

8. The Wage Fixing Principles

8.1 Last year the Commission amended Principle 8 of the Wage Fixing Principles to introduce a new paragraph 8(c) the effect of which was to allow waiver of the principle regarding 12 months between safety net adjustments in circumstances where:

- i. There is consent of the parties;
- ii. There is no actual increase in wage rates for employees; and
- iii. There is no additional cost to employers.

8.2 This amendment was appropriate in order to overcome a practical difficulty which had arisen from the rigid application of the previous principles.

8.3 In a similar vein, this year the ACTU seeks a modification of Principle 8 to overcome a different practical difficulty which has arisen from the rigid application of Principle 8(a). In some instances unions have made application for a safety net adjustment well before the 12 months period has elapsed but because of the business of the Commission the date of variation of the award has been after the 12 month period. This has caused a delay in workers under such awards receiving the safety net adjustments through no fault of the union parties to the award.

8.4 In such instances the ACTU would submit that the operative date for the award should be allowed by the principles to be before the date of variation to the award but no earlier than the 12 month period or the date an application was made to vary the award (whichever is the later).

8.5 To take account of these situations the ACTU proposes the following amendments to Principle 8:

Insert the following after 8(c):

“8(d) Where an application for variation of an award was made a reasonable time before twelve months after the rates in the award were increased in accordance with the *Safety Net Review – Wages, May 2001 decision* Print PR2001, the operative date may be earlier than the date of the variation but no earlier than:

- (i) 12 months after the rates in the award were increased in accordance with the *Safety Net Review – Wages, May 2001 decision* Print PR2001; or
- (ii) The date an application was made to vary the award.

(Whichever is later).”

9. Conclusion

9.1 A \$25 increase in all award rates will:

- Have a negligible impact on inflation (about 0.1%);
- A negligible impact on employment
- Deliver a meaningful increase to low paid award dependent workers
- Ensure that award workers receive an increase consistent with community standards
- Help ameliorate the trend towards earnings inequality

9.2 In short, whilst its broad economic impact will be next to nothing, its human and social impact will be overwhelmingly positive.

9.3 A \$25 increase in all award rates is justified by the evidence and consistent with the established principles of the Commission's safety net review decisions. To borrow a phrase from another area of the Commission's jurisdiction granting the ACTU claim will ensure "a fair go all round". This is not too much to ask for.

Appendix A: An Overview of Wage Measures in Australia

A.1 There exist a number of indicators which seek to measure wages in the Australian labour market. Each of these approach the issue in different ways, and using differing methodology. In general, wages measures can be classified into one of two groupings – those which measure aggregate economy-wide wages, and those which consider wage movements within sections of the economy.

Measures of Aggregate - Economy Wide Wage Movements

A.2 In Australia there are several different measures that attempt to summarise economy-wide developments in wages or labour costs. Of these, four are most commonly cited:

- Average Weekly Earnings (AWE) of non-farm wage and salary earners, from the ABS survey of the same name, published for both all employees, and also full-time adult employees;
- Average Weekly Ordinary Time Earnings (AWOTE), which is derived from the same AWE survey but includes only ordinary time earnings of adults working full-time;
- Average Compensation per Non-Farm Employee - published as part of the ABS's Quarterly National Accounts – also referred to as Average Earnings on a National Accounts basis (AENA); and
- The Wage Cost Index (WCI).

A.3 The first three of these indicators listed above are measures of the *wage bill* per employee. At times, there can be divergences among them, arising partly from differences in coverage and sources; for example, the national accounts measure and the AWE measures are derived from different survey. The WCI, on the other hand, differs from the other three in that it is a measure of *wage rates* rather than the wage bill.

The ABS's Survey of Average Weekly Earnings (AWE)

A.4 The Average Weekly Earnings survey has been conducted by the ABS in its current form since the beginning of the 1980s. The survey is conducted on a quarterly basis by questioning *employers* as to the wages paid during the reference period.

A.5 The estimates of Average Weekly Earnings (AWE) are constructed by the ABS by dividing estimates of weekly total earnings by estimates of the number of employees.

A.6 As a result of this method of construction, changes in the averages may be affected not only by changes in the level of earnings of employees, but also by changes in the overall composition of wage and salary earners within the labour market.

A.7 The ABS makes the following comments as part of its AWE publication:

“There are several aspects which can contribute to compositional changes, including variations over time in the proportions of full-time, part-time, casual and junior employees; variations in the occupational distribution

within and across industries; variations in the distribution of employment between industries; and variations in the proportion of male and female employees. Such effects may apply differently within different States and Territories, and over time.”

[ABS, *Average Weekly Earnings*, Cat. No. 6302.0, August 2001]

- A.8 In the case of the AWE all employees measure, a particularly important issue is the impact of changes in the relative shares of full-time and part-time workers. Because the earnings results are published on a weekly basis per employee rather than per hour worked, an increase in the proportion of part-time workers will reduce AWE because part-time workers earn less per week than the average. In addition to generating short-run volatility, this effect is also likely to result in a longer-run understatement of wages growth in wage rates using the AWE all employees measure, due to a trend towards an increased share of part-time workers in total employment.
- A.9 The ABS also publish the AWE series for full-time adults, thereby reducing the volatility induced by changes in the share of part-time employment. In concentrating on adult employees, this also reduces the volatility that may occur as a result of changes in the shares of workers employed on junior rates. As a result of exclusion of these sections of the labour market, the AWE for Full Time Adults series exhibits greater stability than that for all employees.
- A.10 Further, the share of overtime hours in total hours worked varies over the course of the business cycle, so that average earnings per person are higher during peaks in the business cycle and

lower during periods of weak activity, even if the underlying wage rates remain the same.

- A.11 By focusing solely on ordinary-time hours, the Average Weekly Ordinary Time Earnings (AWOTE) measure, which is also based upon full-time adult workers, is not affected by cyclical variations in overtime.
- A.12 It should be noted, however, that growth in AWOTE may be affected slightly, on average, by longer term changes in ordinary hours worked, and it remains subject to the more general compositional problems affecting all wage-bill measures.

Average Earnings on a National Accounts basis (AENA)

- A.13 The ABS publish another wage-bill measure as part of their quarterly publication, *National Income, Expenditure and Product – Australian National Accounts*. The series is a measure of Average Non-Farm Compensation per Employee, and is often referred to as Average Earnings on a National Accounts basis (AENA).
- A.14 AENA is constructed using a similar methodology to that used in the AWE series. The source of the data is different to that of the AWE (which as mentioned above comes from a survey of employers), instead being constructed as part of the broader collection of data which form the quarterly National Accounts.
- A.15 Like the AWE series, the indicator measures wages and salaries for non-farm wage and salary earners, but also includes other non-wage costs such as supplements, irregular bonuses, workers' compensation, superannuation and redundancy payments.

A.16 Again, as a result of the method used in its construction, the AENA measure of wages (like all of these wage-bill measures) is subject to variability induced by compositional change in the labour market, arising because changes in the proportions of low- and high-wage employees over time will affect the recorded level of average wages. As the AENA measure considers all employees, it will reflect changes in the share of part-time workers in total employment, along with all the other compositional influences.

The Wage Cost Index (WCI)

A.17 The WCI differs from the other three indicators in that it is a measure of wage *rates* rather than the wage bill. It attempts to measure changes in the *cost* of purchasing a fixed quantity and quality of labour input. The characteristics of each selected job in the WCI are specified in detail and jobs with the same description are matched over time, allowing the index to be constructed from the change in the hourly wage rate for each job. As a result of these features, the WCI might be expected to generate a lower average growth rate in the long run than would be recorded by an hourly wage-bill measure. This difference would arise if there was a tendency over time for lower-skilled jobs to be replaced by higher-skilled jobs, which typically attract higher earnings.

A.18 Without a longer run of historical data (the WCI has only been published by the ABS since the September quarter 1997), it is difficult to judge conclusively how large such a difference might be.

A.19 The Reserve Bank, which considered this issue in a recent edition of its quarterly *Statement on Monetary Policy*, cites two examples of overseas experience in this matter.

“The experience in New Zealand suggests that the average difference between wage-bill and wage-rate indicators could be quite significant. Statistics New Zealand publishes a labour cost index (LCI), which is similar in concept to the WCI, and an average hourly earnings (or wage-bill) measure. The difference between the two series has averaged close to 1 percentage point per annum since the early 1990s. On the other hand in the United States, which publishes a similar employment cost index (ECI), there appears to be little systematic difference between that measure of wages growth and an hourly earnings measure.”

[RBA, Statement on Monetary Policy, November 2000]

So which is the Best Indicator of Wage Movements?

A.20 The short answer to this question depends largely on what sort of application each measure is being used for.

A.21 The Commission in its considerations needs to consider wages growth both from the perspective of costs to employers and as earnings or income for employees. A consideration of wages as costs to employers is essential in considering the economic impact of any adjustment in award rates, whilst a consideration of wages as earnings or income for employees is essential in taking into

account the needs of the low paid and living standards generally prevailing in the community.

A.22 Theoretically the wages bill measures provide both an indication of movements in wages as a cost to employer and as income to employees. However compositional change makes these measures less useful as an indication of movements in wage costs and any resulting inflationary pressures. This is why the ABS developed its Wage Cost Index which controls for quality and quantity of labour input. However the wages bill measures still provide us with the best indication of movements in earnings – they tell us if people are, on average, earning more or less, whether this is due to an increase in wage rates or to changes in the composition of the labour market.

A.23 The RBA is primarily concerned with trends in inflation and therefore in assessing developments in underlying pressures which wages may have upon prices. In this sort of application, the Bank contends that wages need to be compared with productivity to derive a measure of unit labour costs. In practice, the RBA suggests that none of the indicators mentioned is likely to be ideal for this purpose. The RBA has, however, suggested that because it is less affected by short-run compositional change, and therefore less likely to be volatile than the wage-bill measures in the short-run, the WCI may give more reliable signals of changes in short-run wage trends.

A.24 It continues to note, however, that the new WCI has not yet been tested over a full economic cycle, and therefore due consideration

should be given to all measures available, rather than sole reliance on one in particular.

Measures of Wages Growth Within Sections of the Economy

A.25 An alternative approach to examining these aggregate or economy-wide measures is to consider developments in different parts, 'streams' or subsets, of the labour market.

Indicators of award rates of pay

A.26 *Award Wages* have traditionally been the centrepiece of the centralised wage setting arrangements in Australia. However, since the early 1990s, the proportion of the workforce dependent on national adjustments for wage rises has fallen considerably, and now totals just over 23 per cent of the labour market.

A.27 Up until 1997, the ABS published the *Award Rates of Pay Index*, which gave a good indication of overall movements in award rates. Since the publication was cancelled there has been no replacement of an equivalent measure.

A.28 It is, however, possible to consider increases in the rate as specified within the awards themselves.

Measures of wages adjusted through enterprise agreements

A.29 Enterprise agreements are negotiated between management and worker representatives, often at the level of the enterprise and,

increasingly, at the level of the workplace. Because these are disparate agreements, with varying duration, starting dates and conditions, it is more difficult to monitor and assess these accurately. Both the Department of Employment and Workplace Relations (DEWR), and the Australian Centre for Industrial Relations Research and Training (ACIRRT) compile series which endeavour to standardise wage increases through formal enterprise agreements.

The informal sector

A.30 In the informal *sector*, arrangements are negotiated between parties at the level of the workplace, and often include individual contracts. The sector also includes some low-skilled workers, but is largely made up of managers and professionals. It is difficult to monitor the wages of these groups of workers since agreements are not registered and official data are not collected, and can also be subject to confidentiality clauses.

Executive Salaries

A.31 Nevertheless, private sector remuneration surveys of professionals, management and executives, are able to provide a guide to wage developments in these areas of the labour market. Examples of these include those undertaken by *Mercer Cullen Egan Dell*, and the Australian Financial Review's annual *Executive Salary Review*.