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Wages and Wage Determination in 2007

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Abstract: In 2007 money wages rose marginally faster than in 2006 but there was no evidence of generalized wage pressures arising from skill shortages. The Reserve Bank raised interest rates twice during the year, further reducing housing affordability. The Fair Pay Commission decision in July temporarily restored the real wages of the lowest paid, but there was further compression of the lower deciles of the wage distribution. With petrol prices continuing to rise, household living standards are under threat, particularly those of workers reliant on the wage adjustment through the Commission whose next decision will not be operational until October 2008. The election of the Labor Government in November led to speculation as to extent to which the Work Choices legislation would be amended.

Keywords: *Australian Fair Pay Commission; executive pay; skill shortages; wages; Work Choices*

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Introduction

This article reviews Australian wage and working hours outcomes in 2007 in the context of macroeconomic developments. The election of the Labor government raises the question of the extent to which the Work Choices legislation will be transformed.

Macroeconomic Background

The Australian economy grew by 4.3 percent per annum to September 2007 (seasonally adjusted), with the ongoing improvement in the terms of trade adding 1.5 percentage points to the growth rate (Reserve Bank of Australia [RBA], 2007: 2). Most of the increase in domestic demand was met by imports. Employment grew by 2.9 percent per annum to November 2007 (RBA, 2007). Official unemployment stood at 4.5 percent in November 2007 (RBA, 2007) but the overall rate of labour under-utilization calculated by the Centre of Full Employment and Equity was 8.2 percent in August 2007. This measure includes hidden unemployment and underemployment, in addition to official unemployment.

The average annualized wage increase per employee associated with newly certified federal agreements (AAWI) was 3.9 percent to September 2007, which represented little change over the previous year. The Labour Price Index increased 4.2 percent over the same period, compared to 3.8 percent in the year to September 2006. The RBA note the moderate increase in this index over the past 5 years, but acknowledge that the National Accounts point to an increase in productivity growth (RBA, 2007: 67). In July, the Australian Fair Pay Commission increased the standard Federal Minimum Wage and all wage rates up to AUS\$700 a week by AUS\$10.26 per week, but workers earning AUS\$700 a week and above received an extra AUS\$5.30 per week.

The annual inflation rate was about 3 percent over the calendar year 2007 following the December quarter increase of 0.9 percent, but the Reserve Bank's preferred measures of underlying rates were either 3.4 or 3.8 percent, well above its target band for inflation. The biggest contributors to inflation in the final quarter of 2007 were petrol prices, deposit and loan facilities, house purchase and rents. Petrol prices rose 14.3 percent and rents 6.3 percent in 2007. About half of the 90 prices surveyed by the Bureau of Statistics increased by more than 3 percent, the Reserve Bank's upper bound, and there was evidence of increased profit margins in response to reduced costs induced by the stronger Australian dollar (Irvine, 2008).

In last year's review (Watts and Mitchell, 2007) it was noted that Western Australia, Queensland and the Northern Territory were booming while NSW and Sydney, in particular was struggling. The causes of the emergence of the two-speed economy were outlined, notably the significant rise in the terms of trade for non-rural, particularly base metal, commodities and the uneven impact of the property price boom. These trends have continued and been strength-

ened by the continued increase in fuel prices, the interest rate increases and the ongoing pursuit of budget surpluses, despite the change in government.

Wages and Conditions in 2007

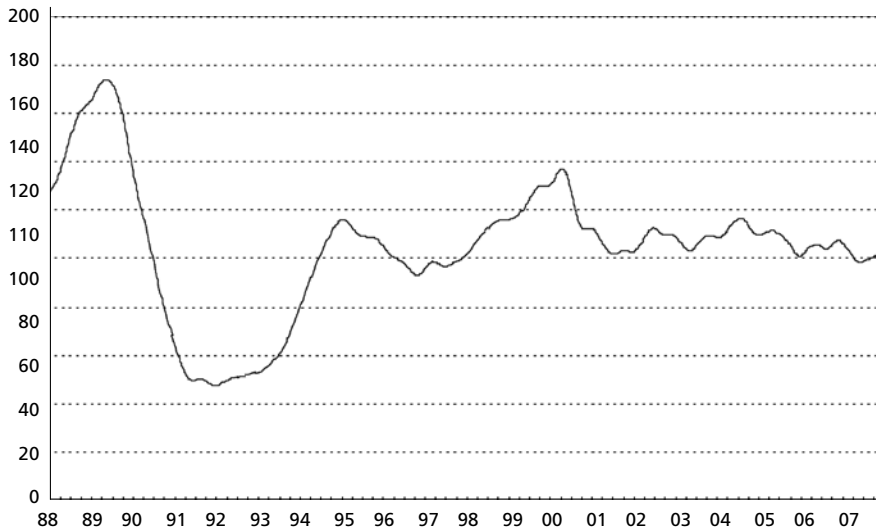
This section explores the coverage of agreements and the associated wage outcomes, including the decision of the Australian Fair Pay Commission in July. We initially provide a context for this analysis by exploring the evidence on trends in skill shortages.

Skill Shortages

The Department of Employment and Workplace Relations (DEWR) Skilled Vacancy Index (SVI) was 101.8 for November 2007 (see Figure 1), representing an annual decrease of 5.3 percent, which continued a decline that commenced in August 2004, when the index reached 117.7 (DEWR, 2007a). Vacancies for both Professionals (-17.2 percent) and Associate Professionals (-4.7 percent) declined over the year to November 2007 with a modest increase in Trades (2.1 percent). The pattern of change was very uneven with the strongest decreases for Professional occupations being Marketing and Advertising (-47.9 percent), and Organization and Information, excluding ICT (-32.1 percent). Of the Associate Professionals sharp declines were experienced in vacancies for Medical/Science Technical Officers (-28.5 percent), which was partially offset by Building Engineering Associates (8.8 percent). Vacancies grew for Metal Trades (13.0 percent) and Electrical and Electronics (3.6 percent) but fell for Printing (-21.4 percent) and Chefs (-14.9 percent). Increases in skilled vacancies were recorded in the Northern Territory (up by 11.2 percent), South Australia (up by 10.2 percent) and Queensland (up by 3.2 percent). Over the same period, falls in skilled vacancies were recorded in Western Australia (-13.6 percent), Victoria (-8.2 percent), Tasmania (-5.0 percent) and New South Wales (-4.7 percent). The DEWR ICT Vacancy Index, which is treated separately from the SVI, exhibited an annual increase to November 2007 of 13.8 percent.

The SVI for both Professionals and Associate Professionals continued a long-term decline that commenced in 2001, whereas Tradespersons vacancies continued to fluctuate below an index magnitude of 130, well below the peak of 149.0 in August 2004. Thus all three series have declined somewhat in recent years. Vacancy data by occupation is not an adequate proxy for the state of excess demand for labour in that occupation, however. Although the labour market has tightened in recent years, there is limited evidence that a generalized 'skills shortage' is constraining growth and leading to greater wage pressures. Indeed the two-speed economy reveals that some regions are struggling but other areas are subject to extreme skill shortages. Firms can broaden their potential pool of applicants by being prepared to invest in training, as well as improve retention strategies, to reduce the need to hire new staff (Australian

Figure 1 *DEWR Skilled Vacancy Index, Australia, January 1988–November 2007*



Source: DEWR (2007a).

Centre for Industrial Relations Research and Training [ACIRRT], 2005), which would reduce labour market pressures.

Agreements

Introduction

A total of 1,796,500 employees were covered by Federal Agreements at the end of September, which comprised 282,000 under employee collective agreements, 1.41m under union collective agreements, 20,000 under employer Greenfield agreements and 22,000 under union Greenfield agreements. The remainder were covered under Section 170LN (DEWR, 2007b).

Office of the Employment Advocate (OEA, 2007) reveals that the number of Australian Workplace Agreements (AWAs) approved per quarter continued to range between 90,000 and 100,000 throughout the first three quarters of the year. (The December quarter data from the Workplace Authority were not available at the time of writing.) It was estimated that 9.3 percent of Australian workers were covered by AWAs at the end of the September quarter (OEA, 2007; October) but AWAs represented 35 percent of agreements negotiated since March 2006 (OEA, 2007; November).

AWAs were most likely to cover employees in Retail and Accommodation Cafes and Restaurants, but Retail also figured prominently in collective agreements, followed by Public Administration and Safety. In Western Australia more workers were subject to AWAs than in NSW and Victoria.

Work Choices

In response to growing evidence from opinion polls of the electorate's hostility to Work Choices, the *Workplace Relations Amendment (A Stronger Safety Net) Act 2007* legislation was passed on 20 June 2007. The Fairness Test (FT) was designed to ensure that employees received appropriate compensation (both monetary and non-monetary) if their workplace or collective agreement removed or modified protected conditions, such as penalty rates and overtime loadings, but only applied to workplace agreements and variations to workplace agreements for people earning less than AU\$75,000 per year which were lodged on or after 7 May 2007. The newly formed Workplace Authority could provide pre-lodgement advice as to whether the proposed agreement would pass the FT, because once approved by employees, the employer only had 14 days to lodge it. If the agreement did not pass the FT, the employer and employee(s) would be informed, in which case the Workplace Authority listed the protected conditions that had been removed or modified and suggested ways that the employer could fairly compensate employees. There is the opportunity for backpay if the varied agreement satisfies the FT, or reversion to the industrial instrument that would have operated if the proposed agreement had not been lodged, if the employer fails to respond appropriately within 14 days of being served with the notice.

The complexity of the operation of the Fairness Test and the underlying Work Choices legislation was well illustrated by data provided by OEA (2007). Of the approximately 222,000 workplace agreements lodged between 7 May and 30 November, nearly 73,000 had been finalized by 30 November of which nearly 7000 had failed, so these agreements ceased to operate, and 9000 had been passed following changes. Over 90,000 agreements had been returned to employers with nearly 31,000 requiring amendment and the further information being required with respect to the remainder.

While AWAs were first introduced in the *Workplace Relations Act 1996*, they became an integral component of the Work Choices legislation, as implied earlier. Many political commentators viewed the election of the Labor Government in November as a mandate to amend the Work Choices legislation, as outlined in its pre-election industrial relations policy. In December it was announced that Labor's transitional Industrial Relations Bill to be tabled in February 2008 would prevent new AWAs being signed, reinstate the no-disadvantage test and request that the Industrial Relations Commission modernize industrial awards by the end of 2009, prior to the beginning of Labor's new workplace regime in 2010. Once new AWAs are banned, new individual workplace agreements, known as Interim Transitional Employment Agreements (ITEA), would be created for employers who were using AWAs, and did not want to use award or enterprise agreements. These interim contracts would automatically expire at the end of 2009 and would have to comply with a new no-disadvantage test. Under such a contract an employee must be no worse off than the award, an applicable collective agreement or the

current Howard Government Australian Fair Pay and Conditions Standard. This means penalty rates, overtime and leave conditions in the award must be honoured in any agreement.

On 19 December the Coalition announced that Work Choices, as represented by the 2006 legislation, was no longer Coalition policy. However, Labor's pre-election policy retained some elements of Work Choices including restrictions on the right of entry for unions, a ban on strike pay and strikes during the term of an agreement, and mandatory secret ballots for strikes. Speculation remained as to whether the Coalition would exploit its Senate majority until the beginning of July 2008 to delay the scrapping of AWAs, which could mean that 5 year AWAs signed in 2008 could remain in force until April 2013 (Dunleavy, 2007; Johnson and Probyn, 2007).

Unpaid Hours

In May 2007, the Australian Bureau of Statistics (ABS) released *Working Time Arrangements, Australia* which provided an account of movements in hours of work between November 2003 and November 2006 (when the last Working Time data was released) (ABS, 2007d). While not intended to be used for a 'Work Choices' appraisal, the data indicated the changes that have occurred over the Work Choices period.

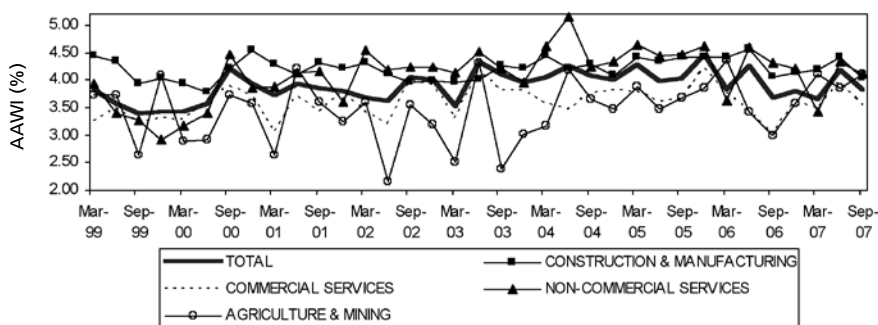
The percentage of employees who worked extra hours or overtime remained constant at 37 over the 3-year period. However 48 percent of employees in 2006 compared to 33 percent in 2003 worked only unpaid extra hours. In 2006, 38 percent of employees were able to work extra hours in order to take time off (so-called time-in-lieu) compared to 41 percent in 2003. These figures indicate that employees have less discretion with respect to extra working hours. Also in 2006, 60 percent of employees 'did not have any say in their start and finish times', although no figures are available for 2003.

Money Wage Growth

Since enterprise bargaining commenced, aggregate wage data have been difficult to interpret. Many employees have unregistered agreements and wage increases may be granted in exchange for trade-offs with respect to other conditions. Also there are major compositional changes occurring in the workforce (Burgess, 1995).

The DEWR records the average annualized wage increase (AAWI) per employee based on Federal agreements newly certified within each quarter (see Figure 2). There is no evidence of a sustained increase in wage settlements. The current weighted increases were 3.8, 3.7, 4.2 and 3.8 percent for each of the 4 quarters to September 2007, respectively, for newly certified agreements (DEWR, 2007b; authors' calculations). The extant agreements stabilized at 4.0 percent (DEWR, 2007b). The ADAM report for November 2007 confirms these orders of magnitude with the annual rate of wage increase associated with

Figure 2 Average annualized wage increase (AAWI) per employee of federal agreements newly certified within the quarter by industry group, March 1999–September 2007.



Source: DEWR (2007b) and authors' calculations.

Notes: From June 2006, only federal agreements formalized are available. For these calculations, formalized data rather than certified data is used for the last four quarters. *Manufacturing and Construction* are equivalent to the ANZSIC industries. *Commercial services* consists of wholesale; retail; accommodation, cafes, restaurants; transport; communications; electricity, gas and water; finance and insurance; property and business; cultural and recreation; and personal and other. *Non-commercial services* denote education and health; government administration and defence; and community services. The estimates have been rounded since June 1999. Historical estimates have been updated so that figures may exhibit slight differences as compared to Figure 2 in Watts and Mitchell (2007). The AAWIs are calculated as a weighted sum of the AAWIs per employee per ANZSIC industry with the weights given by the corresponding employment shares.

agreements lodged in the June quarter being 3.9 percent, which was unchanged from the March quarter (WRC, 2007a).

Full-time adult Average Weekly Earnings grew 4.8 percent in the year to August 2007, which represented a significant increase from the annual rate of 2.8 percent to August 2006 (ABS, 2007a: 6), but lower than the previous year of 5.9 percent. The data conflate changes in hourly wages, full-time hours and compositional changes. The growth in Average Weekly Ordinary Time Earnings (which excludes the impact of changes in the overtime component of hours, but reflects compositional changes) was 5.0 percent over the same period, compared to 2.9 percent in the year to August 2006 (ABS, 2007a: 6).

In the 12 months to September 2006, wage growth, as measured by the fixed weight Wage Price Index (formerly Wage Cost Index) grew 4.2 percent seasonally adjusted (see Table 1), compared to 3.8 percent over the previous year (ABS 2007b: 17).¹ The sharpest increases occurred in Mining and Construction, which was to be expected given the strength of the mining boom.

Thus, in summary, the evidence is mixed as to whether there has been a generalized increase in the rate of money wage growth. Again this does not preclude the emergence of strong wage pressures in particular areas of Western Australia, Queensland and the Northern Territory. The manifest failure of the privatized Job Network to anticipate trends in employment and to prepare

Table 1 *Annual percentage increases in ordinary time hourly rates of pay index, excluding bonuses, by industry, September 2001–September 2007*

	Sept-01	Sept-02	Sept-03	Sept-04	Sept-05	Sept-06	Sept-07
Mining	2.9	4.2	2.8	3.4	5.0	5.9	5.4
Manufacturing	3.8	3.5	3.4	3.6	3.8	3.4	4.5
Electricity, gas & water supply	4.4	4.1	4.1	4.7	4.5	6.0	4.3
Construction	3.6	3.0	3.9	4.5	4.7	4.9	4.9
Wholesale trade	3.1	3.4	2.9	2.9	4.0	3.3	3.7
Retail trade	2.3	3.2	2.7	3.2	3.9	2.7	3.5
Accommod, cafes & restaurants	3.1	2.9	3.2	2.3	3.2	2.4	3.3
Transport & storage	3.2	2.3	4.0	2.9	3.8	3.8	4.1
Communication services	4.0	2.9	3.2	3.2	3.2	3.5	3.2
Finance and insurance	3.7	3.6	3.4	3.8	4.3	3.8	4.3
Property and business services	4.4	3.3	3.3	3.0	3.4	4.4	4.4
Gov. administration & defence	3.5	3.0	4.6	4.0	4.9	4.1	4.4
Education	4.3	3.8	3.8	4.8	4.5	4.1	4.3
Health and community services	3.4	3.0	4.9	3.1	5.0	4.1	4.3
Cultural and recreational services	3.1	3.5	4.0	3.0	5.0	3.5	4.3
Personal and other services	3.4	3.5	3.6	3.5	4.0	3.7	3.9
All industries	3.7	3.1	3.6	3.5	4.2	3.8	4.2

Source: Australian Bureau of Statistics (ABS 2007b, Table 12; ABS 2003).

unemployed workers for future employment is all too clear in the areas suffering skill shortages. On the other hand, the Commonwealth Employment Service engaged in so called manpower planning.

Executive Pay

The Australian Financial Review's ninth annual study of executive salaries revealed that the average total package of CEOs in the 300 largest listed companies was AUSS\$2.56m, compared to AUSS\$1.99m in 2006, which represented an increase of 28 percent. Eighty-two CEOs in the top 100 companies received

packages worth more than AU\$1m. With the buoyant stock market in 2007, performance pay now makes up more than half the executive salaries in the top 150 companies, a doubling over 10 years (Durkin and Swift, 2007). On the other hand, full-time average weekly earnings in 2007 were AU\$56,700 per year (Kitney et al., 2007). Remuneration experts have justified the growth of salaries by the 15 percent growth of profits in the year to June 2007, but, as noted earlier, buoyant profit growth has been accompanied by modest money wage growth, and consequently a declining wage share.

Robinson, quoted by Porter et al. (2007), notes that Long Term Incentives (LTIs) are often inappropriate because relative TSR (total shareholder return) is often required by governance groups, which does not provide motivation for executives, because they cannot readily influence outcomes and there is typically a paucity of peers in a similar industry and of similar maturity for purposes of comparison. Earnings per share is still the typical benchmark of internal performance (Durkin and Swift, 2007). In particular, resource companies are benefiting hugely from the current boom, but it is argued that similar benchmarks should not be applied to other company executives. As a consequence, there has been a shift away from LTI plans towards short-term bonuses, which have also increased in size, and are sometimes aligned with internal goals. Allegedly they are more effective in influencing performance (Robinson cited in Porter et al., 2007). Three CEOs received bonuses in excess of AU\$10m, and 45 of the top 100 CEOs obtained more than AU\$1m in short-term bonuses (Kitney et al., 2007). There is a major difficulty of untangling the relative contributions of very good market conditions and good executive performance to company performance. Kitney et al. (2007) suggest that the true test of executive compensation schemes will be when the impact of the fallout from the severe tightening of credit markets impacts on company performance which would justify reductions in Short Term Incentives.

Increasingly there is the requirement to defer part of the short-term bonus via share purchase, but shareholders are cautious because of the exploitation of ASX listing rules, which permit executive share issues with minimum restrictions or without shareholder approval (Kitney et al., 2007). By requiring company executives to own shares it is claimed that their interests are correctly aligned with shareholders. There is, however, an issue as to whether new shares are issued (dilution) or purchased for executives, which would affect profit and loss, and also whether there should be an escrow period, so the shares cannot be sold for a specified period (Lee and Boxsell, 2007).

Shareholders became increasingly vocal at AGMs in 2007 challenging pay packets and long-run incentive deals by exercising their right to a non-binding vote on executive remuneration. This option has now been in place for three years. Jury (2007) argues that remuneration reports typically lack transparency. He quotes the Telstra Chairman who argues that company by company assessment criteria need to be developed, following discussions with the large shareholders. Jury advocates similar remuneration principles being applied to employees.

The credibility of the justification for high executive salaries based on the operation of a pervasive global market for executives in Australia received a further battering with White (2007) noting that outcomes were somewhat diverse with remuneration depending on the industry, the company worked for and when employment commenced. So despite a more disciplined governance regime, market forces at best worked somewhat imperfectly.

One positive outcome of the increased focus on executive performance was that the average tenure of underperforming CEOs has declined to 3 years (Booz Allen Hamilton report cited in Jury, 2007), but there remains the issue of the size of the termination package.

The Australian Fair Pay Commission

2007 Minimum Wage Decision

In July 2007, the second national Minimum Wage Decision was brought down by the Australian Fair Pay Commission (AFPC). The key points of that decision which came into effect from 1 October were:

- 1 An increase to the standard Federal Minimum Wage (FMW) and related pay scales of AU\$10.26 per week (a rise of 27 cents per hour). The new weekly FMW is AU\$522.12 (or AU\$13.74 per hour);
- 2 The same increase to be paid to all Adult Pay Scales corresponding to a basic period pay rate of up to AU\$700 per week; and
- 3 An increase of AU\$5.30 per week for Adult Pay Scales for a basic period rate of over AU\$700 per week.

Impact of Fair Pay Commission

Table 2 shows the last three federal minimum wage decisions, the last from the Australian Industrial Relations Commission (AIRC) and the first two AFPC decisions. The quantum of the first AFPC decision caught commentators by surprise even though it was the first minimum pay rise for nearly 18 months. It was interpreted as being a political decision and the government of the day praised the decision as did most employer groups. Leading up to the first decision it had been predicted that the AFPC would begin a process of real wage reduction at the bottom of the labour market. The Commonwealth had been consistently arguing that the AIRC safety net adjustments had retarded employment growth and the provision of apprenticeships and traineeships. These claims relied heavily on the authority of the neoclassical competitive labour market model.

Assuming that inflation is a continuous process over each quarter between consecutive Consumer Price Index figures from the ABS and that nominal wages are rigid downwards, we computed the minimum wage required to continuously maintain a constant real FMW (Federal Minimum Wage). Figure 3

Table 2 Recent Federal minimum wage (FMW) decisions, since June 2005

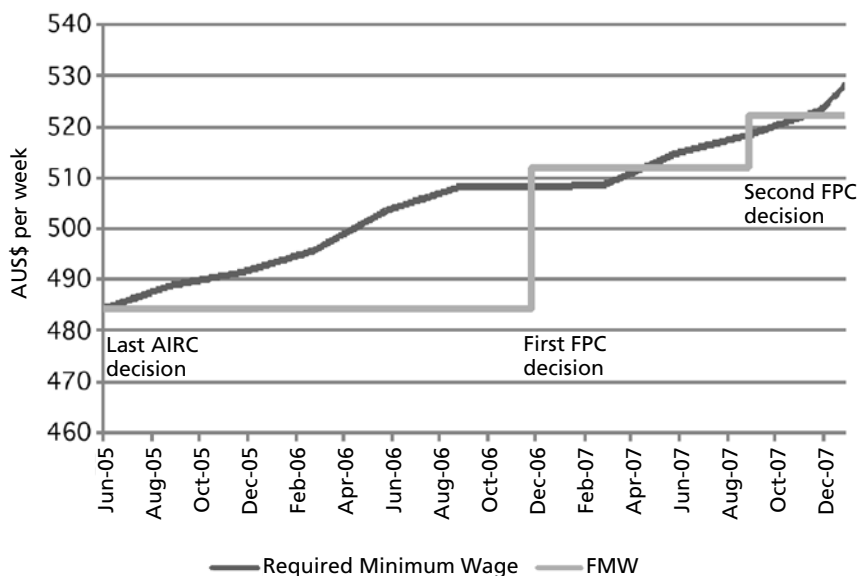
Jurisdiction	Date of effect	Change (AUS\$)	New FMW (AUS\$)	Change for > AUS\$701 per week (AUS\$)
AIRC	7 Jun 2005	17.00 pw	484.40 pw	17.00 pw
AFPC	1 Dec 2006	27.36 pw	511.86 pw	22.04 pw
AFPC	1 Oct 2007	10.26 pw	522.12 pw	5.30 pw

compares the actual path of the FMW since the last AIRC decision with that required path.

The gap between the two time series represents real losses (or, at some points, gains) that workers accumulate due to the step-wise nature of tribunal adjustments. Clearly the deadweight losses were substantial for the lowest paid workers in the period between the last AIRC decision (operational in June 2005) and the first decision of the AFPC (operational in December 2006).

The significant nominal adjustment in the first AFPC decision provided for a restoration of the real FMW at a time when inflation was moderate. The subsequent acceleration in inflation led to further accumulated real wage losses for workers on the FMW and into 2008 these losses will be significant given that the next pay rise will not be operational until 1 October 2008.

Figure 3 Federal Minimum Wage movements and required minimum wages, 2005–2007



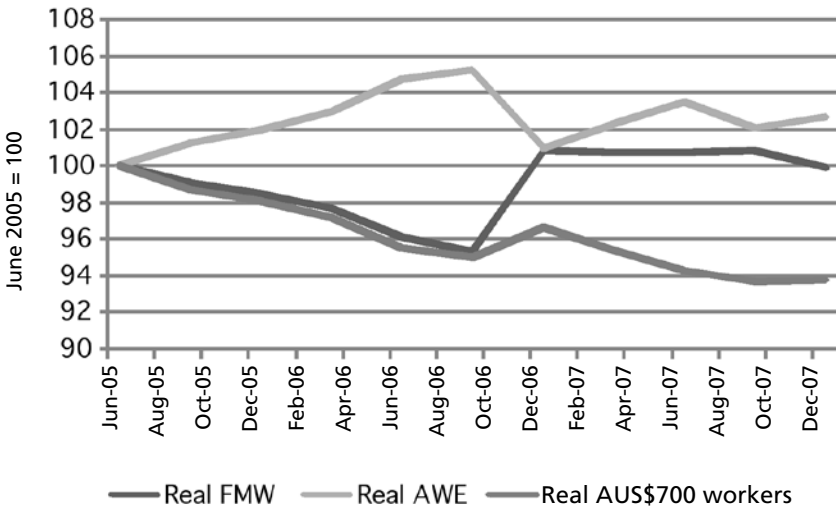
Source: ABS (2007c); Fair Pay Commission and AIRC wage decisions.

Figure 4 depicts indexes of real FMW, real Average Weekly Earnings (AWE) and simulated real wages for a person on AUSS\$700 per week in June 2005 (and receiving the AFPC increases in 2006 and 2007). It is clear that the AFPC has maintained the FMW virtually constant in real terms, albeit with a time lag. The position is worse for those workers on Adult Pay Scales with a pay rate over AUSS\$700 per week who were awarded much lower increases by the AFPC (3.1 percent in 2006 and 0.73 percent in 2007). Their real wages have progressively deteriorated under the aegis of the AFPC. So the AFPC decisions have compressed the real wage relativities at the bottom of the wage structure.

Further, the AFPC decisions have disadvantaged lower paid workers as compared to average weekly wage earners. The latter group enjoyed some real wage growth over the period. As discussed previously, the high income earners in Australia have enjoyed much higher real wages growth than those on average weekly earnings. So the compression at the bottom and free flow at the top has resulted in a significant increase in wage inequality in Australia over the last several years.

The real movements in the FMW (and those on Adult Pay Scales for a basic period pay rate over AUSS\$700 per week) also should be seen in the context of overall productivity movements in the economy. Figure 5 shows the behaviour of real unit labour costs (RULCs) since June 2005.

Figure 4 *Indexes of real FMW, real AWE and simulated real wages for a person on AUSS\$700 per week in June 2005, June 2005 = 100*



Source: RBA Bulletin database and AFPC and AIRC data.

Notes: Real FMW is the real equivalent of the Federal Minimum Wage, Real AWE is the real equivalent of Average Weekly Earnings, and the real AUSS\$700 workers series is simulated by applying the AFPC decisions applying to workers on Adult Pay Scales providing for a basic period pay rate over AUSS\$700 per week. The nominal series were deflated by the quarterly movements in the Consumer Price Index (see Figure 1).

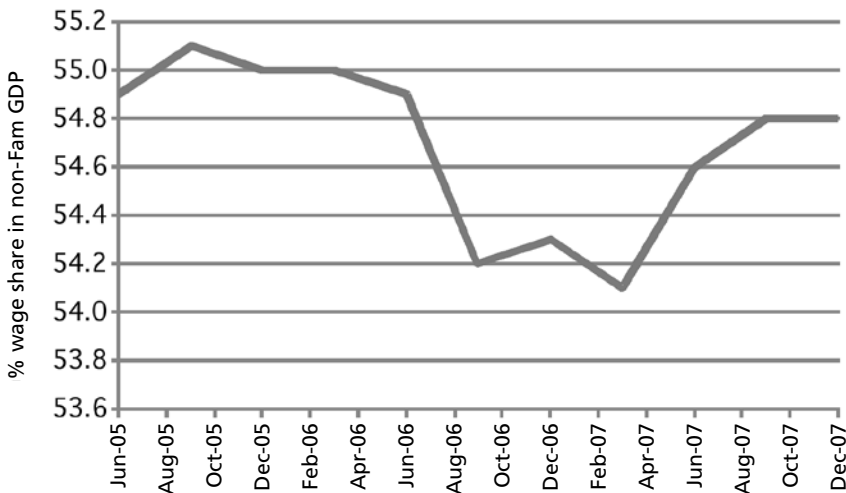
Given that real wages have risen marginally for those on average weekly earnings over this period, the fact that RULCs have fallen over the same period is indicative of the fact that non-farm labour productivity has risen faster. It is reasonable to assume that the same productivity growth has also occurred in occupations at the lower ends of the wage distribution, which means that the static (and falling) real wage outcomes in those areas of the wage distribution have provided firms with significant increases in profit margins at the expense of the most disadvantaged workers. National productivity gains should be distributed to all workers otherwise the wage structure becomes more unequal.

In its Executive Statement (AFPC, 2007a), the AFPC clearly believes that its function is not to preserve the real standard of living of disadvantaged workers who rely on it for wage adjustment. It noted that the 2007–8 Federal Budget contained ‘a number of measures that improve disposable incomes of low-paid Australians and incentives for people to take low-paid work’ (AFPC, 2007a: 11). Further, ‘In the Commission’s view, statutory minimum wages are not, first and foremost, an anti-poverty device’ (AFPC, 2007a: 13).

In summary, the second AFPC decision reinforced the view that it sought to reduce the real labour costs of employers at the low-skill end of the labour market and to rely on the transfer system to maintain real standards of living. This confirms that there has been a fundamental shift from the old Safety Net system, which held out distributional equity as one of its key goals.

The other interesting precedent set by the AFPC in its 2007 decision was that it bowed to sectoral pleading and allowed employers in areas affected by the drought to defer the wage rise for up to 12 months. In an earlier decision announcing a new piece rate, Australian Pay and Classification Scale for real

Figure 5 *Real Unit Labour Costs, June 2005 to December 2007, percent*



Source: RBA Bulletin database.

estate agency workers, the AFPC had provided employers with the chance to bypass national minimum rates of pay (see AFPC, 2007c). In that decision, commission-only remuneration was allowed. The AFPC claimed that protections in the decision safeguard such workers vis-a-vis the hourly Pay Scale. But the protections are not watertight and this sort of 'sectoral exemption' clearly foreshadows further attempts to erode a true national minimum safety net.

The Future of the AFPC

In the light of the new Federal government's award modernization process, the AFPC outlined its future role on 18 December:

The AFPC will continue to set and adjust federal minimum wages in Australia until it is replaced by the proposed Fair Work Australia in 2010;

The AFPC will 'discontinue its reviews of the Australian Pay and Classification Scales and of junior and training wages in the Australian labour market'. (AFPC, 2007b)

The abandonment of the controversial adjustment of APCs is a consequence of the new government's proposal to modernize the award wage structure. The 2008 Minimum Wage Decision will be announced in July but not become operational until 1 October 2008. More exemptions from employers in certain sectors will surely be sought.

Politics and Work

Wages and Working Conditions

In October, Sydney University's Workplace Research Centre published an 'early' progress report on an Australian Research Council (ARC) Linkage study (co-sponsored by the ARC and Unions NSW) entitled *Australia@Work: The Benchmark Report* (WRC, 2007b). The 'five year study of 8,343 participants in the Australian labour market' aimed to examine the impacts of legislative changes on working conditions and 'perceptions of working life' (WRC, 2007b: iv).

While the Report noted that as at September 2007, there had been 'no seismic shifts in Australian's working conditions' (WRC, 2007b: vi) it considered the fortunes of those that had recently changed jobs to be 'indicative of the new agreement-making culture that is evolving in Australia. Most of this group moved onto non-union arrangements such as AWAs, non-union agreements or common law contracts' (WRC, 2007b: vii). Further, most of the growth in AWAs occurred in occupations where workers had low bargaining power – chiefly the low skilled occupations. The Report concluded that in these areas, AWAs had reduced pay and conditions that had previously been embedded in the award structure. The asymptote of the basic minimum conditions established by Work Choices was a reality for many of the most disadvantaged workers in the Australian labour market.

While the Report found that a majority of AWAs provided to job changers did not allow for negotiation, the headline finding that provoked the publicity was that 'low-skilled employees on AWAs are receiving relatively low hourly rates but also working some of the longest hours on average' (WRC, 2007b: 47). The Report found that on average workers on AWAs earn just over AU\$100 a week less than those on collective agreements (WRC, 2007b). AWA outcomes were only just above the base rate minimums and this was in the context that the AWA had traded away penalty rates and other 'non standard' hour pay benefits. Thus, Work Choices appeared to be delivering wage cuts, an outcome that would not surprise the critics of the legislative changes but which was vehemently denied by the government of the day.

The starkness of the response from senior government Ministers showed how crucial Work Choices had become in the political debate leading up to the federal election. It also revealed how the previous government was prepared to misuse official data and manipulate the media to resist public debate and academic scrutiny.

The initial response was to attack the reputation of the researchers rather than address the research issues. The former Treasurer raised the connection with Unions NSW when he told national radio that the research was 'contaminated' and 'lacked credibility' (ABC, 2007). The research, of course was conducted under the aegis of the ARC within its peer-reviewed Linkage programme, which enables university researchers to collaborate with industry partners. The government's hypocrisy was highlighted by its own use during 2007 of two highly questionable reports on workplace reform that had been commissioned from its 'preferred' researchers Econtech.

More problematic was the government's willingness to misuse ABS data to deny the obvious. Former Workplace Relations minister Joe Hockey claimed that ABS data showed that workers on AWAs 'earn nearly twice as much as people on awards' (ABC, 2007). Also the former Prime Minister told journalists that he 'would believe the Bureau of Statistics ahead of something that is half funded by Unions NSW' (Melbourne Age, 2007a).

Fortunately the ABS was quick to defend their excellent reputation. The ABS's Assistant Director of Labour Employee Surveys, Valerie Pearson, stated that the survey on which Mr Hockey had relied 'was conducted only six weeks post Work Choices' (Melbourne Age, 2007b). She said that even that data revealed that workers on collective agreements earned higher hourly wages than those on AWAs, but slightly lower weekly wages because workers on AWAs were working longer hours.

Econtech Report on ABCC

In July, a Canberra consulting company Econtech (2007) issued a report on behalf of the Federal Government's building industry watchdog Australian Building and Construction Commission (ABCC). The report claimed that the ABCC had delivered significant building cost reductions (and hence

productivity benefits) to the Australian economy by eliminating rorts and non-competitive building practices by industry unions.

A counter study commissioned by the Construction, Forestry, Mining and Energy Union (Mitchell, 2007) queried the methodology used by Econtech which found a 10.7 per cent difference in costs in commercial building compared to domestic residential from 1994 to 2003 had dropped to 1.7 per cent in 2007. He demonstrated that the Econtech cost differentials methodology was flawed.

Mitchell (2007: 2) concluded that Econtech (2007) violates a basic principle governing quality economic research because it 'provides no transparency in their published work and replication of their results is impossible'. This lack of transparency encompassed: (1) a failure to specify the exact demarcation between commercial construction and domestic construction. The data used blurred the distinction by including small-scale construction within domestic construction; (2) a failure to specify the exact nature of the building tasks being used to estimate the cost differentials; (3) a failure to specify the exact way in which their composite unit for each capital city was constructed; and, (4) a failure to adequately consider other factors which might reasonably impact on cost movements.

Using a transparent and replicable method that incorporated all building costs, Mitchell (2007) concluded that the cost differentials between residential and commercial construction were significantly higher than claimed by Econtech.

The Australian Building and Construction Commission published Econtech's media reply (ABCC, 2007), which merely reasserted the claim that the Econtech's report was 'best information available to the public on the likely effects of the impacts of the ABCC and Industrial Reforms on the Australian Economy'. The response however ignored Mitchell's challenge to Econtech to publish their exact method so that replication could be achieved.

Conclusion

The likelihood of a further interest rate rise in February 2008 and uncertainty about petrol prices means that 2008 will probably be a difficult year for Australian wage earners, particularly low income earners not subject to an agreement who will still be reliant on the Fair Pay Commission until the end of 2009.

The combination of tighter monetary and fiscal policy ostensibly to reduce inflation will cause a rise in unemployment. Also of considerable relevance to the future living standards of wage earners will be the outcome of new Federal government legislation to replace Work Choices and, in the longer term, the nature of the legislation to set up Fair Work Australia. Given the conservative economic credentials already displayed by the new Labor Government, the portents are not promising.

Note

- 1 The wage cost index measures hourly wages net of bonuses and, in contrast to measures of average weekly ordinary time earnings (AWOTE), is independent of compositional changes, because it is based on a fixed basket of jobs, which, however, includes part-time jobs.

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