

In recent times, the Australian labour market has changed substantially, in labour market outcomes and the role that the major labour institutions have in this factor market. Labour is an important determinant of economic well-being, and almost every person, at some stage, will participate in the production process by working and receiving wages—the factor return to labour. In fact, wages make up the largest proportion of household income in Australia.

The forces of demand and supply interact in the labour market like with other commodities. Increases or decreases in the demand and supply of labour can cause a change in the wage rate and the quantity of labour employed; this interplay of market forces results in labour market outcomes. These outcomes refer to the performance of the labour market in wage and employment levels – that is, what people can get out of the labour force.

Wage outcomes are the distribution of monetary income (wages and salaries) and the relationships between wage levels and occupation, gender, age, industry, income groups and cultural background; they are composed of *ordinary and overtime payments*. **Non-wage outcomes** are the non-monetary benefits that employees receive, often to entice them to work for a particular firm or industry, and include superannuation, company shares and other fringe benefits. Non-wage outcomes are also affected by similar factors. There are also **employment outcomes**, which are in terms of the quantity of labour employed, such as the nature of employment (for example, full time versus part time), and overall rates of employment and unemployment.

Wage outcomes produced by the labour market have a substantial influence on income in Australia. In 1997-98, wages and salaries comprised the majority (about 55%) of household income. It is a measure of the goods and services we can purchase, and thus a measure of our standard of living. In macroeconomics, wage outcomes are best measured using average weekly earnings (AWE), and their relationships to inflation, productivity and the award rate index. Average weekly ordinary time earnings (AWOTE) for full time adults measure the gross rate of pay received by full time adult workers excluding payments for overtime worked. AWE is affected by National Wage Case decisions. Figure 1 shows that the average weekly earnings of both males and females have increased over the past decade.

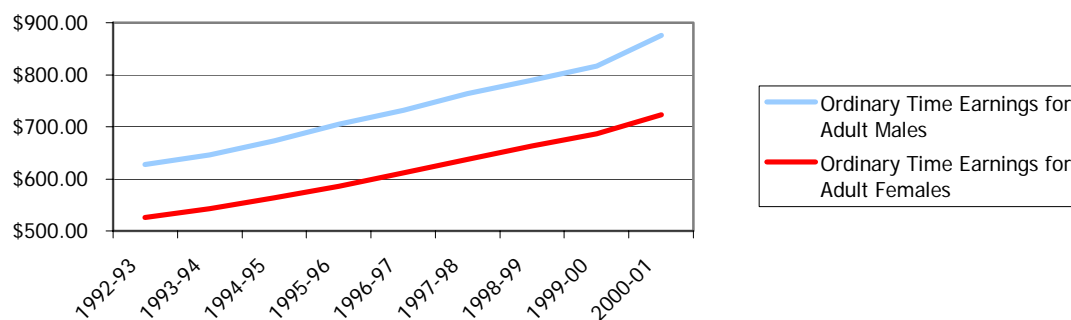


Figure 1: Average Weekly Earnings of Full Time Adult Employees

By using the Wage Cost Index (WCI), for people in the same occupation, wage growth is less than what average earnings may suggest. This is because job growth has been the highest amongst high-paid jobs in recent years, raising average wages.

However, increases in money (nominal) wages are meaningless if inflation and productivity are considered. Inflation may reduce the purchasing power of the money received; only real wages allow for meaningful comparisons.

Table 1 shows that **real wages**, which are adjusted for inflation, fell in the recession of the early 1990s. After 1990-91, real wages increased since money wages grew faster than the rate of prices, except in 1995-96.

Year	Nominal wage growth (%)	Rate of inflation (%)	Change in labour productivity (%)
1986-87	6.1	9.3	-1.1
1987-88	6.0	7.3	1.2
1988-89	6.7	7.3	0.4
1989-90	6.6	8.0	-0.7
1990-91	5.9	5.3	1.1
1991-92	2.9	1.9	3.3
1992-93	2.0	1.0	2.9
1993-94	2.9	1.8	2.2
1994-95	3.4	3.2	0.1
1995-96	2.5	4.2	1.8
1996-97	3.0	1.3	2.1
1997-98	3.2	0.0	2.8
1998-99	2.3	1.1	3.1

Table 1: Changes in nominal wages, rate of inflation and labour productivity

Employers only can afford to offer higher real wages if there is a strong increase in **productivity**; Table 1 reveals a strong growth in productivity in recent years due to:

- Multi-skilling, where workers can complete various tasks in a workplace, has been important in reducing boredom.
- The removal of restrictive trade practices, such as hours worked, the types of jobs done by particular workers, has taken place in recent years.

Workers are not homogeneous leading to **wage differentials**. Wages also vary according to the relative bargaining power of individuals and trade unions in wage negotiations. From Figure 1, it is clear that adult *male* ordinary earnings were greater than that for adult *females* in the period 1992-93 to 2000-01. Although this area is rapidly changing:

- Women have a lower participation rate than men.
- Child bearing interrupts a woman's employment.
- Social attitudes have traditionally discouraged women from taking paid work.

Since the principle of 'equal pay for equal work' was adopted in 1972, women's wages have risen relative to men's but are still on average about 83% of men's wages.

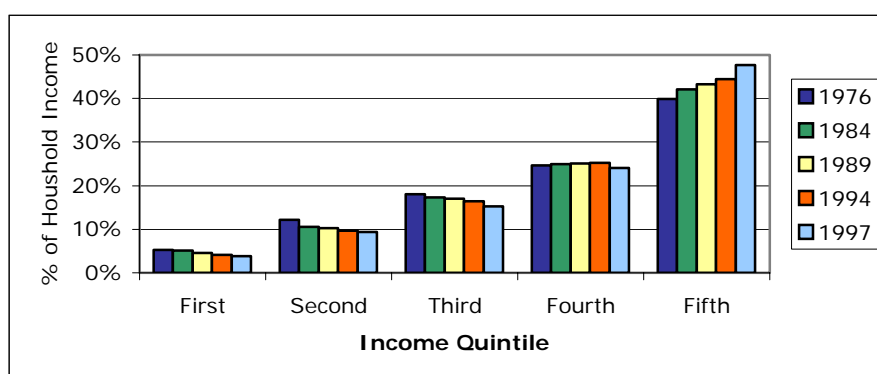


Figure 2: Changes in the Distribution of Gross Household Income

The distribution of income in Australia is comparatively unequal than other OECD countries. Figure 2 divides the income units into *quintiles*. Although the real income for everyone has increased, the income of the richest quintile has increased by a greater proportion than the income for the poorest quintile. This represents a marked widening of the income gap in Australia.

A great deal of income inequality exists between the various **occupations** in Australia. The higher the levels of qualifications, training, education and responsibility, the higher are the

earnings. Juniors earn less than adults do because they are less qualified and experienced. Similarly, occupations facing higher demand have a higher pay rate, as firms and industries compete for labour. This demand is affected by cyclical and structural changes – there is low demand for semi-skilled and unskilled workers. During the recession of 1990-1992, employment levels for most industries fell because of a fall in aggregate demand and economic activity.

Australia has great **ethnic** variety. Non-English speaking migrants, Aboriginal, and Torres Strait Islanders receive substantially lower incomes than others in the Australia community do. These groups are usually unable to gain employment in well-paid positions.

Employees also receive **non-wage benefits**. These are paid in both cash and in kind, and are often part of a salary package. They can vary considerably from one workplace to another. It includes superannuation, sick leave, long service leave and holiday pay. In August 2000, 97% of full-time employees received one or more standard employment benefits – superannuation, sick leave, holiday leave or long service leave – compared with 76% of part-time employees. Salary packaging, where employees receive a company car and other forms of assistance, was extremely popular until the Fringe Benefits Tax was introduced in the mid-1980s, but is still quite popular.

Employment outcomes have also changed over recent times. *Unemployment* has fallen steadily over the period shown. Factors contributing to this include:

- The strong rate of economic growth over recent years
- Increased consumer and business confidence fuelling spending and investment
- Modest wage increases that have had a good impact on unit labour costs
- The strength of the economy is reflected in the rise in the job vacancies over this period.
- Both full-time and part-time workers gained from this trend.

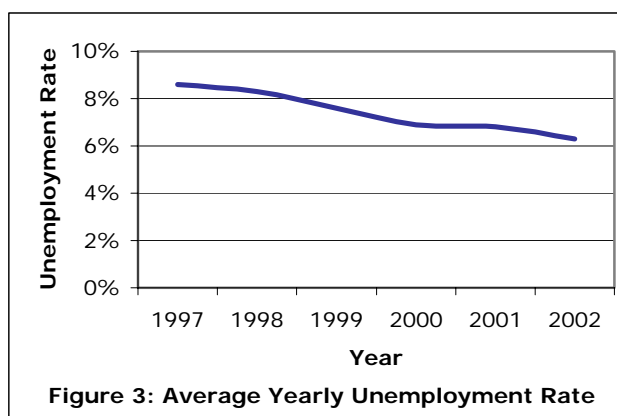


Figure 4 demonstrates the trend towards **part time employment** due to:

- Women now have a higher participation rate.
- Students are finding part-time work while studying.
- Employers have greater flexibility in staffing arrangements, and can avoid some responsibilities like holiday leave, long service leave and sick leave entitlements.

This reflects the greater flexibility to both workers and employers offered by part time work arrangements. For example, during the 1990s, part-time employment grew from 23% to 26% of all jobs in Australia. In addition, *Australian Social Trends* (ABS) shows that Australians are increasingly working at night and on weekends. These changes have challenged the traditional notion of a job, which was commonly viewed as being permanent and full-time, with paid leave entitlements and daytime weekday working hours. Even so, full time workers are also working longer hours because of changing job descriptions, shift times and deployment of labour within various industries.

Employers increasingly demand flexibility, leading to the growth of part-time employment, and **casualisation** including outsourcing, the use of consultants and agency workers. These changes are driven by a desire to reduce the 'on costs' of hiring labour and a demand for flexibility in the rostering of work. Between 1988 and 1998, 69 percent of net growth in the number of employees was in casual employment. Around 35% of workplaces outsourced in 1995. Governments use **outsourcing** especially in areas such as cleaning and furniture removal. **Sub-contracting** is prevalent in industries such as building and construction, as firms can avoid paying non-wage expenses.

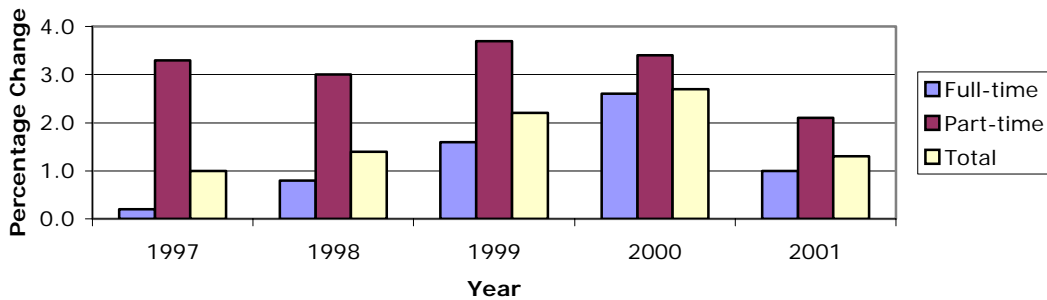


Figure 4: Employment (% Change)

Institutional forces, such as **trade unions, employer associations, governments and industrial tribunals** all influence the forces of the free market in order to achieve desirable labour market outcomes.

Trade unions are employee associations that represent groups of workers on a collective basis, providing a “voice” for their members. There are the traditional *crafts* union, *industry-based* unions (like Waterside Workers’ Federation) and *general* unions (like Miscellaneous Workers Union). Most unions are affiliated with the Australian Council of Trade Unions (ACTU), formed in 1927 to represent the organised voice of all unions and provide policy inputs for governments.

Trade unions attempt to increase the market power of labourers, and achieve a higher price for labour services. They monopolise labour, and use various means to achieve its aims:

- Union strength comes from the ability of members to withdraw labour as industrial pressure – to strike, to go slow, to implement overtime bans, and to form picket lines
- Unions can negotiate directly with employers to seek mutually agreeable outcomes.
- Unions lobby governments to gain favourable treatment.

Declining membership continues; about 60% of employees were members in the 1960s, compared with 30% in 1997. Unionisation levels have declined in recent times because of a decline in manufacturing; and doubt over the unions’ ability to deal with issues.

Trade unions can affect labour market outcomes. Figure 5 shows the effect of a union trying to raise wage levels above equilibrium. If the award wage for an occupation is raised from $0W_e$ to $0W_1$, it creates a price floor. The supply of labour ($0Q_1$) exceeds the demand for labour ($0Q_2$) leading to unemployment of Q_1Q_2 workers. Thus, it may create unemployment and inflation of wage-rates.

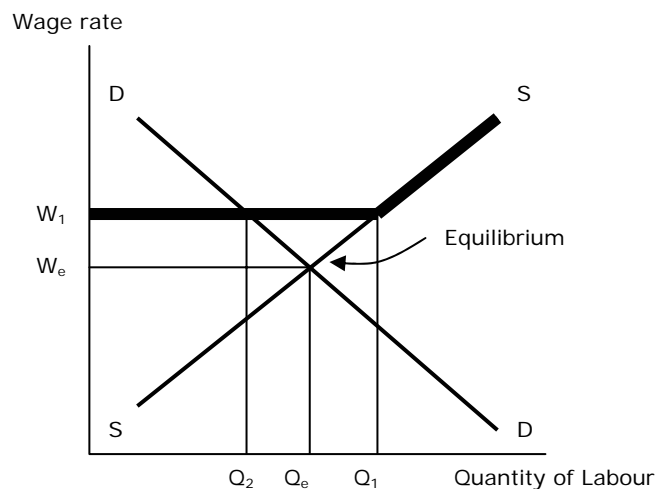


Figure 5: Trade Union Influence on the Wage Rate

The NSW Teachers’ Federation commenced a series of rolling strikes in 1999, during a dispute with the Department of Education over award negotiations that focused on addressing the professional status of teachers. This year, a dispute arose between BHP Steel and relevant unions over job security for maintenance workers at the plant¹. After three weeks of pickets and strike action in Melbourne, a resolution ended months of enterprise negotiations. The dispute had threatened to shut down Australian car making. These examples highlight the effective of industrial action by unions; however, when unions try to increase labour outcomes, they sometimes reduce and threaten them inadvertently.

¹ Hill-Douglas, O. (14 Jun ‘02). *Workers and BHP agree to settle row*. The Sydney Morning Herald, p. 6.

In response to labour organising itself in unions on the supply side, **employer associations**, like the Australian Chamber of Commerce and Industry (ACCI) and the Business Council of Australia (BCA), represent business groups with similar aims in industrial relations. Because employers are often competitors, these associations tend to be fragmented, unlike the unions.

The ACCI makes submissions at the Safety Net Wage Case heard annually by the AIRC. Employer associations have recently pushed for the spread of the enterprise bargaining system, as it allows them to link wage increases to improvement in the productivity of labour and introduce individual work contracts. Employer organisations assist their members in negotiating wage agreements and provide advice, training and assistance to employers; they lobby the government, and have significant influence over government policy.

The Federal Government has the constitutional power and responsibility to resolve national industrial disputes. Firstly, both the **State and Federal Governments** intervene to set minimum wages and working conditions in awards, which are safety nets administered by tribunals. Secondly, the government enacts legislation, such as the *Industrial Relations Reform Act 1993 (Cth)* and the *Workplace Relations Act 1996 (Cth)*. The former attempted to make formal enterprise bargaining more widely accessible, and the latter further deregulated the federal industrial relations system. The *Workplace Relations Act* encouraged bargaining at the enterprise level and introduced three types of Certified Agreements and **Australian Workplace Agreements (AWAs)**. AWAs are individual contracts negotiated by employees with employers, and registered with the Employment Advocate. In fact, awards now only cover about 23% of all employees.

Thirdly, governments may intervene in markets to reduce unemployment. The Keating Government used *Working Nation* (1994) to address long-term unemployment, and the Howard Government has reduced unemployment through Work for the Dole and reforming the distribution money through Job Network agencies².

Industrial tribunals are designed to prevent and settle industrial disputes between employers and employees and are present at both Federal and State levels. They operate independently of the government, but constrained by legislation. The **Australian Industrial Relations Commission (AIRC)** is the key industrial tribunal at the Federal level. The AIRC settles disputes involving workers covered by Commonwealth Awards and has annual Safety Net Wage Cases. Its role, defined under the *Workplace Relations Act 1996*, also includes overseeing the certification process for Certified Agreements (between employers and trade unions) and ensuring that workers are no worse off than under an equivalent award. Resolution of conflict is done through *conciliation* by using a mediator to create non-binding agreements, and *arbitration*, which involves decisions that are legally binding. These are paralleled at the State level. For example, in March, the NSW IRC awarded librarians the right to better pay, in a first where working conditions, skills and responsibilities in female-dominated careers are compared with those dominated by men³.

Labour lies at the very core of today's society, returning wage, non-wage and employment outcomes. However, due to inequalities in bargaining power between employers and their employees, free market forces can result in undesirable outcomes. Hence, the four main labour market institutions exist to influence and direct labour market outcomes, but their roles are constantly changing. The recent changes to legislation, which encourage enterprise agreements and the supremacy of market forces, will provide a vibrant labour market for the future.

² Tingle, L. (7 Mar '02). *Review calls for big shakeout in \$1bn job market*. The Sydney Morning Herald, p.7

³ O'Rourke, C. (29 Mar '02). *Women turn the page on equal pay*. The Sydney Morning Herald, p.3.

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