precisely the recipients of safety net wage adjustments. Previous academic research has also focused on generic groups of ‘low-paid’ workers, rather than the specific beneficiaries of safety net decisions. One approach in the existing literature has been to explore the household circumstances of employees paid up to or just above the Federal Minimum Wage (Richardson, 1998; Leigh, 2003; Healy and Richardson, 2006). Another approach has been to identify the employees in the bottom 10 or 20 per cent of the hourly wage distribution (Wooden, et al., 2007). In some cases, the authors using these approaches have sought to relate their findings to the safety net adjustment process. For instance, Wooden *et al.*, in the study cited above, justified their focus on the bottom quintile of adult wage-earners by noting that ‘this is the same proportion of employees, who according to the ABS 2004 Survey of Employee Earnings and Hours, were reliant on awards for pay increases’ (Wooden, et al., 2007, p.301).

We take issue with the implication that the lowest-paid employees are commensurate with the employees affected by safety net decisions. It is true, as Wooden *et al.* noted, that the bottom quintile of wage-earners is a group nearly identical *in size* to the group reliant on awards. In 2006, the proportion of (adult non-managerial) employees whose pay was set by award-only was 19 per cent.⁹⁰ It does not follow, however, that the two groups have identical characteristics. The major problem with this assumption, as shown in Chapter Five, is that most

⁹⁰ See Table 4.5, Chapter Four.

award-reliant employees have recorded wages above the thresholds that would normally qualify them as ‘low paid’. In 2006, the bottom 20 per cent of all (adult non-managerial) employees had hourly wages of less than \$17. Only one-third (35 per cent) of award-reliant employees had wages low enough to place them in this group.⁹¹ We argue, on the basis of this evidence, that studies concerned with the employees at the bottom of the wage distribution will not necessarily reflect the circumstances of workers affected by safety net decisions. And, because most award-only employees have wages above the bottom quintile, estimates for the latter group are likely to show more adverse results than would be obtained if we improved the method of identifying safety net adjustment recipients in the data.

It is important to note, in the context of the preceding paragraph and the discussion in Chapter Five, that the point that most award-only workers are above the bottom quintile of hourly wages holds only if we ignore the effects of casual loadings. We reiterate this point, because the SIH and HES datasets do not have information about casual employment status, although casual workers are within the scope of the surveys. We therefore cannot make any adjustment for the effects of loading payments on the recorded wages of casual workers.

In refining the method of identifying safety net workers in the SIH and HES datasets, we have not sought to replicate exactly the matching exercise undertaken by the Joint Governments in 2000. That analysis matched SIH data with estimates from the 1995 Australian Workplace Industrial Relations Survey (AWIRS), using various employee attributes, such as sex, age, employment arrangement, industry and occupation of work. It is not possible to repeat the modelling underpinning the Joint Governments’ analysis, because of a lack of suitable contemporary data. The AWIRS has not been conducted since 1995, and so cannot offer more recent data to match with the 2003-04 SIH/HES datasets. The ABS has recently released a CURF from the 2006 Survey of Employee Earnings and Hours. This CURF has high-quality information on pay-setting methods and other employee attributes. But only three of the variables in this survey (sex, weekly earnings and working hours) are also present in the SIH/HES datasets. Without overlapping information on other key attributes – especially age, qualifications, casual status, industry and

⁹¹ This is partly because of the operation of casual loadings. See Chapter Five, especially Figure 5.1, for the relevant data and further explanation.

occupation (all of which appear in one, but not both, surveys) – the replication of the Joint Governments’ analysis would not be expected to yield a robust ‘match’ between the surveys. We have also been mindful of the Commission’s concerns about the modelling procedures underpinning the Joint Governments’ analysis, and have opted for a simpler approach where no modelling is involved.

We identify the likely beneficiaries of safety net decisions using unpublished data on award reliance and average award wages from the May 2004 EEH survey. These data have been used earlier in Chapters Four and Five. They give us information about patterns of award reliance that can be matched, albeit in a relatively crude way, with the data items collected in the SIH and HES household surveys. From the unpublished tables provided by the ABS, we have details about the proportions of award-reliant workers, by sex, in each major occupation. We know that award-reliant employees, who receive safety net increases, predominate in low- and semi-skilled occupations. They are highly likely to work in clerical, sales and service, or labouring jobs. Our first step in identifying the recipients of safety net increases is thus to focus on the occupations where most award-reliant workers were employed in 2004. (These occupations are listed below.)

We do not, however, wish to treat *all* the employees in occupations with a high share of award-reliant workers as if they were necessarily receiving safety net adjustments. Even in occupations which contain above-average proportions of award-only workers, these workers are usually still in the minority. The key distinguishing feature of award reliant employees is that they have lower wages, on average, than other employees in the same broad occupation. Indeed, this is an intended by-product of the award system acting as the ‘safety net’, above which employees with superior bargaining power can negotiate improvements in their pay and conditions. We exploit this characteristic of the safety net to restrict attention to employees paid less than the average award wage *within* each of the occupations of interest. By doing this, we remove from consideration higher-paid workers, who are more likely to be covered by agreements. The drawback of this approach is that we also preclude analysis of the living standards of the minority of award-reliant workers who (as we saw in Chapter Five) are, in fact, high-paid.

Our next step is to limit the sample by age. We restrict attention to employees aged 21-64 years, because the unpublished data from the 2004 EEH survey are for ‘adult’ employees. While in practice some workers under 21 years are paid at adult rates, we cannot determine from the limited information collected in the SIH/HES datasets whether workers under 21 years receive adult or ‘junior’ rates.

We set the Federal Minimum Wage (FMW) as the lowest rate payable to award-reliant workers, because our sample is restricted to adults. Our dataset covers the period from July 2003 to June 2004. Hence we have chosen the level of the FMW adopted in the May 2003 *Safety Net Review – Wages* decision as the adult wage floor (\$11.80 per hour). The FMW adopted in the May 2004 safety net decision would not have taken effect for most workers until after the data collection phase for the SIH/HES 2003-04 was completed.

Ideally, we would delete from the sample employees who are working proprietors – i.e., ‘owner-managers of incorporated enterprises’ – who we have earlier argued are better treated as self-employed persons. These owner-managers are excluded from the estimating datasets of some, but not all, previous academic studies (the most recent to do so is Wooden, et al., 2007). The SIH/HES datasets do not, however, allow us to distinguish owner-managers from other employees. Our approach of deleting ‘below-FMW’ employees has the advantage of removing from the estimating samples those working proprietors who pay themselves a very low wage and who might otherwise be treated (incorrectly) as if they were receiving safety net adjustments.

In summary, we define likely safety net adjustment recipients as employees who are:

- between 21 and 64 years of age;
- paid hourly wages at least equal to the adult Federal Minimum Wage;
- for men, employed in one of the following four occupations and paid no more than the hourly wages listed. (In 2004, these occupations contained 75 per cent of award-reliant men):

Tradespersons and Related Workers	≤ 15.60
Intermediate Production and Transport Workers	≤ 16.80
Elementary Clerical, Sales and Service Workers	≤ 17.20
Labourers and Related Workers	≤ 15.80

- for women, employed in one of the following three occupations and paid no more than the hourly wages listed. (In 2004, these occupations contained 77 per cent of award-reliant women):

Intermediate Clerical, Sales and Service Workers	≤ 16.70
Elementary Clerical, Sales and Service Workers	≤ 16.10
Labourers and Related Workers	≤ 15.70

We refer to these employees as ‘SNA recipients’ throughout this discussion. They represent approximately 17 per cent of all adult employees, 14 per cent of adult male employees, and 20 per cent of adult female employees.

The identification approach which we have described is not perfect. Its major limitation is that, by focusing on employees paid less than the (occupation-specific) average award wage, we ignore those with higher wages who are still dependent on safety net decisions. We have sought to minimise the impact of this limitation on our results by restricting attention to the broad occupational groups in which award-reliant workers are known to be most heavily concentrated.

By comparison with the more elaborate identification procedure used in the Joint Governments’ matching exercise of 2000, the approach used here is strikingly, and deliberately, simple. The matching is based on just three characteristics – sex, occupation and hourly wage – and does not involve multivariate regression. A more advanced technique could be employed if better data were available, but our approach offers the best identification method when we take into account the limitations and inconsistencies of current data. We have also been mindful of the Commission’s misgivings about whether the Joint Governments’ analysis yielded ‘a good fit or accurate information’, in designing the identification procedure for this chapter (AIRC, 2000, p.35).

Comparison groups

We investigate the relative living standards of SNA recipients by comparing their circumstances with those of three other groups. These groups, and our reasons for choosing them, are as follows:

1. Adults of working age (21-64 year olds) living in any type of household. This is our broadest comparison group. The results for this group tell us how the SNA recipients compare with the adult population of working age. This group

includes the unemployed and persons outside the labour force, including Disability Support Pension recipients (provided they are within the specified age range), but excludes children and most retirees. For some interested in the effects of minimum wage fixation, this is the ‘policy-relevant’ comparison group, since it includes all who could work, rather than only those currently working (Wooden, et al., 2007, p.300). It thus provides an indication of whether safety net adjustments could be replaced by a negative income tax, as a way of reducing unemployment while ‘targeting’ income support payments to the most needy households (Dawkins, 2002).

2. Adults of working age (21-64 year olds) living in households where the principal source of income is wages and salaries. This group narrows the population from (1), by deleting households where the principal income is derived from non-wage sources, such as government transfers, private businesses and other investments. As earlier, we describe the households whose principal income source is wages as ‘working’ households. The results for this group provide evidence of average living standards among persons in households with at least one worker. Not all persons in this population group are themselves employed (e.g., the spouses or parents of workers), but all are dependent to a large extent on incomes obtained in the labour market.
3. Adult employees (aged 21-64 years) whose own wage (in all jobs) places them in the bottom 20 per cent (‘bottom quintile’) of the hourly wage distribution. The wage distribution is constructed by dividing weekly earnings by weekly hours of work for current employees. This group provides evidence of how the living standards of SNA recipients compare with the lowest-paid employees. With this comparison, we test the assumption made by Wooden *et al.* (2007) that the bottom quintile group is a close substitute for the group of employees receiving safety net increases. In this analysis, the bottom quintile comprises employees, including owner-managers, paid between \$0.01 and \$14.16 per hour (inclusive) in the 2003-04 financial year.

Level of analysis

The evidence presented in the following sections refers to *household* attributes. A ‘household’ is either a group of related or unrelated people who occupy a single

dwelling and make joint provision for food and other essentials, or a person living alone (ABS, 2006a, p.95). The estimates are, however, calculated to be representative of the number of *persons* living in these households, rather than the number of households. This is referred to as ‘person-weighted’ estimation, ‘because the unit of analysis is the person, even though all the characteristics being described are characteristics of the household to which the person belongs’ (ABS, 2006a, p.25).

The alternative is to identify the households that contain at least one SNA recipient, and then describe the characteristics of those households. A ‘household-weighted’ estimation was used recently by Watson (2007) in a study of adult low-paid employees in Australia. A limitation of this approach is that two or more low-paid employees may live in one household. Where this occurs, the total value of their household’s income will be higher, but this value will be counted once for the household as a whole, rather than once for each person. This method will consequently show a higher proportion of low-paid workers in ‘low-income’ households than a person-weighted analysis.

The significance of the difference can be appreciated by noting Watson’s estimate that 12 per cent of households with an employee paid up to the Federal Minimum Wage (61 thousand households) have more than one such employee (Watson, 2007, Table 3.1, p.58). This result means that *at least* 122 thousand low-paid workers (two in each household) are under-represented in Watson’s findings, compared to the weight they would have in a person-weighted estimation. In this chapter, the unit of analysis is the person, rather than the household. We follow standard practice in adjusting income to recognise that ‘needs’ depend on how many people a given level of income supports.

Household characteristics

In what types of households are SNA recipients typically found? Is there anything distinctive about their households, which suggests that they might have greater difficulty attaining financial security than persons in other households, or in other working households? This section uses the 2003-04 SIH data to investigate three main areas of potential difference between SNA recipients’ households and other households. The first results relate to household size and composition. If SNA

recipients are in needier households, they might be expected to have a smaller number of wage-earners supporting a larger number of persons, especially persons without significant personal incomes, such as children and non-working adults.⁹²

The second set of results relates to the characteristics of the ‘head’ of each household, who is the person responding to the ABS on behalf of other household members (the ‘household reference person’) for the purposes of the SIH and HES questionnaires. An analysis of household heads’ attributes differs from an analysis of the attributes of employees who themselves receive safety net adjustments, because it is sometimes said that these employees benefit from the higher earnings of others living in the same household. If this view is accurate, we would expect to find most SNA recipients living in households where the head is employed, particularly on a full-time basis, and earning more than the average hourly wage for all occupations.

The third set of results relates to the current occupancy status (‘tenure’) of SNA recipients’ households. If these households are vulnerable to hardship, we should find them predominantly in rented accommodation, and less often in fully-owned homes, than is the case for other persons of similar age.

Size and composition

Table 7.1 shows various estimates of average household size, composition and type in 2003-04. Estimates for the households where we find SNA recipients are shown in the right-hand side column. Working across the columns of Table 7.1 from left to right, we limit progressively the size of the estimating sample, starting with the largest group (persons aged 21-64 years in all households) and ending with the smallest group (SNA recipients). The number of sample observations in each of the comparison groups and the estimated number of persons in each group are shown in summary statistics at the bottom of the Table.

⁹² This part of the analysis does not control for income, which is itself a key determinant of need. While households with a small number of wage-earners and a large number of dependents are not always or necessarily needier, this assumption is a useful approximation to reality which underpins the widespread use of ‘equivalence scales’ to compare household needs (see later in this chapter). The tendency of needs to increase with more dependents, and decrease with more wage-earners, means that this part of the analysis is suggestive of needs even without direct controls for income.

TABLE 7.1 – HOUSEHOLD SIZE AND COMPOSITION

	Persons 21-64 years		Employees 21-64 years	
	All HH	Working HH	Bottom quintile	SNA recipient
<i>Average number of persons (no.)</i>				
Employed	1.70	2.02	2.13	2.14
Unemployed	0.10	0.08	0.07	0.08
Not in the labour force	0.62	0.42	0.35	0.34
Children under 15 years	0.63	0.64	0.55	0.55
Total	3.05	3.16	3.11	3.11
<i>Number of wage-earners (%)</i>				
None	14	0	0	0
One	31	33	26	29
Two	42	51	54	50
Three or more	13	16	20	21
<i>Household type (%)</i>				
Couple with dependent children	38	42	38	35
Couple without dependent children	35	35	36	36
One parent with dependent children	5	3	4	5
Person living alone	11	9	10	11
Other types	11	11	13	13
<i>Summary statistics</i>				
Sample size (N observations)	16664	12071	2118	1748
Estimated no. of persons ('000s)	11549	8408	1468	1228

Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

The first panel of Table 7.1 shows the estimated average number of persons in each of three labour force states (employed, unemployed and not participating in the labour force), the average number of dependent children under 15 years of age and the average total number of persons in each of the four comparison groups.⁹³

The average SNA recipient lives in a household with approximately three people, including two employed people. Compared to the average working household, the household of a typical SNA recipient has fewer people in total, more employed people and fewer dependent children and people outside the labour force. There is no evidence that SNA recipients' households have a relatively small number of wage-earners supporting a relatively high number of dependents.

⁹³ A 'dependent' child is as any person under 15 years of age, or a person aged 15-24 years who lives at home with one or both parents, is a full-time student, and does not have a partner or child of their own (ABS, 2006a, p.93).

The second panel of Table 7.1 groups households by their number of current wage-earners.⁹⁴ These estimates provide another indication of households' access to labour market income. We find that 29 per cent of SNA recipients are the sole wage-earner for their household. This proportion is lower than the estimate for all working households (33 per cent), but higher than the estimate for employees in the bottom quintile of the hourly wage distribution (26 per cent). The majority of SNA recipients are in households with multiple wage-earners (71 per cent) and 21 per cent of these employees live in households with three or more earners.

These results provide a reminder of the prevalence of dual-earner households and the contributions that second (or even third) wage-earners make to the overall financial circumstances of their households. The connection between wages and family needs cannot be very strong, even for employees reliant on safety net wage adjustments or in the bottom quintile of earners, because in most cases their own wage is supplemented by a second or third wage obtained by another person with whom they live. The evidence that SNA recipients' households are more likely to contain three or more earners probably also reflects the higher incidence of award reliance among casual workers (Table 4.6, Chapter Four), including young people who still live with their parents.

What the current data cannot tell us is the proportion of secondary or tertiary earners who prefer fewer (or perhaps zero) hours of paid employment, but have entered the labour market to rectify the perceived inadequacy of their household's main wage. One recent study estimated that 24 per cent of adult employees with wages near the FMW had a preference for fewer than their current hours in 2005 (20 per cent for men and 26 per cent for women) (Watson, 2007, Table 1.9, p.16). While that study did not identify primary, secondary and tertiary wage-earners in their households, we can infer that perhaps as many as one-quarter of employees with low hourly wages would prefer to forgo some of their current paid hours, but are working them because of a perceived need for the money.

⁹⁴ We define a 'wage-earner' differently from an employed person, by excluding dependent children and by requiring that earners have a current income from their job. This is not the case for all classified as 'employed', such as persons working in family businesses or workers temporarily absent from their jobs due to sickness or other leave.

The third panel of Table 7.1 divides households into five main ‘types’, based on their constituents, and shows what proportions of persons from each population group are found in these household types. Most SNA recipients are in couple households (71 per cent) and in this respect they are not noticeably different from the majority of persons in working households (77 per cent). The remaining 29 per cent of SNA recipients are divided between lone-person households (11 per cent), one-parent families with dependent children (5 per cent) and other types of households, including groups of unrelated persons living together (13 per cent). In none of these proportions is the group of SNA recipients noticeably different from the group of adult persons in working households.

There is evidence that SNA recipients are found less frequently in ‘couple with dependent children’ households than the typical person in a working household. Part of the explanation for this difference is that SNA recipients are younger than other adults in working households. In a separate analysis, not reported in Table 7.1, we estimated that 29 per cent of SNA recipients are less than 30 years of age, compared to 23 per cent of adults in working households. As the SNA recipients reach their 30s, we would expect their likelihood of having children to increase. (This effect could be tested in a longitudinal study, but cannot be detected with the cross-sectional data presently available from the SIH.)

We contend, however, that ‘lifecycle’ factors are not the only reason why SNA recipients are found less often in couples with dependent children than the typical adult in a working household, because a difference remains even if we focus on persons aged 30-49 years.⁹⁵ We thus cannot dismiss the explanation that workers dependent on safety net cases have fewer children because they face financial constraints that motivate a preference for smaller families.

Labour force status of household reference person

Table 7.2 examines the labour force status of the individuals defined by the ABS as the household’s head or ‘reference person’. These individuals are chosen by using an ordered list of selection criteria to identify one person in each household who can respond to relevant parts of the SIH/HES questionnaires on behalf of all

⁹⁵ In this age range, 51 per cent of SNA recipients are in couples with dependent children, compared to 58 per cent of persons in working households.

other household members. In single-parent families with dependent children, the parent is the household head. In couple families with dependent children, the head is the spouse or partner with the highest current income, or the eldest person in cases where income is tied. In most other households, the head will be the person with the highest current income. The use of highest income as the main selection criterion allows us to classify households by the characteristics of the person who contributes most to total household income. We use the reference person data to examine how frequently the employees who are themselves SNA recipients live in households where the head is also disadvantaged in the labour market.

We use wages and hours of work to determine the labour market status of household heads. For wages, we split the distribution at the average (mean) hourly wage for all employed persons in 2003-04. In computing the average wage, we use the information on earnings and hours worked in all jobs. We exclude those with zero work hours, but include those with zero earnings in the survey period (predominantly non-employees). We also ‘top-code’ hourly wages at \$60, to avoid upwardly biasing the average wage by the presence of a few very high earners (or because of errors in reporting). A wage of \$60 per hour is close to five times the Federal Minimum Wage (\$11.80) and just below the 99th percentile of the unmodified wage distribution. In setting a maximum value of \$60, we adjust downwards 151 wage observations (1.1 per cent of the employed sample). The average wage used in this analysis is \$17.45 per hour.⁹⁶

The hourly wage of household heads is the first indicator of their labour force status. The second indicator is their working hours. We use the standard distinction between part-time and full-time workers by splitting the distribution of hours worked in all jobs at 35 per week. The most advantaged workers are those with full-time hours and ‘above average’ wages. The least advantaged workers are those with part-time hours and ‘below average’ wages.

⁹⁶ Note that this value is \$3.20 per hour below the value that would have been used (\$20.65 per hour) if we had deleted workers with zero earnings from the sample and ignored potential outliers.

TABLE 7.2 – LABOUR FORCE STATUS OF HOUSEHOLD HEADS

% in each group	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
Full-time, above average wage	44	60	24	26
Full-time, below average wage	25	25	52	53
Part-time, above average wage	6	7	5	3
Part-time, below average wage	7	5	14	15
Not employed	18	3	5	4
<i>Summary statistics</i>				
Sample size (N observations)	16664	12071	2118	1748
Estimated no. of persons ('000s)	11549	8408	1468	1228

Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

Twenty-six per cent of SNA recipients are in households where the head works full-time for more than the average hourly wage. It is important to note that these are not instances where the SNA recipient is also the household head, because the upper thresholds chosen to define an SNA recipient in this analysis are below the average hourly wage of \$17.45 (see earlier). Since, by definition, SNA recipients in this analysis cannot also be paid 'above average' wages, the results in Table 7.2 indicate that 26 per cent of SNA recipients are in households with *another* person who works full-time and whose hourly wage exceeds their own. Three per cent of SNA recipients are in households where the head works part-time for more than the average hourly wage.

The main finding from Table 7.2, however, is that SNA recipients are strikingly over-represented in households where the head is a relatively under-privileged worker paid less than the average hourly wage. Some 68 per cent of award-reliant employees are in households where the head works for below the average wage, most often on a full-time basis. By comparison, 30 per cent of adults in working households have a below-average wage worker as their household's head.

Part of the explanation for why SNA recipients are more likely to be found in disadvantaged households is that many of these workers are their households' reference person. In these cases, there is naturally a correspondence between the low award wage and the low apparent labour force status of the household head. But 52 per cent of SNA recipients are not their household's reference person. Of these employees, 39 per cent are in households where the head is another person

working for below the average wage. Few SNA recipients have the good fortune of living in households headed by high-wage earners. This finding challenges the stereotype of SNA recipients as the spouses or children of successful workers.

Housing tenure

The final element of household characteristics examined in this section is their current occupancy status or 'housing tenure'. Table 7.3 shows that 24 per cent of SNA recipients live in fully-owned homes. This is a surprisingly high proportion, which is nearly identical to the 23 per cent of adults in working households who also live in fully-owned homes. In view of the large and ongoing costs associated with purchasing a home or renting, home-owners are likely to need much lower incomes to attain an acceptable standard of living.

Among SNA recipients there is, however, significant variation in home ownership rates. In a separate analysis, not reported in Table 7.3, we found ownership rates exceeding 30 per cent for SNA recipients in couples without dependent children. By comparison, outright ownership has been achieved by only 9 per cent of SNA recipients in single-parent families with dependent children.

SNA recipients are most likely to be in homes that are being purchased through a mortgage. But they are less likely to be in this position than the typical adult in a working household (43 versus 52 per cent). The difference between these groups is accounted for by a higher proportion of SNA recipients in rented homes. Again, however, there is significant variation in housing tenure depending on the type of household considered. Mortgaged homes are most common for SNA recipients in couples with dependent children (57 per cent), whereas rented properties are the norm for single-parent families and single people (56 per cent of each group). We can speculate, from the fact that mortgage rates are lower among SNA recipients than among adults in working households, and particularly low among sub-groups such as single people, that some renters would prefer to be purchasing their home. We cannot say definitively how many are 'involuntary renters', because the SIH dataset has no information on personal preferences, such as whether individuals elect to defer home ownership to facilitate job mobility or to invest in other areas.

TABLE 7.3 HOUSING TENURE

% in each group	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
Owens outright	27	23	25	24
Has mortgage	45	52	44	43
Renting	26	24	28	30
Other	2	2	3	2
<i>Summary statistics</i>				
Sample size (N observations)	16664	12071	2118	1748
Estimated no. of persons ('000s)	11549	8408	1468	1228

Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

Income

This section examines the sources and levels of income for the households of SNA recipients. Following the practice of several earlier Australian studies, we focus on annual income, rather than current income (Richardson and Harding, 1999, p.136; Leigh, 2007, p.438; Watson, 2007, p.60). While current income provides the most up-to-date information relevant at the time of survey, annual income enables the inclusion of irregular and lump-sum payments (including salary bonuses and one-off government transfers to families) that are excluded from current income. The reference period for annual income in this analysis is the financial year from July 2002 to June 2003.

Distribution

A useful way of representing the annual income positions of households that contain SNA recipients is to graph the distribution of income ranked from lowest to highest. Figure 7.1 shows where SNA recipients and bottom quintile employees are situated in an annual income distribution with all persons aged 21-64 years as the comparison population. We show separately the positions of full-time workers and part-time workers, following McGuinness and Freebairn (2007) who first recommended this distinction.

Both graphs show horizontal lines at 0.01, representing the distribution of income by 'percentile' (i.e., 100 units), for the comparison population of 21-64 year olds. When the distribution lines for SNA recipients and bottom quintile employees are above the horizontal lines at 0.01, we say that they are over-represented in that part of the distribution. If these workers were in households with the same income

distribution as the working-age population, their observations would not deviate from the 0.01 lines.

The measure of income used in Figure 7.1 is equivalent household disposable income from all sources in the 2002-03 financial year. ‘Disposable’ income is gross income, adjusted by adding any lump-sum entitlement to Family Tax Benefits and subtracting income tax and the Medicare levy. (This measure is also known as ‘net’ or ‘after-tax’ income.) Disposable income is then transformed to its ‘equivalent’ form. The concept of equivalent income is intended to capture the way in which differences in household size and composition affect their material needs. A household comprising a couple with dependent children needs a larger income than a single person, to sustain an equivalent standard of living.

This assumption is reflected in the ‘equivalence factor’ used to adjust disposable income. The ABS provides in the SIH dataset an equivalence factor based on the ‘modified OECD’ equivalence scale. This scale assigns a weight of 1.0 to the first adult in a household, 0.5 to each subsequent adult and 0.3 to each child under 15 years.⁹⁷ A household with a couple and two children under 15 years would thus have an equivalence factor of 2.1, while a lone person would have an equivalence factor of 1.0. Equivalent income is calculated by dividing the value of household disposable income by the relevant equivalence factor for that household, for every person in the sample.⁹⁸ The resultant income measure is typically interpreted as the amount that a single person requires, to attain the same living standard as a person in a larger household.

The annual income distributions in Figure 7.1 show that SNA recipients are not predominantly in poor households when the comparison population includes all persons aged 21-64 years. In the full-time workforce, 4 per cent of SNA recipients are in households in the bottom decile of the income distribution and 10 per cent are in households in the bottom two deciles. Most full-time SNA recipients live in

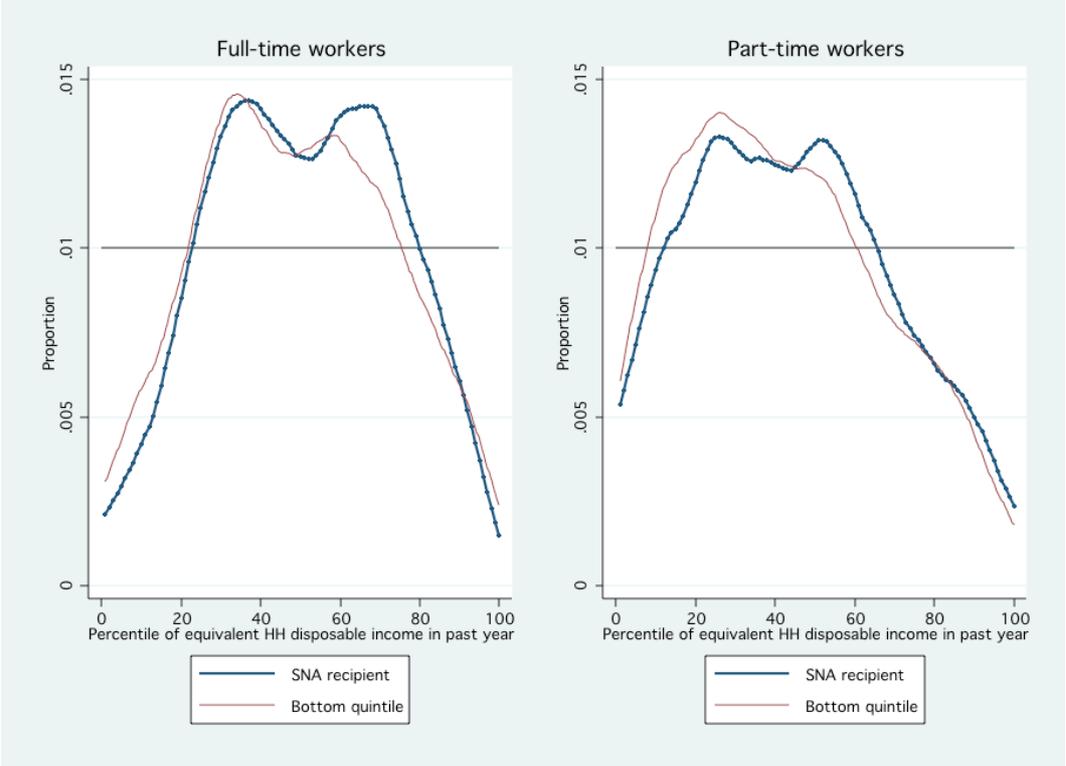
⁹⁷ Several Australian studies use a different scale, where income is divided by the square-root of the number of persons in a household (Healy and Richardson, 2006; Leigh, 2007). In most cases, the two scales produce similar results. In our dataset, the correlation between an equivalence based on the OECD scale and another based on the square-root scale is close to perfect unity ($r=0.97$).

⁹⁸ The observations for a small number of households with negative income (due to business or investment losses) are included, but their equivalent income was set to zero before analysis.

‘middle income’ households (deciles four through seven). The median full-time SNA recipient is in a household at the 52nd percentile of the income distribution.

There is stronger evidence that *part-time* SNA recipients are concentrated near the bottom of the income distribution. Even for this group, however, 40 per cent live in households with incomes above the equivalent median. These results reinforce earlier evidence that low wages and low household incomes are not synonymous, although the connection is stronger for low-wage earners who also work part-time (Richardson and Harding, 1999; Leigh, 2007; McGuinness and Freebairn, 2007).

FIGURE 7.1 – DISTRIBUTION OF EQUIVALENT HOUSEHOLD DISPOSABLE INCOME IN PREVIOUS YEAR: PERSONS AGED 21-64 YEARS



Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

In the following sections we investigate three reasons why SNA recipients (and, to a lesser extent, employees in the bottom quintile of hourly wages) are not strongly concentrated in low-income households. The first explanation is that the comparison population includes households in which no-one works. We explore this issue further by restricting the comparison population to households in which wages and salaries are the principal source of income. The second explanation is that SNA recipients are not the main ‘breadwinners’ for their households. We test this explanation by ranking wage-earners within households and estimating the

proportion of SNA recipients who earned their households' highest wage during 2002-03. The third possible explanation is that SNA recipients live in households with significant non-wage incomes. We test this explanation using data on sources and levels of income.

Modifying the comparison population

One reason why SNA recipients might not be in the lowest-income households is that these households mostly contain the unemployed and persons outside the labour force. If this is the case, the SNA recipients' households, which necessarily contain at least one employed person, would be moved towards the middle and upper deciles of the income distribution.

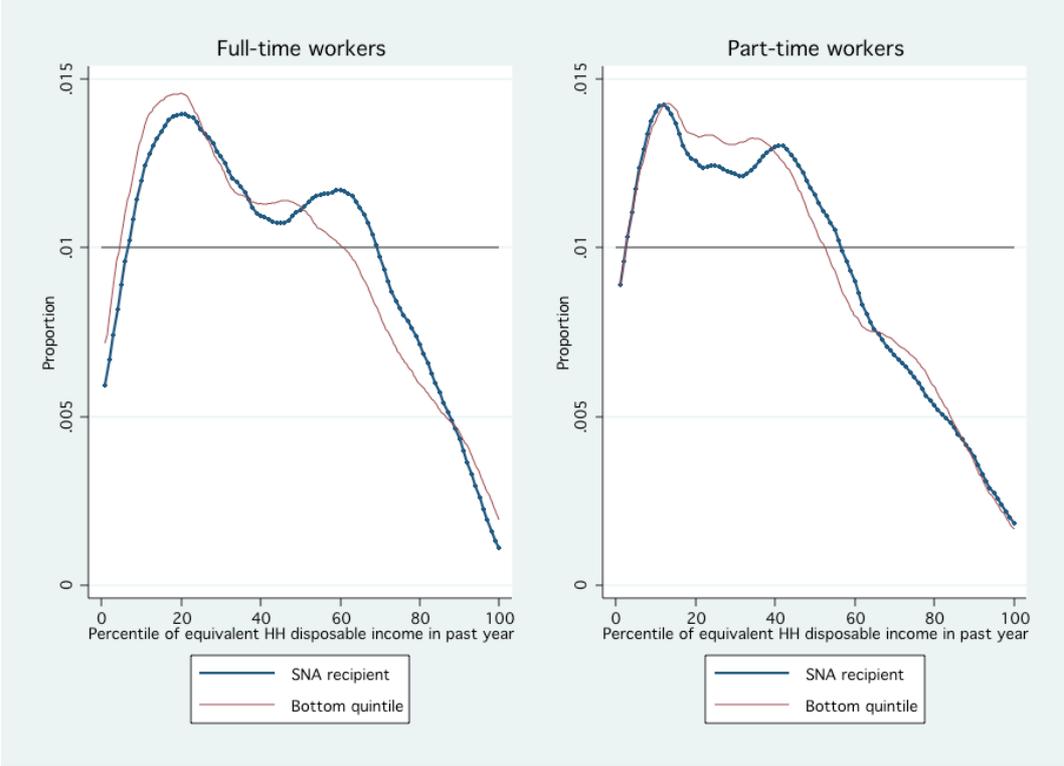
In Table 7.1, we showed that 14 per cent of persons aged 21-64 years were in households without any earners. It is to be expected that these households will fall predominantly in the lowest income deciles, and that they will be located further down the distribution than households with at least one earner, unless they have substantial incomes from sources other than wages (we explore this issue below). A simple examination of the equivalent incomes of households without earners (using the SIH data) confirms that they were overwhelmingly at the bottom of the income distribution in 2003-04. Thirty-six per cent of persons in these households were in the lowest income decile and 67 per cent were in the lowest two deciles. The predominance of jobless households at the bottom of the income distribution therefore provides part of the explanation for why SNA recipients are not found in the poorest households.

Figure 7.2 shows where SNA recipients and bottom quintile workers are situated in an alternative income distribution, where the comparison population is limited to persons aged 21-64 years in households with wages and salaries as the principal source of income.

SNA recipients are closer to the bottom of this 'working households' distribution. The median full-time SNA recipient is now in a household at the 41st percentile of the income distribution, compared to the 52nd percentile in Figure 7.1. The median part-time SNA recipient moves from the 44th to the 36th percentile. Forty per cent of SNA recipients are found in the bottom three deciles of the income distribution

among ‘working’ households. On the other hand, 37 per cent of these workers are still found in households above the median income. Removing jobless households from the comparison population therefore reduces, but does not nearly eliminate, the number of SNA recipients in households with relatively high annual incomes.

FIGURE 7.2 – DISTRIBUTION OF EQUIVALENT HOUSEHOLD DISPOSABLE INCOME IN PREVIOUS YEAR: PERSONS AGED 21-64 YEARS IN HOUSEHOLDS WHERE WAGES AND SALARIES ARE THE PRINCIPAL SOURCE OF INCOME



Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

Breadwinners and secondary earners

A second reason why SNA recipients might not live only in households with low incomes is that they are not the primary ‘breadwinners’ for their households. This issue has been explored previously by Leigh (2007). Ranking each earner by their hourly wage, and restricting his focus to households with two or more earners, Leigh demonstrated that most workers paid ‘near-minimum’ wages were secondary earners in their households in the period 1994 to 2003. The majority of these workers (58 per cent) lived with another person who was earning a higher hourly wage.

A limitation of Leigh’s analysis is his exclusion of households with only one earner. Workers can be defined as ‘breadwinners’ if they earn the highest wage in

households with multiple earners, but also if they earn the *only* wage in their household. This second group of breadwinners is overlooked in Leigh's study. A second criticism relates to Leigh's use of an imputed hourly wage to rank earners within households. While it is appropriate to use hourly wages to determine which employees are 'low paid' or receiving 'near-minimum' wages, it is inappropriate for determining what proportion of workers are the main breadwinners for their households. This is because some of the workers with low hourly wages will work longer hours over a week, or over a year, than others with higher hourly wages. Workers with high hourly wages therefore might not contribute the most to their households' annual earnings.

We use information about each person's annual earnings in 2002-03 to determine breadwinner status. We define six mutually-exclusive groups. In households with multiple earners, the 'primary' earner is the person with the highest earnings, 'secondary' earners are persons with lower (but not zero) earnings and 'non-earners' are persons who received no income from employment. In households with a single earner, we distinguish 'earners' from 'non-earners'. The sixth group contains households without any earners in 2002-03.⁹⁹

Table 7.4 shows the proportions of persons in each of these six categories. The first panel shows our results for all persons, while the second and third panels show sex-specific results. We estimate that 49 per cent of SNA recipients were the breadwinner for their household in 2002-03. Most of these breadwinners were in households with a single earner (26 per cent) and another 23 per cent were in multiple-earner households. Our estimate that 49 per cent of SNA recipients were their households' breadwinner is higher than the 42 per cent estimated by Leigh for near-minimum wage workers in multiple-earner households.

We estimate further that 44 per cent of SNA recipients were 'secondary earners' in their households during 2002-03. These workers are significantly more likely to

⁹⁹ A small number of employees are reported as being either non-earners or in households without any earners. For instance, Table 7.4 shows that 3 per cent of SNA recipients were in households without earners. This apparent anomaly is explained by changes occurring between the two time periods covered by the analysis. The determination of SNA reliance is based on labour force status and income in 2003-04, while primary and secondary earner status is based on income in 2002-03. Hence, individuals who are *currently* employed, but who were not employed in the previous year, may still be shown correctly as non-earners or as living in households without any earners.

be secondary earners than the typical adult in a working household (33 per cent). Panels two and three of Table 7.4 demonstrate, however, that there are large sex differences in the probability of secondary earner status. Fifty-seven per cent of female SNA recipients were secondary earners, compared to 27 per cent of males in this group. Only 36 per cent of female SNA recipients were the breadwinner in their household in 2002-03. When interpreted in light of the earlier evidence (in Chapter Four) that most SNA recipients are women, the results in Table 7.4 help to explain why many of these employees are found in middle-income households.

TABLE 7.4 – EARNINGS POSITION IN OWN HOUSEHOLD DURING PREVIOUS YEAR, BY SEX

% in each group	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
<i>Persons</i>				
Households with multiple earners				
- Primary earner	24	31	23	23
- Secondary or other earner	25	33	45	44
- Non earner	4	4	2	1
Households with one earner				
- Earner	20	20	24	26
- Non earner	11	10	3	2
Households without earners	16	2	3	3
<i>Males</i>				
Households with multiple earners				
- Primary earner	35	45	32	35
- Secondary or other earner	16	20	32	27
- Non earner	4	3	1	1
Households with one earner				
- Earner	23	25	27	30
- Non earner	8	5	3	2
Households without earners	15	2	4	3
<i>Females</i>				
Households with multiple earners				
- Primary earner	13	16	14	13
- Secondary or other earner	35	47	57	57
- Non earner	4	5	2	2
Households with one earner				
- Earner	16	15	21	23
- Non earner	15	15	4	2
Households without earners	17	1	2	3
<i>Summary statistics</i>				
Sample size (N observations)	16664	12071	2118	1748
Estimated no. of persons ('000s)	11549	8408	1468	1228

Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

Non-wage income sources

A third reason why SNA recipients might not be in poor households is that their households receive substantial incomes from sources other than wages. Incomes from government transfers, business profits or superannuation might, when added to their earnings, lift SNA recipients above the living standards attained by the poorest households, which rely overwhelmingly on government income support payments (ABS, 2007c, p.21).

Table 7.5 shows the mean values of household incomes received from various sources in 2002-03. The average SNA recipient was in a household with a gross income of \$65,000 before tax, a disposable income of \$54,000 after tax and an equivalent income of \$28,000 after adjusting for household size and composition. Nearly 90 per cent of the gross income received in the household of the average SNA recipient was derived from earnings. The remaining income was received in the form of government benefits (6 per cent) and other regular sources (5 per cent). These results suggest that wages are by far the most important source of income for the typical SNA recipient's household. Non-wage incomes are only a minor part of the explanation for why these workers are often in middle-income households.

TABLE 7.5 – SOURCES AND LEVELS OF HOUSEHOLD INCOME IN PREVIOUS YEAR

Mean income to nearest \$'000	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
Gross income from all sources	71	81	65	65
- Wages and salaries	58	75	55	58
- Government benefits	5	3	4	4
- Other sources	8	4	5	3
Disposable income	56	63	53	54
Equivalent disposable income	30	33	27	28
<i>Summary statistics</i>				
Sample size (N observations)	16664	12071	2118	1748
Estimated no. of persons ('000s)	11549	8408	1468	1228

Source: ABS Survey of Income and Housing (SIH), 2003-04, Basic CURF.

Evidence of hardship

Our final objective in this chapter is to investigate the extent of financial hardship for the households in which we find SNA recipients. We use the ABS Household Expenditure Survey (HES) 2003-04 CURF dataset for this analysis. The data that

we have used to this point in the chapter, from the Survey of Income and Housing (SIH), have allowed us to explore household living standards and needs based on their size, composition and sources and levels of income. Our aim in using the HES data is to explore the extent of financial hardship and its sources, drawing on self-reported details about households' responses to cash-flow problems and about the activities they cannot afford because of a lack of money.

There are two broad categories of hardship measures adopted by the ABS in the HES. The first category contains six 'deprivation' indicators, which represent a household's access to the 'basics of life'. These indicators include the ability to buy new clothes for members of the household most of the time, to engage in leisure activities or hobbies and to take a vacation away from home for at least one week per year. The determinant of deprivation is whether households report being *unable to afford* these activities, as distinct from not *wanting* to participate in them.

These indicators may not seem to represent fundamental 'needs'. For instance, the amount of leisure time is unlikely to affect households' living standards as much as the ability to obtain food, shelter and appropriate medical care. But the purpose of the indicators is to identify the households which are deprived relative to more affluent households, in a country where even the poorest generally have access to simple food, housing and medicines. The six deprivation indicators in the HES were selected by the ABS from 37 items developed in the 'Deprivation Standards Project'¹⁰⁰. They were chosen, not because they are indicative of absolute poverty, but because they are seen to 'act collectively as a point of differentiation between the deprived and the more fortunate in [contemporary Australian] society' (ABS, 2006a, p.30).

The second category of hardship measures in the HES contains nine 'financial stress' items. These are actions that households may have taken, at any time in the past year, due to a shortage of money. They include going without meals or heating in the home, pawning or selling something and seeking financial help from friends or community organisations. Households that took any of the actions associated with financial stress are seen to have had difficulty meeting their

¹⁰⁰ See Travers and Robertson (1995) for the full results of this project.

financial commitments from their current resources and are treating as having ‘cash-flow problems’ (ABS, 2006a, p.32).

As with the indicators of deprivation, there are perceived differences in the severity of the various financial stress indicators. The ABS has acknowledged that some actions, such as failing to pay an electricity or gas bill on time, are taken by households which have the capacity to pay, as a short-term deferral strategy where no penalty applies for doing so. Similarly, household expenditure may exceed income temporarily, such as when a home is being furnished or renovated, without implying permanent financial disadvantage. In general, however, households that report having experienced some of the financial stressors have greater difficulty meeting their economic obligations and needs than households that experienced none of them (ABS, 2006a, p.32).

There are three elements to our analysis of the HES data on deprivation and financial stress. First, we estimate the proportion of persons in households that reported any of the six deprivation indicators or nine financial stress indicators. We rank the indicators according to how often they were reported. Second, we calculate the proportions of persons in households that endured multiple types of deprivation and financial stress. We do this in recognition of the fact that not all of the households which have taken actions associated with financial stress (such as not paying a bill) are necessarily disadvantaged, whereas households which took two or more such actions are more likely to have ongoing problems meeting their needs. Third, we examine the attributes of households in financial hardship. We consider how households that experienced multiple sources of deprivation or stress differ from other households and use the comparison to speculate about the underlying causes of financial strain.

Deprivation indicators

Table 7.6 reports the incidence of each of the six deprivation indicators. There is a remarkable degree of similarity, across our comparison groups, in the incidence of deprivation. For every group, the most frequently reported source of deprivation is the inability to afford a holiday away from home for a period of at least one week a year. Thirty per cent of SNA recipients are in households that reported this type of deprivation, compared to 22 per cent of adults in working households. The next

most common source of deprivation is the inability to afford a night out once a fortnight. The other four types of deprivation were experienced by only around 10 per cent of adults, including SNA recipients. The individual indicators do not show a significantly greater incidence of deprivation among SNA recipients, compared to adults in all working households.

TABLE 7.6 – INDICATORS OF DEPRIVATION

% in each group	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
<i>Household could not afford to...</i>				
Have a holiday away from home for at least one week a year	26	22	27	30
Have a night out once a fortnight	20	16	19	20
Have a special meal once a week	11	8	9	11
Buy brand new clothes most of the time	10	7	9	11
Spend time on leisure or hobby activities	9	6	8	8
Have friends or family over for a meal once a month	6	4	5	5
<i>Number reported</i>				
None	64	69	64	59
One	15	15	16	19
Two	9	8	10	11
Three or more	12	8	11	12
<i>Summary statistics</i>				
Sample size (N observations)	10296	7545	1242	1037
Estimated no. of persons ('000s)	11581	8460	1413	1197

Source: ABS Household Expenditure Survey (HES), 2003-04, Basic CURF.

There is stronger evidence of deprivation among SNA recipients if we calculate the *number* of indicators reported (the second panel of Table 7.6). This approach abstracts from the individual indicators to determine their cumulative frequency. Forty-one per cent of SNA recipients were in households that experienced at least one source of deprivation in the previous year. This proportion is substantially higher than the 31 per cent of adults in working households in the same position. Further, 23 per cent of SNA recipients are in households that experienced multiple sources of deprivation in the previous year. This estimate suggests a non-trivial degree of financial hardship among the beneficiaries of safety net wage increases.

On the other hand, 59 per cent of SNA recipients are in households that did not experience *any* type of deprivation. Most of these workers live in households that were not forced to forgo any of the ‘basics of life’ due to a shortage of money.

Financial stress indicators

Table 7.7 reports the incidence of financial stress. We note, first, that none of the indicators was experienced by more than 20 per cent of persons in any of the four comparison groups. The stressor most likely to be encountered in SNA recipients’ households was difficulty in paying a utilities bill (gas, electricity or telephone) on time. Eighteen per cent of SNA recipients experienced this source of financial stress, compared to 13 per cent of adults in working households. We have noted that this indicator on its own does not capture the extent of financial hardship, because relatively affluent households tend to defer bill payments as a short-term cash-flow management strategy, when this can be done without incurring further costs (ABS, 2006a, p.32). The margin between SNA recipients’ households and other working households might be larger than the 5 percentage points shown in Table 7.7 if we could isolate cases where bills are not paid because of genuine financial difficulty.

The second most common type of financial stress, affecting 16 per cent of SNA recipients’ households, is the inability to raise \$2000 in an emergency. This type of stress is also reported more frequently by SNA recipients than by other adults in working households (10 per cent). The difference substantiates a point made by the ACTU in safety net cases, that many award-reliant workers are in households with slender ‘cash margins’. They have difficulty coping with sudden, unplanned expenses because of their limited capacities to save.

The indicators of financial stress in Table 7.7 are ranked by their incidence among SNA recipients but are not weighted by perceived severity. We see, however, that the types of financial stress that would generally be viewed as indicators of severe poverty or destitution are exceedingly uncommon in working households. Less than 5 per cent of SNA recipients are in households that went without meals or heating, pawned or sold something, or sought assistance from welfare groups due to a shortage of money in the previous year.

TABLE 7.7 – INDICATORS OF FINANCIAL STRESS

% in each group	Persons 21-64 yrs		Employees 21-64 yrs	
	All HH	Working HH	Bottom quintile	SNA recipient
<i>Due to a shortage of money, this household...</i>				
Could not pay a utilities bill on time	16	13	18	18
Could not raise \$2000 in an emergency	14	10	15	16
Spent more than it received in most weeks of the past year	18	16	18	16
Sought financial help from friends or family	10	9	12	13
Could not pay registration or insurance on time	6	6	8	8
Pawned or sold something	3	2	4	4
Went without meals	3	1	3	2
Was unable to heat home	2	1	1	2
Sought assistance from welfare or community organisations	3	1	2	2
<i>Number reported</i>				
None	63	68	60	60
One	20	18	20	19
Two	7	6	8	7
Three or more	10	7	11	13
<i>Summary statistics</i>				
Sample size (N observations)	10296	7545	1242	1037
Estimated no. of persons ('000s)	11581	8460	1413	1197

Source: ABS Household Expenditure Survey (HES), 2003-04, Basic CURF.

It is sometimes said that the comparison between low-wage workers' households and other working households is not instructive, and that a better comparison would be with households where no-one works. Yet the incidence of severe financial stress is low even among 'jobless' households in modern Australia. In a separate analysis not reported in Table 7.7, we estimated that 10 per cent of adults in households without earners sought assistance from welfare groups, 8 per cent went without meals, 8 per cent pawned or sold something and 5 per cent went without heating. In our view, these proportions are low. They imply that the social welfare system in Australia does an excellent job of preventing financial hardship even among households where no one works. On the other hand, the proportions

are higher than the comparable estimates for SNA recipients (and bottom quintile employees) shown in Table 7.7. If there were convincing evidence that safety net adjustments impeded the entry of unemployed persons into low-wage jobs, these estimates could be used to support the argument for reducing award minimum pay rates. But, as noted in Chapter Two, the evidence about the employment effects of safety net decisions proved unpersuasive to the AIRC.

The second panel of Table 7.7 provides a different perspective on financial stress by estimating the number of indicators reported by households in each population group. As with the deprivation statistics, we find that SNA recipients are more likely to be in households that experienced two or more sources of financial stress during the past year (20 per cent) than adults in working households (13 per cent). SNA recipients appear particularly likely to be in households that endured three or more financial stressors (13 per cent). It remains the case, however, that most of these workers (60 per cent) were in households unaffected by financial stress of any kind.

It is at this level of analysis that wider differences appear between working and non-working households. We estimate, but do not show in Table 7.7, that 60 per cent of adults in jobless households experienced at least one indicator of financial stress in the past year. Although SNA recipients are less likely to be in financially secure households than the typical adult in a household where at least one person works, they are sheltered from the financial hazards that confront the typical adult in a household where no-one works.

Characteristics of households experiencing hardship

In what ways do households that experience financial hardship differ from those that do not? To answer this question, we focus on the household characteristics from Table 7.1. We define two groups of SNA recipients. The first group contains those whose households reported multiple indicators of financial hardship. These households experienced at least two of the six deprivation indicators *or* two of the nine financial stress indicators. Thirty-two per cent of SNA recipients experienced hardship on this definition. We compare the characteristics of households in this first group to the characteristics of households in which the remaining two-thirds

of SNA recipients are found. From this comparison we draw conclusions about the likely causes of financial hardship for workers affected by safety net cases.

Table 7.8 presents the results of the analysis. The key difference in the first panel of the Table is that there are fewer employed persons, on average, in households that experienced financial hardship (1.8) than in households that did not (2.3). The households that experienced hardship are also more likely to have members with low or no incomes – the unemployed, persons not in the labour force and children.

The second panel of Table 7.8 shows that households in hardship are more likely than others to have only one wage-earner (43 versus 21 per cent). This difference suggests that households are especially susceptible to financial difficulties where their only worker receives safety net adjustments. This evidence is consistent with the submissions of several welfare organisations participating in safety net cases, which characterised the lowest award wages as ‘inadequate’. On the other hand, most of the households that experienced hardship had two or more earners (56 per cent). This result implies that while the presence of a second wage-earner reduces the probability of hardship, it does not guarantee financial comfort.

The households that experienced hardship are also more likely than others to have dependent children, as shown in the third panel of Table 7.8. This result suggests that the costs of raising children increase the risk of financial hardship for SNA recipients. The evidence on this point is tentative, because there are other factors for which we have not controlled in the comparisons in Table 7.8, which could affect both the number of dependent children in a household and its probability of hardship. One such factor is the age of household members. In a separate analysis, we estimated that households in hardship are *less* likely than others to be headed by a person over 55 years of age (11 versus 19 per cent). The households that did not experience hardship are therefore more likely to have older occupants. Some of these households will have reached a more financially secure position, not by deciding against having children, but because their children have grown up and have ceased to be dependent on parental support.

TABLE 7.8 – CHARACTERISTICS OF HOUSEHOLDS WHICH DID AND DID NOT EXPERIENCE SIGNIFICANT FINANCIAL HARDSHIP IN THE PREVIOUS YEAR

	SNA recipients aged 21-64 years	
	Households in financial hardship	Households not in financial hardship
<i>Average number of persons (no.)</i>		
Employed	1.80	2.33
Unemployed	0.14	0.05
Not in the labour force	0.43	0.32
Children under 15 years	0.75	0.42
Total	3.11	3.12
<i>Number of wage-earners (%)</i>		
One	43	21
Two	45	53
Three or more	11	26
<i>Number of dependent children (%)</i>		
None	48	64
One	20	18
Two	20	13
Three or more	12	5
<i>Summary statistics</i>		
Sample size (N observations)	333	704
Estimated no. of persons ('000s)	381	816

Source: ABS Household Expenditure Survey (HES), 2003-04, Basic CURF.

Conclusion

Our aim in this chapter has been to develop an understanding about the contributions that safety net wage adjustments make to meeting household needs. We have reviewed in detail the evidence presented on this issue by the major participants in safety net cases and have added to the literature a substantive new analysis, using the SIH/HES dataset for 2003-04. The major empirical innovation of this analysis was a refinement of the method used to identify the beneficiaries of safety net adjustments.

There is substantial evidence to support the conclusion that SNA recipients are in households which look much like the typical household reliant on wage and salary income. They are of similar overall size, have a slightly larger number of earners and have a comparable distribution across the different household 'types'. Most SNA recipients are in households with multiple wage-earners, and one-fifth live in households with three or more earners.

The main difference between the household of a safety net adjustment recipient and a typical working household is that the former is much more likely to be one where the head earns less than the average hourly wage, especially on a part-time basis. These results mean that we should not assume that, simply because their households have similar *numbers* of earners, that the employees receiving safety net increases are no worse off than the typical adult in a working household.

In determining whether the prevailing safety net wage rates were adequate to provide for workers' needs, the Commission signalled that it was open to evidence of hardship produced from benchmarks such as budget standards. The findings in this chapter will aid interpretation of future submissions that are based on notional household 'types'. For instance, welfare groups such as the Australian Council of Social Service and the Brotherhood of St Laurence argued that lone person households were the appropriate benchmark for assessing the adequacy of the Federal Minimum Wage. The Australian Council of Trade Unions relied on an analysis in which the updated budget standards were compared with the disposable incomes of households with a single earner on the FMW. Our results highlight the difficulty that would be faced in seeking to translate either of these approaches into a convincing benchmark for the minimum wage, since only 11 per cent of the SNA recipients in this analysis live alone and less than a third (29 per cent) are in households with a single wage-earner. We also know from other evidence, developed in Chapter Five, that workers on the Federal Minimum Wage represent a small proportion of all safety net adjustment recipients.

The strongest argument against 'uncapped' safety net adjustments – that is, those not restricted to workers on the lowest award classification pay rates – is that the benefits go disproportionately to middle- and high-income households, rather than to the poor. The Joint Governments provided evidence to this effect in the 2000 safety net review case, based on a 'matching' of two key datasets underpinned by regression modelling. That analysis showed that 74 per cent of employees paid at award rates were in households with income above the (equivalent) median for a distribution including all households (DEWRSB, 2000, p.227). The Commission declined to accept this conclusion, because of its concerns about the methodological rigour of the original matching and the Joint Governments'

subsequent refusal to provide it with further guidance or supporting information demonstrating the reliability of the matching (AIRC, 2000, PN 105, p.35).

The analysis in this chapter used a comparatively simple method to identify the recipients of safety net adjustments. We used unpublished data from the EEH survey to identify employees in key occupations receiving less than the average award wage in these occupations. On this basis, we estimated that adult SNA recipients are divided in almost equal proportion between households with incomes above and below the median income, in an equivalent distribution for persons aged 21 to 64 years. We also found that SNA recipients are significantly more likely to reside in ‘low-income’ households when their employment is part-time and when we focus on the distribution of income for households reliant on wages and salaries.

These findings are in substantial agreement both with the earlier Joint Governments’ analysis and the results of prior academic research (Healy and Richardson, 2006; McGuinness and Freebairn, 2007). The major reason that our estimate of the proportion of SNA recipients in below-median income households is higher than that of the Joint Governments (53 per cent in this study, as compared with their estimate of 26 per cent) is that we do not treat as ‘award-reliant’ those employees paid more than the average award wage in the selected occupations. Our approach has necessarily concentrated on lower-skilled employees whose wages are set by minimum rates near the bottom of the award classification structure.

It is not possible to subject the Joint Governments’ analysis to additional testing, because limitations in the scope of the major household surveys preclude us from replicating exactly their regression-driven matching exercise. The differences between our results and theirs do imply, however, that the analysis in this chapter is focused more narrowly on a group of safety net reliant workers who are closer to the bottom of the household income distribution than would be the case if we were able to identify the award-dependent workforce in its entirety.

The Commission felt that it was useful to learn about the living standards of the very lowest-paid workers, not because they were necessarily ‘representative’ of

the whole award-reliant workforce, but because they revealed the circumstances of the least fortunate workers receiving safety net adjustments. It followed that if the lowest paid workers were not in financially disadvantaged households, other, relatively high paid, beneficiaries of its decisions were also likely to have their 'needs' satisfied.

One component of this chapter is a comparison between the living standards of likely SNA recipients and the group of employees in the bottom quintile of the wage distribution. We sought to test the presumption of some earlier researchers that the bottom quintile is a reasonable approximation for the group of workers receiving safety net increases (Wooden, et al., 2007). Contrary to expectations, we found that, in most respects, the two groups share many of the same attributes. They live in similar types of households, have similar sources of income and are situated in approximately the same parts of the annual income distribution. These similarities are potentially useful, as they suggest that we can obtain a reasonably accurate picture of the needs of low-paid safety net adjustment recipients by using the evidence for the more easily-identified group of bottom quintile wage-earners. This insight is of value, in view of the practical difficulties of including questions on pay-setting methods in surveys of Australian households.

Where we depart from the conclusions of some prior studies is in the presumption that, since the SNA recipients are not necessarily poor, minimum wages could be reduced in real terms (and perhaps supplemented by a negative income tax) without significantly harming the living standards of disadvantaged households. We question this conclusion for two reasons which previous studies have not comprehended. First, the workers who benefit most from safety net adjustments are, in half of all cases, the highest or only wage-earner in their household. A cut in the real value of award wages would therefore affect the incomes of a large proportion of breadwinners, particularly men. This finding should also be seen in light of the fact that the households of SNA recipients do not receive much of their income from sources outside the labour market. A reduction in real wages would therefore have an equivalent negative impact on their material well-being.

A second argument against a cut in the real value of award wages is that the workers who benefit most from safety net adjustments are already more likely to

be found in households that experience financial hardship. Forty-two per cent of SNA recipients are in households that experienced one type of deprivation in the previous year and 39 per cent are in households that experienced one type of financial stress. Unless fully offset by a reduction in effective rates of taxation, a real decrease in award wage rates would merely undermine the primary source of income for households that are already at greater risk of financial strain. The wage reduction would have the most deleterious effect on households with dependent children, which we have shown to be most susceptible to hardship.

CHAPTER EIGHT: Conclusions

Australia maintains a ‘safety net’ of minimum wages and employment conditions that is more comprehensive than the protections provided to employees in many other industrialised countries. While employment conditions within this safety net are being increasingly set by direct legislation, minimum wages have remained the province of specialist authorities operating under broad direction from governments. The potential costs and benefits of maintaining this wages safety net have become more important, because of the decentralisation of wage determination in Australia and associated labour market changes, such as falling trade union density, rising earnings inequality and a reduction in ‘standard’ (full-time and continuing) employment opportunities, for men in particular.

This thesis provided a more thorough examination of the safety net’s purposes than any previous work, by developing new evidence about how the safety net adjustment process operates and whose interests it serves. There have been other recent studies of issues related to the wages safety net, including the attributes of employees receiving the Federal Minimum Wage (FMW) and the problems of low-wage employment. But because the safety net’s coverage is broader than just the lowest paid employees, these earlier studies do not go far enough in explaining its purposes or testing the arguments for its preservation. This thesis has argued for, and provided, an analysis of the whole wages safety net, with a particular focus on how the safety net was maintained by the Australian Industrial Relations Commission and who benefited from its adjustment.

In this chapter we review the major findings from the research presented in this thesis and set its contributions in a wider context. The next section discusses what has been learnt from this study about the purposes of the Australian wages safety net. We reflect on its functions and limitations with respect to the three benefits of minimum wages reviewed in Chapter Three. We then draw out the implications of this thesis for future wages policy by commenting on the aims and achievements of the AIRC. Were the Commission’s approaches to the safety net appropriate, in view of the new evidence about their effects, or should its successor, Fair Work

Australia, act differently? The final section of the chapter identifies areas for further research and offers suggestions about how these might be investigated.

Functions and limitations of the safety net

In Chapter One, we described the aim of this study as to understand the purposes of the wages safety net. We posed several related questions: What functions does the safety net perform? What are its limitations? Should it be preserved? We now reflect on the answers to these questions. We evaluate the safety net's purposes by referring, first, to its impact on employee earnings and market power and, second, to its impact on household income, poverty and needs. These themes are related closely to the benefits of minimum wage regulation discussed in Chapter Three.

Earnings and market power

As the number of employees dependent on awards declined, the function of the wages safety net has shifted to the protection of employees who lack the effective capacity to bargain their pay directly with employers. The function of 'underpinning bargaining', which was central at the start of the safety net period under the Keating Labor government, became less important after 1996. This thesis showed that the change in emphasis was due to three main factors: (1) the widening gap in wages for employees covered by awards and agreements, to which safety net adjustment cases contributed; (2) the Howard Coalition government's support for the widening gap, which it saw as necessary to promote bargaining and establish a 'genuine' safety net; and (3) evidence that the former link between safety net cases and bargaining, whereby award increases would 'spill over' into agreed outcomes, had broken down.

Whichever way we look at the existing data, there is a substantial and growing gap in wage outcomes between employees reliant on the safety net and employees covered by agreements. Award-reliant employees are lower in the hourly wage distribution than other employees. Using one marker of 'low pay' discussed in safety net cases, the C7 award rate, we estimated that 57 per cent of award-reliant employees, and only 20 per cent of non-award employees, were low paid in 2006 (see Figure 5.2). Award-reliant employees also earn less than others doing similar work. Controlling for occupational differences, the average award wage was

between \$3.30 and \$5.10 per hour less than the average wage for employees covered by collective agreements in 2006 (with the larger difference for men) (see Table 5.1). Large hourly wage differentials persist after controlling for other human capital attributes, such as level of education, English ability, experience and job tenure (see Tables 5.3 and 5.4). Finally, we showed that, in the period 2000-2006, real hourly wages grew more quickly for non-award employees than for award-reliant employees at all points in the distribution (see Figure 6.3).

It is clear that for the award system to function as a ‘safety net’, the minimum wages it provides cannot match the wages achieved through bargaining. The Commission accepted this point, saying in 2005 that ‘the statutory concept of an award safety net requires that there be a separation between minimum rates and agreement rates’ (AIRC, 2005, PN 385, p.103). It is not equally clear, however, why the safety net conception necessitates a *widening* gap between wages in awards and agreements. Yet this has been the result of safety net cases for the majority of employees reliant on decisions of the AIRC.

The main argument put by the Howard government in relation to this issue was that safety net adjustments equivalent to the rate of wage increases in agreements would undermine the required ‘incentive’ for employees to move into the bargaining sector. This argument, while potentially viable at the start of the safety net era when agreed wages were closer and more responsive to award wages, has become progressively irrelevant as the gap between the two sectors widened. The repetition of the incentives argument therefore ignored the existence of an already large differential in wages. It prioritised the actions of bargainers over the needs of the significant number of employees still dependent on the safety net. And it overlooked the potential that larger safety net increases might encourage bargaining, by giving employers a reason to find productivity-raising offsets for the higher award minimum pay rates (Peetz, 1998a).

The argument that the safety net’s principal function relates to the interests of workers who lack bargaining power is supported further by evidence of segmentation between the award and agreement sectors. The most recent data, which are from the 1999 Award and Agreement Coverage Survey (AACS), suggest minimal ‘leakage’ from safety net adjustments to employees who are not

dependent on awards. The main finding of AACS relevant to the current research is that 83 per cent of those who received the safety net wage adjustment in 1998-99 were employees paid exactly award minimum rates (see Chapter Four). The Commission concluded from these data that there would be 'limited indirect costs' from safety net cases (AIRC, 2000, PN 65, p.27). While it would be beneficial to have more recent and robust data on the 'spill-overs' issue, there is no compelling evidence at this stage to suggest that safety net cases have a broader impact on bargaining outcomes.

It follows from this evidence that safety net cases should be focused on the attributes and needs of the minority of employees still dependent on award minimum pay rates. We showed in Chapter Four of this thesis that, of the 1.3 million adult non-managerial employees paid by awards only in 2006, most were women, part-time workers and in industries with below-average trade union density. Rates of casual employment are also significantly higher among award-reliant employees (44 per cent) than among other employees (14 per cent). Female award-reliant employees are three times as likely as other women to be casual employees (see Table 4.6). In terms of their personal attributes and employment, the group of safety net adjustment recipients is quite diverse. After women in part-time casual jobs, the next-largest group of SNA recipients is men in full-time non-casual jobs. We therefore argued against the presumption that all workers who receive safety net wage increases are necessarily vulnerable to exploitation in the labour market. Some 477 thousand of the 1.3 million award-reliant employees in 2006 worked full-time in non-casual jobs.

It is only when we examine more closely the wages and bargaining capacity of award-reliant workers that we see clearly their need for protection through safety net adjustments. In Chapter Six, we showed that the decisions of the AIRC between 1993 and 2005 provided large cumulative wage increases for award-reliant workers below the C10 tradespersons' minimum rate of pay in the Metal Industries Award. For these unskilled workers, real wages increased and safety net adjustments approximately matched the growth in ordinary-time rates of pay for the workforce generally (see Figures 6.2 and 6.5). These outcomes reflected the Commission's attentiveness to the needs of the low paid, and its practice of

awarding (except in 2001) adjustments either as flat-rate (single dollar) amounts, or as increases tiered in favour of the lowest-paid. Viewing average weekly earnings as a legitimate measure of ‘living standards generally prevailing in the Australian community’, the AIRC prevented the Federal Minimum Wage from falling as a proportion of median weekly earnings after about 2000, but not before (see Figure 6.4).

These favourable outcomes of safety net cases in the AIRC, while beneficial to the lowest-paid, applied to only the minority of award-reliant employees. Another, larger group of safety net adjustment recipients, those employed above the C10 award rate, saw their wages fall both in real terms and relative to the rest of the workforce between 1993 and 2005. For highly-skilled workers, the real declines were in excess of 10 per cent over the whole safety net era and occurred in sharp contrast to the rising real wages at the top of the wage distribution for non-award employees (see Figures 6.2 and 6.3).

These outcomes would be of little interest if few workers actually relied on these higher award rates to set their pay; that is, if all that occurred was compression in the award classification structure with no direct consequence for actual earnings. But this is not the case. Allowing for an average 20 per cent casual loading, we estimated that 63 per cent of award-reliant employees were above the C10 award rate in 2006 and 43 per cent were above the C7 rate (see Chapter Five). The form of safety net adjustment favoured by the AIRC, and by the major industrial parties after 2001, thus resulted in real wage reductions for the majority of award-reliant employees.

These were precisely the outcomes envisaged by the Commonwealth government in recommending that the Commission ‘cap’ eligibility to safety net increases at the C10 level. Uncapped increases in all award rates were, according to the Commonwealth government, inconsistent with the ‘genuine’ safety net function of awards and the aim of enticing skilled workers into the bargaining system. We have seen that although the Commission *formally* rejected the case for capping – on the grounds that it would be unfair to skilled workers who happened to be excluded from bargaining, and contrary to the requirement that the safety net be ‘maintained’ – its decisions resulted in an *effective* cap on real wage increases at

the C10 award rate of pay. The reduction in real wages for skilled award workers would undoubtedly have been even more severe had the Commission accepted the case for capping, but the ‘penalty’ for award reliance for skilled workers increased nonetheless during the safety net era.

The logic of the Commonwealth government’s submissions was that excluding the employees above C10 from safety net increases would make bargaining more attractive to them. The evidence of this thesis represents a serious challenge to the logic of this argument. As we have shown, award rates above C10 declined in real terms during the safety net period, in some cases by large amounts. Despite these real declines, award-only employment above the C10 level did not disappear. Indeed, we demonstrated that after 13 years of safety net cases the employees on these higher rates remained the largest proportion of all safety net adjustment beneficiaries. In our view, it is reasonable to assume that the sharp real wage reductions for skilled award workers (see Figure 6.2), and the rising real wages elsewhere (see Figure 6.3), would be sufficient ‘incentive’ for award workers to move into the bargaining sector, if they had the ability to do so. The fact that so many remain award-reliant suggests that the premise of the Commonwealth government’s submissions about how employees (and employers) would respond to capped safety net increases is faulty. Our evidence leads us to the conclusion that bargaining is not an option for skilled workers who continue to be employed on award minimum rates. In this respect, they qualify for assistance in safety net cases. We agree with the Commission’s assessment, from 2004, that: ‘Bargaining is not a practical possibility for employees who have no bargaining power... the award safety net should be adjusted with the interests of these employees in mind’ (AIRC, 2004, PN 325, p.90).

Income, poverty and needs

Since the work of Richardson (1998), it has been recognised that the employees with low hourly wages in Australia do not necessarily live in low income households. The fact that many of the poorest Australians are not in low-wage jobs, either because they are unemployed, not participating in the labour force, or not of working age, means that the connection between low wages and low household incomes is tenuous. More recent research indicates, however, that the

connection is stronger for part-time employees, and stronger when the comparison population contains only people in the labour force (Healy and Richardson, 2006; Leigh, 2007; McGuinness and Freebairn, 2007). The research on which these conclusions are based has, without exception, focused on the household incomes of employees at the low end of the hourly wage distribution, who might or might not be actually receiving safety net adjustments. The conclusions have also been restricted to insights about household *incomes* and income mobility, which we have suggested gives only a partial understanding of the criterion relevant to the AIRC and now to Fair Work Australia: ‘the needs of the low paid’.

This thesis undertook a broader analysis of the financial capacities and needs of safety net adjustment (SNA) recipients than any that existed before. The first contribution of the study was to improve the *identification* of employees affected by safety net wage cases, in household income and expenditure datasets that do not have information on pay-setting methods. Where earlier studies have relied entirely on constructed hourly wages to define the ‘low paid’, this study also used information on occupations to find the likely beneficiaries of safety net decisions. By focusing on the occupations where award-reliant employees are known to be concentrated, this study overcame the risk that previous analyses do not represent accurately the circumstances of employees receiving safety net wage increases.

We showed, however, that there is little practical difference between the attributes and incomes of likely SNA recipients and employees in the bottom quintile of hourly wages. The two groups were nearly identical in their positions in the equivalent household income distribution for 2002-03. The identification method developed in this study thus does not require a serious revision of existing conclusions about the connection between the wages safety net and poverty. Indeed, we argued (in Chapter Seven) that monitoring the incomes of employees in the bottom quintile of hourly wages is a computationally simpler method of assessing changes in incomes for the lowest-paid employees receiving safety net adjustments.

A second contribution of this thesis in relation to poverty and needs was to improve the understanding of *why* SNA recipients are not found mainly in low income households. In a distribution of equivalent household income for persons

aged 21 to 64 years in 2002-03, 6 per cent of SNA recipients were in the bottom income decile and 14 per cent were in the bottom two deciles. These results tell us that the beneficiaries of safety net cases are under-represented in poor households, relative to where they would be if they were distributed in the same proportions as the whole Australian adult population. We find no evidence that SNA recipients escape poverty because their households receive significant non-wage incomes. The household of a typical SNA recipient got 90 per cent of its gross income from wages and salaries in 2002-03.

The main explanation for why SNA recipients are not poor is that, like the adult population generally, most live in multiple-earner households. Seventy-one per cent of SNA recipients live with at least one other earner (compared to 67 per cent of adults in working households) and 21 per cent live with at least two other earners. In addition, most SNA recipients in multiple-earner households are not the highest earner. Female SNA recipients are especially likely to be ‘secondary earners’ (see Table 7.4). And, since women are the majority of all SNA recipients (see Table 4.6), this explains why much of the benefit from safety net increases goes to workers in ‘middle-income’ households rather than to the poor.

This is only a limitation, however, if we view the wages safety net as a potential curative for poverty in society at large. If its main purpose is, instead, to reduce *working* poverty, then it is evident (from Figure 7.2) that safety net cases do have this effect. Their redistributive effect is clearest for part-time employees, who are the majority of SNA recipients. We concur with the Commission’s assessment that, although safety net increases are not ‘perfectly targeted’ to the poor, they do have a role in alleviating needs for lower income households reliant on wages and salaries (AIRC, 2000, PN 108, p.36; 2003, PN 225-226, p.71).

The third major contribution of this thesis in relation to poverty and needs was to examine whether SNA recipients are in households at greater risk of financial stress and deprivation. We made four observations about this evidence. First, the majority of SNA recipients live in households that did not experience any kind of financial stress or deprivation in the previous year. Sixty per cent of adult SNA recipients were in households without financial stress (see Table 7.7). Second, the *types* of financial stress indicative of severe material hardship are exceedingly

uncommon in households where someone works, even if the only wage-earner is low-paid and award-reliant. Fewer than 5 per cent of adult SNA recipients were in households that went without meals or heating, or sought help from welfare organisations, in the previous year. Third, although most SNA recipients do not experience financial stress, they are more likely to do so than a typical adult in a working household. Twenty per cent of SNA recipients experienced two or more financial stressors in the previous year, compared to 13 per cent of adults in all working households. Finally, the households at greatest risk of financial hardship are those where an award-reliant worker is the sole wage-earner and where there are multiple dependent children. Future safety net cases should therefore monitor closely the needs of employees in households with these attributes.

Wages policy implications

Method of adjustment

In Chapter One, we argued that three major features differentiate the Australian wages safety net from minimum wage systems in other industrialised countries: its extensive coverage of the workforce; the high level of its wages relative to median earnings; and the method of its adjustment. Since 2005, the method of adjustment has changed from the arbitration process of the AIRC to a less formally adversarial process wherein the Australian Fair Pay Commission had greater control over the timing of wage reviews and the nature of evidence informing its decisions. From 2010, the adjustment method will change again, to a format in which Fair Work Australia blends the quasi-judicial hearings of the AIRC with the ability of the AFPC to undertake research and monitor the effects of its decisions independently of the parties' submissions.

At present there seems to be a consensus in favour of setting minimum wages through an independent body established for the purpose, rather than making wages another of the components of the safety net set by the legislature. Both major Australian political parties have passed up the opportunity, when in power at Federal level, to replace the current wages safety net with a different system of minimum wage determination. The Howard government made sweeping changes to Australian industrial relations with its *Work Choices* legislation of 2005, including the establishment of the Australian Fair Pay Commission. But,

notwithstanding the changes in format, style and wage-setting criteria, this organisational change has had less than the anticipated impact on how the wages safety net operates and what is understood to constitute it. Like its predecessor, the AFPC adjusted minimum rates of pay at all levels. It did not enforce the ‘cap’ that the Commonwealth government argued for so strongly in the AIRC. Nor did it allow the real value of the Federal Minimum Wage to decline, at least on the data currently available (see Chapter Two). The Rudd Labor government was elected in 2007 with a popular mandate for industrial relations reform. And while it, too, introduced changes to the process and objectives of safety net wage cases, there is little reason to expect that the Minimum Wage Panel of Fair Work Australia, which is headed by the former President of the AIRC, will take an approach to the safety net that is substantially different from its forebears.

The idea that the Federal government should assume responsibility for minimum wages, incorporating them within broader fiscal policy (Wooden, 2005), does not seem to have any immediate prospect of being adopted in practice. The consequence, for those responsible for maintaining the safety net, is the need for continued awareness of the intersection between minimum wages and the broader social welfare system. The AIRC attended to this relationship by recognising that changes in government income support arrangements would necessarily influence any assessment of ‘the needs of the low paid’ but that, in practice, there were few changes of large enough magnitude to justify ‘discounting’ or deferring safety net wage increases. The Commission also declared that ‘all other things being equal it is preferable that income be sourced from earnings rather than welfare’ (see Chapter Six).¹⁰¹ This is quite a bold statement, as it shows the refusal of the AIRC to accept welfare transfers as perfect substitutes for higher minimum wages. A preference for wages over welfare is further reinforced by the evidence, from Chapter Seven of this thesis, that much of the income in SNA recipients’ households is derived from the labour market, rather than from non-wage sources. It remains to be seen if Fair Work Australia will take the same stance on these issues as the AIRC but, whatever its approach, it is in the interests of low-paid workers and the unemployed that the minimum wage and welfare systems operate as, and are understood to be, complementary instruments for alleviating needs.

¹⁰¹ Quoted from the June 2005 *Safety Net Review – Wages* decision (AIRC, 2005, p.111).

Coverage

There is no consensus about what should constitute the wages safety net, despite the insistence of the AIRC that it should be all award minimum pay rates and the continuation of this approach by the AFPC. This thesis demonstrated that there is a sizeable group of higher-skilled and award-reliant employees who lack the means of moving into the bargaining system, and who have suffered significant real wage declines as a result of safety net cases since 1993. On present estimates, these workers represent around two in every three of the beneficiaries from safety net cases. Excluding them from future adjustments would thus result in a major downgrading of the safety net's current role in wage determination.

The argument for including these higher-skilled workers in future safety net wage increases is primarily about remedying their weak bargaining power. These are workers whose wages would not increase, were it not for safety net adjustments provided to them. We therefore see them as legitimate beneficiaries of the limited assistance that safety net increases can provide, notwithstanding the fact that some of their wages are above the thresholds typically used to define low pay. Based on the available evidence about the gap between award and agreed wage outcomes, and the absence of spill-overs between the two sectors, we rate as low the risk that the adjustment of all minimum pay rates will 'discourage' bargaining.

It is true that this approach has few benefits from a redistributive perspective. The evidence that the lowest-paid SNA recipients are typically from 'middle-income' households suggests that this would also be the case for the higher-paid. If these higher-paid workers are mostly in *upper*-income households, the wage increases provided to them would have a regressive impact on the income distribution. The alternative of leaving their wages unadjusted seems, however, to be unacceptable, given the large real increases being obtained in the bargaining system by workers in similar jobs. The notion of 'comparative wage justice' has long been a feature of wage fixation in Australia, and its legacy has not been thoroughly expunged by the shift to enterprise bargaining. It would be a capricious labour market policy that excluded a small group of employees from periodic wage increases, simply because they happen to be highly-skilled and in workplaces where employers see bargaining as unattractive or unnecessary.

The adjustment of all award minimum pay rates was, for the AIRC, integral to the safety net's fairness. The 'maintenance' of the safety net, in and of itself, warrants the continued adjustment of all award rates by the Minimum Wage Panel of Fair Work Australia, in our opinion. There was another important reason given by the AIRC as justification for the adjustment of all rates, early in the safety net period. This was the fact that wages in agreements were often based on award minimum rates or compared to these as part of the 'no-disadvantage' test when agreements were certified. This reason has been reduced in practical significance by the wider gap between award and agreed wages in the safety net period. But there remains a case for the preservation of the whole wages safety net on *moral* grounds as part of the broader set of labour market protections, alluded to in Chapter Three, that 'puts pressure on employers to "do the right thing" by their workers' (Peetz, 1998a, p.536). In view of the continued decline in direct award reliance, this appears to be a function that the wages safety net can perform at low cost. The 'pressure' on employers that Peetz described will be of special importance to the group of adult workers employees who, for reasons that are not yet understood, appear to be paid less than the Federal Minimum Wage (Preston and Jefferson, 2009, pp.326-328).

Form of increases

Eleven years ago, Peetz (1998a) disputed the equity benefits of flat-rate safety net adjustments on the basis that they are of little value to 'a significant minority of employees on wages well above the lowest unskilled award rate but still below average weekly earnings' (Peetz, 1998a, pp.548-549). Increases in *percentage* amounts would, by contrast, still reduce wage inequality, since most award-reliant workers were below average earnings, but had the added advantage of preventing the award system from becoming 'increasingly irrelevant' for more highly-skilled workers. The reliance on flat-rate safety net increases should be 'reconsidered' in favour of a 'move to some form of adjustment that applies percentage increases above a certain award wage rate' (Peetz, 1998a, p.549).

The percentage adjustment approach recommended by Peetz was not adopted by the AIRC in any of the safety net cases it decided. In 2002, even the Australian Council of Trade Unions, which had until then supported percentage increases of

the form proposed by Peetz, was convinced by the Commission's 'inverted-tiers' decision of 2001 of the superiority of universal flat-rate adjustments (see Chapter Four). This thesis examined in detail the legacy of this approach. We showed that the continued reliance on flat-rate safety net increases resulted in declining real wages for most award-reliant employees. These declines were seen by the AIRC as an unfortunate but necessary consequence of prioritising the needs of the low paid and limiting the aggregate cost effects of safety net decisions.

The labour 'cost' imperative was recognised by Peetz (1998a). He estimated that, if the \$10 per week safety net adjustment of 1997 had instead been a 3 per cent increase (i.e., the equivalent increase at the FMW), it 'would have been more expensive (by a factor of roughly two-thirds)' (Peetz, 1998a, p.549). This cost estimate represented the situation when – according to the AACS data for 1999 – 22 per cent of employees were award-reliant (in businesses with five or more employees). The proportion was not noticeably lower in May 2006 (19 per cent) according to the more comprehensive EEH data, although it had fallen to 16.5 per cent by the time of the most recent survey conducted in August 2008 (ABS, 2009a, p.26).

While safety net adjustments continue to apply to these proportions of employees, it is unlikely that percentage adjustments equivalent to the increases at the Federal Minimum Wage level in the Commission's later decisions could be applied to all minimum award rates of pay. The percentage nominal increase at the FMW level in April 1997, the decision evaluated by Peetz, was actually the smallest increase awarded by the AIRC (2.9 per cent). The decisions from 2002 to 2005 resulted in a minimum 3.6 per cent increase, and a maximum 4.4 per cent increase, at the FMW. Cost considerations might preclude the application of similar increases to all other award rates, while significant numbers of employees are still paid these rates. The alternative, proposed by Peetz, would be to award a percentage increase above a certain level, thereby limiting the total cost to employers. The employers of skilled award workers would have to bear higher labour costs under such an approach. But the costs of employing skilled workers under awards would remain well below the costs associated with bargaining. Whether these increases would

place excessive strain on smaller, lower-productivity firms, who cannot afford to bargain, is an issue requiring further research (see the next section).

Another argument against percentage safety net adjustments is that these do not give sufficient weight to the needs of the low paid. These needs are said to justify increases that ‘compress’ the award minimum wage structure, bringing unskilled workers at the bottom of the pay structure, including recipients of the Federal Minimum Wage, closer to the middle and upper skill levels. This has been the consequence of safety net cases in the AIRC (see Chapter Four). But flat-rate adjustments are not an effective remedy for wage inequality in an environment where fewer employees rely on awards, and where those who do are already lower paid than others. This describes the system accurately in 2009. The real wages of skilled award workers, which were already less than wages in the bargaining sector, have slipped further behind as a result of flat-rate increases in the period since 1993. The compression of the award structure has not prevented the further growth of wage inequality, even in the portion of the distribution below the median, where safety net adjustments have their largest impact (see Chapter One). The provision of occasional percentage safety net wage increases, perhaps calculated by reference to increases in labour productivity, as originally suggested by Peetz (1998a), would assist the lowest paid employees, provide better outcomes for skilled award workers and achieve a larger reduction in wage inequality. The adoption of this approach by Fair Work Australia would, however, necessitate a different approach to ‘the needs of the low paid’ and a rethinking of current beliefs about how those needs are best advanced.

Areas for further research

Employment effects

The most urgent area for further inquiry is the employment effects of safety net wage adjustments. The limited nature of the existing Australian evidence on this issue has been noted by both the AIRC and academic researchers. The Commission described the evidence before it in 2005, which was based on 50 mostly non-Australian studies, as: ‘either largely irrelevant, limited in scope or [with] serious methodological flaws’ (AIRC, 2005, PN 164, p.51). This criticism represents a major challenge to the industrial relations and labour economics

research professions in Australia. Until very recently the lack of research has reflected the absence of suitable data or the difficulty of designing empirical studies that are sensitive to the differences between Australian and non-Australian minimum wages. The few existing Australian studies suggest that there is a negative employment response to minimum wage increases. But this finding is based on either aggregate data, where it is not possible to control for wages or other employee attributes (Leigh, 2003; Watson, 2004), or on business surveys with low response rates and low reliability (AIRC, 2004, pp.54-60).

Gahan and Hearn-MacKinnon (2005, p.127) summarised the current state of evidence well, in observing that:

The institutional complexity of Australian wage fixing through awards makes it difficult to apply a US-style analysis to the question; yet no alternative approach has been devised by the hundreds of labour economists now employed in industry and universities. This seems puzzling to us, and given its criticality to current debates... an essential piece of work yet to be done.

There has been little progress in the literature since that comment was made in 2005. Events in the Australian wages system in 2009 may, however, make it easier in future to design a more compelling study of the effects of minimum wages on employment. In Chapter Two, we noted that there has traditionally been minimal variation between the Federal and State industrial jurisdictions, with State authorities typically following the lead of the AIRC before 2006 and AFPC thereafter. Greater variation developed in 2009. The final decision of the AFPC, in July 2009, involved leaving minimum award rates unchanged until they are next varied (in mid-2010) by the Minimum Wage Panel of Fair Work Australia. The decision was a response to the global financial crisis and was influenced by new evidence, commissioned by the AFPC, showing that low-wage employment would be adversely affected by raising minimum wages in the downturn (AFPC, 2009, pp.8-10).

The State Commissions have departed from this reasoning. In June 2009, the Western Australian Industrial Relations Commission decided to increase the minimum wage in that State by \$12.30 per week from 1 October. In July 2009, the Tasmanian and New South Wales Commissions also increased minimum

wages in their jurisdictions, by \$12 per week and 2.8 per cent respectively.¹⁰² We thus have a situation where minimum wages are on hold for workers in the Federal system, but increased, and by different amounts, in three of the State systems. Similar cases are in progress, but undecided, in South Australia and Queensland at time of writing.

To exploit empirically this jurisdictional minimum wage variation, we need a dataset that includes information on both wages and industrial jurisdiction. The ABS Survey of Employee Earnings and Hours includes these details. It would therefore be possible to design a study that compares employment outcomes in the Federal system with the State systems, while controlling for other relevant differences such as employees' age and sex. We foresee, however, three problems with this proposed study. First, it could only estimate labour demand effects using changes in *working hours*, rather than in employment rates. This is because the EEH survey is an employee survey and has no information on the unemployed or people not in the labour force. Second, the design of the study would need to be attentive to differences in the attributes of employees in the Federal and State systems. Since the expansion of the Federal system following the *Work Choices* legislation, many employees left in the State systems are employed in the public sector. Any modelling of the employment effects would need to ensure that there are adequate numbers of employees in both comparison groups, and that the sector of employment is an independent variable in the model. A third problem is that the study we have proposed cannot be done until 2011, because the next EEH survey to capture the differences we have described will not be conducted until mid-2010, and the data from it will not be released until 2011. Notwithstanding these problems, we think the proposed study is worth pursuing and would improve the current state of evidence about the effects of minimum wage increases in the Australian context.

Spill-over effects

To gauge the full effect of safety net cases, it would be useful to have more up-to-date estimates of how many employees ostensibly in the 'bargaining' sector

¹⁰² See Western Australian Industrial Relations Commission [2009] WAIRC 00375 (11 June 2009); Tasmanian Industrial Commission [2009] TIC 13471 (27 July 2009); and New South Wales Industrial Relations Commission [2009] NSWIRComm 120 (30 July 2009).

receive a wage increase from these cases. The 1999 Award and Agreement Coverage Survey (AACS) is the most recent source of information on this issue, but may not be applicable to the current wages system. In addition, the number of respondents to the AACS was very low (607 businesses) by comparison with more recent ABS surveys of earnings and methods of setting pay. The May 2006 EEH survey had approximately 9000 employer respondents, but contains no information about the receipt of safety net adjustments by employees who are not award-reliant (ABS, 2007a, p.41). Perhaps the best solution to this problem would be for the ABS to modify the EEH questionnaire. This approach has the advantage of bringing the resources and independence of the ABS to bear on a difficult question, about which related information is already collected. The Minimum Wage Panel of Fair Work Australia might encourage the ABS to do this, in the interests of illuminating the aggregate effects of safety net decisions. Without the involvement of the ABS, it is unlikely that further surveys of the scale of the AACS, whether conducted by governments or academic researchers, will be of sufficient quality either to confirm or challenge existing views about the indirect costs and benefits of safety net adjustments.

Impediments to bargaining

We need to learn more about why a substantial number of relatively highly-paid and highly-skilled employees remain reliant on awards, despite the sharp falls in their real wages since the start of the safety net era. What is it about the circumstances of these employees that prevents them from bargaining? What measures might improve their outcomes?

A model for this type of research is Cully's (2001) study of employer attitudes to agreement-making in South Australia. Relying on a survey of 900 small businesses (between 1 and 100 employees), he found that the main reason why employers did not make formal agreements with employees was that they saw no advantage in changing. Between one-quarter and one-third of the employers surveyed said they were 'happy with things as they are' or that they 'prefer to stick with awards'. Another one-fifth of employers were unwilling to bargain because they preferred to deal directly with their employees without involvement from trade unions (Cully, 2001). The results of Cully's study imply that many

South Australian employers were either uninterested in or opposed to bargaining with their employees in 2001. If these attitudes persist and are represented in the broader employer population in other States and Territories, they could well explain why some skilled employees remain unable to bargain. Future research should re-examine this issue, with a focus on employers' reasons for award reliance. Ideally, this research would also examine the obstacles to bargaining on the *employee* side. Why do some employees stay in jobs where wages are below, and will stay below, what others of similar skill level can earn?

Comparing wage-fixing methods

At the end of Chapter Six, we suggested that a better understanding about the effects of wage-fixing criteria such as 'fairness' and 'needs' could be obtained by comparing the outcomes of safety net cases until 2005, under the AIRC, with the outcomes since 2005, under the AFPC. This thesis provides the first part of the comparison. Further work is needed to complete the second part. In Chapter Two, we showed that a simple comparison between the growth in the Federal Minimum Wage and consumer prices between 2005 and 2009 challenged the early prediction of some scholars that the Fair Pay Commission would seek to reduce real wages for the lowest paid employees. This preliminary finding should be extended in further work analysing the effects of AFPC decisions. How different were the outcomes of safety net adjustments provided by the AIRC and AFPC? Should the explanation for any difference emphasise changes in the wage-fixing criteria, or in the economic context in which decisions were made?

This type of investigation would also aid understanding about the more general issue of how arbitration affected the Australian labour market. As Mitchell (2005) has argued, there is some irony in the fact that this line of research should be pursued only after the arbitration tribunals have ceased to be the principal source of minimum wage increases in Australia. But, as he recognised, this shift away from arbitration has also created the conditions most suitable to discovering, albeit as a matter of historical interest, what its true costs and benefits were. Contemporary researchers now have the opportunity to reassess, in light of actual circumstances, the assertions of arbitration's defenders and critics about the likely consequences of institutional change.

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