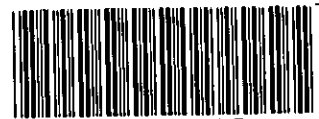


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Recent labour market conditions in Australia

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This brief overview reflects on trends in the Australian economy and labour market for the period October 2003 to May 2004.¹

Some main points of interest from the period include:

- *A total unemployment rate below 6 per cent for the first time in more than a decade.*
- *Strong GDP growth of 3.2 per cent for the year to March 2004, despite only a small rise of 0.2 per cent during the March quarter.*
- *Productivity on the rise, increasing in terms of GDP per hour worked by 1.6 per cent in the year to March 2004.*
- *Moderate inflation of 2.0 per cent for the year to March 2004.*
- *Rapid appreciation of the Australian dollar during March 2004, but with the value falling back to around US70¢ by the end of May.*

The economy has recovered from severe drought conditions during 2002, although farmers in certain regions throughout New South Wales and Queensland are likely to face abnormally low rainfall and yields for some time. In early May, the Reserve Bank announced that a prolonged 'bubble' in rates of housing construction and in real estate prices had 'burst'. The effects of its deflation on growth in employment and GDP remain to be seen.

The Federal Budget was delivered in early May, and contains a suite of tax cuts and incentives designed to lure marginal voters. The government has proposed to lift the income at which the top marginal tax rate cuts in to \$80,000 per year by July 2005. Welfare and maternity payments, targeted at low-income families with children, have also been substantially increased. These are intended to encourage childbirth and help new mothers into work.

Total employment grew by 1.2 per cent in the year to February 2004, an increase of 0.5 per cent over the December quarter 2003. The total number of persons employed in Australia was 9.58 million (estimated on a trend basis).

Working Hours

The strength of recent labour market performance has been demonstrated by an uncustomary expansion in the number of full-time jobs. In the year to February 2004, full-time employment grew by 1.8 per cent (to 6.86 million persons), while part-time employment contracted by 0.2 per cent (to 2.72 million persons). This is unusual for an economy that has been typified in the last five years by rapid growth in part-time employment compared to total employment (as seen in Table 1, below).

Table 1: Percentage growth in full-time, part-time and total employment (annual rates of growth for year to February)

	Full-time	Part-time	Total
1999	1.0	3.8	1.8
2000	2.0	3.0	2.3
2001	1.1	3.3	1.7
2002	-0.3	6.9	1.6
2003	2.2	5.2	3.0
2004	1.8	-0.2	1.2

Source: ABS, *Australian Labour Market Statistics*, April 2004, Cat. No. 6105.0

Under-employment

The tendency of the Australian economy in recent years to create part-time job opportunities more rapidly than full-time ones (or the preference of employers to hire on these terms) is borne out in the under-employment figures. The under-employed are predominantly part-time workers who would prefer more paid hours. The *rate* of under-employment is small as a fraction of the total workforce – 6 per cent of employed Australians in September 2003 (Table 2) – but it is about the same as full *unemployment*. Combined, the two measures suggest that about one eighth of Australia's total labour potential is 'under-utilised', with obvious implications for national productivity. However, the Australian Bureau of Statistics (ABS) has noted that while many part-time workers want *some* extra hours, they do not in fact wish to be employed full-time.²

Table 2: Percentage of the labour force under-employed, and percentage of all unemployment that is long-term

	Under-employment	Long-term unemployment
1990	4.7	20.2
1991	5.9	22.5
1992	6.9	31.6
1993	6.9	34.6
1994	5.6	34.0
1995	6.3	29.9
1996	6.0	26.5
1997	6.0	28.4
1998	5.8	29.7
1999	5.3	27.2
2000	5.4	25.1
2001	6.5	21.7
2002	6.1	22.0
2003	5.9	22.0
2004	6.1	20.6

Unemployment

Unemployment rates have been trending mostly downward since the recession of early 1993 (Table 3). In 2003 the female unemployment rate exceeded that for males, for the first time since 1990.

Table 3: Male, female and total unemployment rates %

	Male	Female	Total
1990	6.9	7.0	6.9
1991	10.1	8.8	9.6
1992	11.4	9.6	10.6
1993	11.3	9.8	10.7
1994	9.4	8.9	9.2
1995	8.6	7.5	8.1
1996	8.5	7.9	8.3
1997	8.5	7.8	8.2
1998	8.1	7.3	7.8
1999	7.0	6.6	6.9
2000	6.4	5.8	6.1
2001	7.1	6.5	6.9
2002	6.3	6.1	6.2
2003	5.9	6.1	6.0
2004	5.5	6.1	5.8

Note: Trend figures shown for August of each year, except 2004 (February).

The ABS reported that 1.6 million Australian workers (about one sixth of the total workforce) started their current job within the preceding year.³ This suggests a significant degree of labour transience. Half of the new job starters in the survey had been working immediately before commencing in their

new position, and half of all new starters were male. Those seeking their *first* job accounted for one eighth of total unemployment. Fully one-quarter of the unemployed report holding their last job *at least* two years ago. Long-term unemployed persons were much more likely to give age-related reasons for their joblessness than were those out of work for shorter periods.

Locating work is the primary concern of the unemployed, but of course the *quality* of employment they can command also matters, and may itself influence their decisions about when to supply their labour power, and on what terms. It remains the case that Australia's unemployed are more likely to find part-time work than their counterparts in comparable Western countries. The ABS replicated OECD data showing that when part-time employment is defined as a typical working week of 30 paid hours or less, the incidence of such employment in Australia is greater than in the UK, New Zealand and Canada, and is *twice* the rate apparent in the US.⁴

Trade Unions

Declining rates of unionisation have been a feature of Australian industrial relations since the mid 1970s. The downward trend since the early 1990s is shown clearly in Table 4. However, there is new evidence that a sort of membership 'equilibrium' may have been reached. Recent ABS data show that the number of Australian trade union members increased by two per cent (33,000 persons) in the year to August 2003 (to 1.87 million persons), while union *density*, the number of union members as a proportion of the total workforce, remained stable at 23 per cent.

Table 4: Trade union density rates

	Density (percentage of the workforce in a union)
1992	39.6
1993	37.6
1994	35.0
1995	32.7
1996	31.1
1997	30.3
1998	28.1
1999	25.7
2000	24.7
2001	24.5
2002	23.1
2003	23.0

Source: ABS Cat 6105.0, August of each year.

Union density in 2003 is just a little over half of what it was in 1988 (42 per cent). The ABS attributes this, among other things, to industry factors (the growth of service work and corresponding decline of jobs in traditional

union industries), changes in the *forms* of employment offered (fewer full-time jobs), legislative change, and attitudes of workers themselves. On comparing union coverage in 1993 with that in 2003, the Bureau concluded: 'The change in public/private sector composition explained 18 per cent of the decline in trade union membership over the period...[while] the ageing of the population had a positive effect on the unionisation rate'.⁵

The concentration of trade unionists is highest in utilities industries (electricity, gas and water supply), in transport and storage, and in education.

Increasing, or at least maintaining, the coverage of workers in employment growth industries such as retail, hospitality and personal services is high priority for Australian unions. Some have responded to this task by establishing new, industry-specific organisations, such as for customer service representatives working in call centres. But, as many of the workers in these industries are employed on a casual basis, the ACTU will have to reverse the trend of the past decade, during which the unionisation rate among casual workers halved, even as their share of total employment in Australia grew to 28 per cent.

In the context of a growth in income inequality, and an uneven sharing of productivity gains between profits and wages (especially in lower-paid industries where employment is expanding), unions have embarked on several 'test cases' before industrial tribunals. These cases are the principal means by which the working conditions of Australia's low-paid workers are set and reviewed. A number of important recent cases have dealt with working hours, casual employment and severance pay. In March, a Full Bench of the AIRC decided that redundancy benefit provisions in federal awards should be extended to include small businesses, but not casual workers.

General Earnings

In February 2004, the full-time adult weekly ordinary time earnings (AWOTE) of Australian men averaged \$1,002 (estimated on a trend basis). The amount was slightly higher for *total* earnings (incorporating extra income from irregular overtime), at \$1,069 per week. The amount falls to \$900 per week when estimated for *all* men, which includes some 788 thousand males (15 per cent of the total) working part-time.

For women working full-time, the AWOTE figure was estimated in February 2004 to be \$849 per week in ordinary time earnings, with an additional weekly earning premium of \$16 when overtime is included. Australian women who are employed full-time thus receive 85 per cent of male

ordinary earnings, and typically have smaller increases in their weekly earnings from receipt of irregular overtime. Not surprisingly, when female earnings are re-calculated to include *all* women, the average falls to \$588 per week. This is due to the large proportion (45 per cent) of women who typically work fewer than 35 hours per week.

Largely because there are more men than women in the Australian workforce (the male number is 26 per cent greater), the weekly earnings of all persons, regardless of their gender, follow more closely the male earnings described above. The average full-time Australian worker earned \$948 per week in February 2004 (and \$997 if they worked overtime); while the all employees total earning estimate was \$752 per week. Compared to the estimates from 2003, the figure for all employees AWOTE grew more quickly (5.3 per cent) in the four quarters to February 2004 than did the *full-time* AWOTE (4.9 per cent). As discussed earlier, this may be an outcome of the recent growth in full-time job opportunities available in Australia.

The average earnings figures discussed above are clearly much affected by workforce composition. The Wage Cost Index (WCI) is an alternative series that is not influenced by the changing share of full- and part-time workers. March 2004 estimates of the WCI showed a 3.7 per cent increase over March 2003. Wage costs grew by 0.9 per cent in the last quarter (ie since December 2003). The index of wage costs, which has its base in the September quarter 1997, shows a 24 per cent rise in these costs since that time (on a trend basis). Over that same time, consumer prices (as estimated by the Consumer Price Index) have risen by 20 per cent.⁶

Wage costs have risen more quickly since September 1997 in the public sector (26 per cent) than the private sector (23 per cent), possibly reflecting the much higher unionisation rates of government employees. Comparing different *industries* over the same time period shows that the cost of a unit of labour has risen most rapidly for employers in electricity, gas and water supply (29 per cent), and in education (27 per cent). These are two areas where union coverage remains high. Wage costs have risen more slowly for businesses in retail (19 per cent) and hospitality (20 per cent). These two industries have relatively high numbers of young, female and unorganised workers. More workers in these industries rely on the award 'safety net', discussed below, for their pay increases.

Minimum Wages

Australia has no statutory minimum wage. Part of our idiosyncratic industrial relations system is its series of industry and occupation based wage minima. The lowest wage legally payable to an adult employed full-time is the *effective* minimum wage. The AIRC is charged with maintaining a safety net of 'fair minimum wages and conditions' (section 88B(2) of the

Workplace Relations Act 1996), which applies *directly* to 20 per cent of the workforce.⁷ These are workers whose employment terms are regulated by industrial awards. Many, but not all, of them are low paid.

Since 1997, the ACTU has made annual 'Living Wage' submissions to the AIRC claiming variations in its award rates of pay. The AIRC receives offsetting submissions from employer and industry groups, and allows the Federal and State governments to intervene in its proceedings. The AIRC is empowered to set and review the wage rates in its award safety net according to community living standards, economic conditions in Australia and the needs of low-paid workers. By this process the effective minimum wage, and the earnings of some of Australia's lowest paid workers, are determined.

In November 2003 the ACTU made its most recent claim, for a \$26.60 per week increase in all award rates of pay (and commensurate increase in wage-related allowances). The unions' stated objective was to push the weekly minimum wage up from \$448.40 to \$475 per week, thereby raising the minimum hourly rate to \$12.50.⁸

The Australian Chamber of Commerce and Industry (ACCI) asked the Bench to be mindful of data showing less than optimistic business expectations. The National Farmers' Federation (NFF) and the Australian Industry Group (AiG) pointed to the lagging effects of the 2003 drought, and to the negative impact of the appreciation of the Australian dollar on exporters, in supporting ACCI's position. The State and Territory Labor governments diverged in their position from the non-Labor Commonwealth, the former supporting a \$20 per week increase for all award wages, the latter a \$10 increase.

The Commonwealth urged the Full Bench to give weight to a survey it had commissioned on the negative employment effects of lifting safety net wages. The Commonwealth also reminded the AIRC of its statutory obligation to promote workplace bargaining ahead of centralised wage fixing.

In early May, the AIRC made its decision on the ACTU claim. It awarded a 'flat-rate' (ie single dollar amount) increase of \$19 per week, applicable to all wage rates in its safety net. This increase was not 'capped' at any wage level, as employer associations had requested, meaning that some workers on comparatively high award rates also received the increase. The Commission implicitly accepted that, in light of economic conditions described earlier in this report, and other positive forecasts for the future, its decision would have only a small impact on aggregate wage costs (the ACTU had estimated a net increase to total wage costs of 0.1 per cent in its submission).

The Bench concluded that an increase in wage costs of this order would be insufficient to provoke a restrictive monetary policy response from the RBA:

The Commission is obliged to take into account the desirability of attaining a high level of employment. We think that economic conditions generally, including the level of domestic demand, indicate that a significant increase is sustainable on this occasion.⁹

The Full Bench also rejected evidence suggesting that its award wage increases impacted adversely on the rate of employment. Because most of the studies cited during the review proceedings did not deal with the peculiar Australian system, it said they were 'unconvincing' and of limited relevance.

Reflecting on the requirement that it promote bargaining, the Full Bench said:

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.

The Commission's decision in this case increased the effective minimum wage for full-time adult workers to \$467.40 per week, or \$12.30 per hour (Table 5, below). The ACTU was pleased with the decision, but still insisted that its full original claim could have been awarded without adverse consequences. The federal government said its economic policy had made it possible for the Commission to award an increase of this order. Employer groups said the increase was excessive and that the total effect of safety net decisions handed down since 1997 (when the process began) had been to increase the minimum weekly wage by \$118 per week, or 33 per cent.

Table 5: Effective minimum wage in the federal award safety net (\$)

	Minimum weekly wage for a full-time adult employee
1993	325.40
1994	333.40
1995	341.40
1996	349.40
1997	359.40
1998	373.40
1999	385.40
2000	400.40
2001	413.40
2002	431.40
2003	448.40
2004	467.40

Conclusion

The intention of this short piece has been to review some of the recent activity in the Australian labour market. The growth in the number of full-time jobs, and the reduction of unemployment, are particularly noteworthy. More is needed, however, to assist the under-employed, the long-term unemployed and those in other sorts of precarious work. Generally buoyant economic conditions are expected to continue into the medium term, and these enabled the AIRC to provide its largest ever safety net adjustment to assist the low-paid. A recovery in export revenue and a slowing of real estate construction and prices is underway, but speculation continues about interest rates. The direction of further labour market reform depends very much on the outcome of this year's federal election, with the prospect of Labor, if elected, reversing some of the decentralisation that has occurred since 1996.

Endnotes

¹ A modified version of this report was originally submitted as NLS' bi-annual contribution to the Global Policy Network (GPN), an international collaboration of labour market research organisations (www.globalpolicynetwork.org/)

² ABS, *Under-employed Workers*, Australia, September 2003, Cat 6265.0

³ *Job Search Experience*, July 2003, Cat 6220.0

⁴ *Australian Labour Market Statistics*, April 2004, Cat 6105.0, p20

⁵ *Australian Labour Market Statistics*, April 2004, Cat 6105.0, pp22-23

⁶ ABS Cat 6401.0, March 2004

⁷ It is unclear to what extent changes to this safety net affect the wages and conditions of employees with other types of (superseding) collective or individual agreements.

⁸ Equal to \$475 per week divided by a standard working week of 38 hours.

⁹ Page 2, paragraph 8 of the statement accompanying the *Safety Net Review – Wages* decision, 5 May 2004