

The significance of minimum wages for the broader wage-setting environment: understanding the role and reach of Australian awards

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Abstract

The significance of minimum wages for the broader wage-setting environment depends on many factors. Prime among these are the degree of inclusiveness of the industrial relations (IR) system in which it is embedded. This determines how extensively wage outcomes of 'the strong' are extended to 'the weak'. It is commonly assumed that over the last two decades Australia has moved from a highly centralised and regulated IR system pre-occupied with fairness to one which is now highly decentralised and 'deregulated' concerned primarily with productivity. This narrative both overstates the degree of centralisation in the past and, most importantly, under-states the degree of informal or tacit coordination in the present. The paper presents new and detailed statistics on this latter point. These show that the reach of awards in the wage determination process is far higher (at about 80 per cent of employees) than is commonly recognised. In assessing the significance of minimum wages for the broader environment it is important to recognise that much turns on the level at which minimum award rates are set. While they are taken as a reference point for wage determination for the bulk of employees, their impact varies depending on a range of other factors. The paper concludes by highlighting the priority issues needing further analysis if the significance of minimum wages for the broader wage-setting environment is to be better understood.

1. Introduction

Australia has a long tradition of active involvement by public authorities in the settling of comprehensive standards in the labour market (Isaac and Macintyre, 2004). Notions of the basic wage and margins for skill dominated wages policy for the first half of the last century. National wage cases and a system directed at 'Safety Net Adjustments' continued this tradition (Hancock and Richardson, 2004). In more recent times, responsibility for the wage dimension of our system of labour standards has shifted to the Australian Fair Pay Commission (AFPC) with its responsibilities for the setting wages for Australia's comprehensive system of awards. What is the significance of the decisions of these bodies for the broader wage-setting environment?

This is an important but difficult question to answer. The initial challenge is to make it tractable. Significance can take many forms: economic, political or ideological. In a paper this size I cannot possibly address all these dimensions. Instead I will focus primarily on one: the practical or operational significance of the wage policy decisions of the AFPC and State industrial tribunals for going rates of pay. Even this is a difficult question to answer given the complexity of our wage determination system. Australia's wage-setting institutions do not set just one minimum rate. Rather, rates for award job classifications are periodically varied. Awards cover almost every occupation imaginable. They can also operate with and without other industrial agreements. These can be formal and informal, collective as well as individually based. Our primary question of interest, therefore, becomes:

What is the reach and relevance of awards in the Australian labour market today?

This paper is structured around answering three questions:

1. What is the broader wage-setting environment?
2. What role do minimum rates and the process of their determination play within it?
3. What are the key characteristics of Australia's system of minimum wages and how are they embedded in our broader industrial relations system?

The paper finishes by summarising the key findings about the operational significance of awards for rates set by the AFPC and industrial tribunals. It also provides pointers to other issues that need investigating if a fuller understanding of the prime question of interest is to be achieved.

2. 'The broader wage environment': how do competitive and institutional factors work to determine wage outcomes?

The great bulk of the literature on minimum wages falls into one of two general traditions. One is mainstream economic analysis primarily concerned with how competitive forces are either hindered or helped by minimum wage laws. The other is institutionalist analysis primarily concerned with social and especially institutional aspects of their origins and operation. The conceptual framework that informs this analysis is derived from Botwinick's (1993) theory of how competitive and institutional forces both contribute to the determination of going rates of pay. His primary concern is to transcend the limitations of mainstream economists and institutionalist accounts of wage determination and outcomes. The former have a limiting conception of competition (what he calls the 'quantity theory of competition') coupled with an ad hoc approach to understanding institutions. These are either conceived of as imperfections (e.g. crude marginalist school) or spontaneously useful legacies (e.g. efficiency wage theory). On the other hand institutionalists, while often having a superior account of labour market structures and practices, usually neglect the role of competitive forces in the wage determination process.

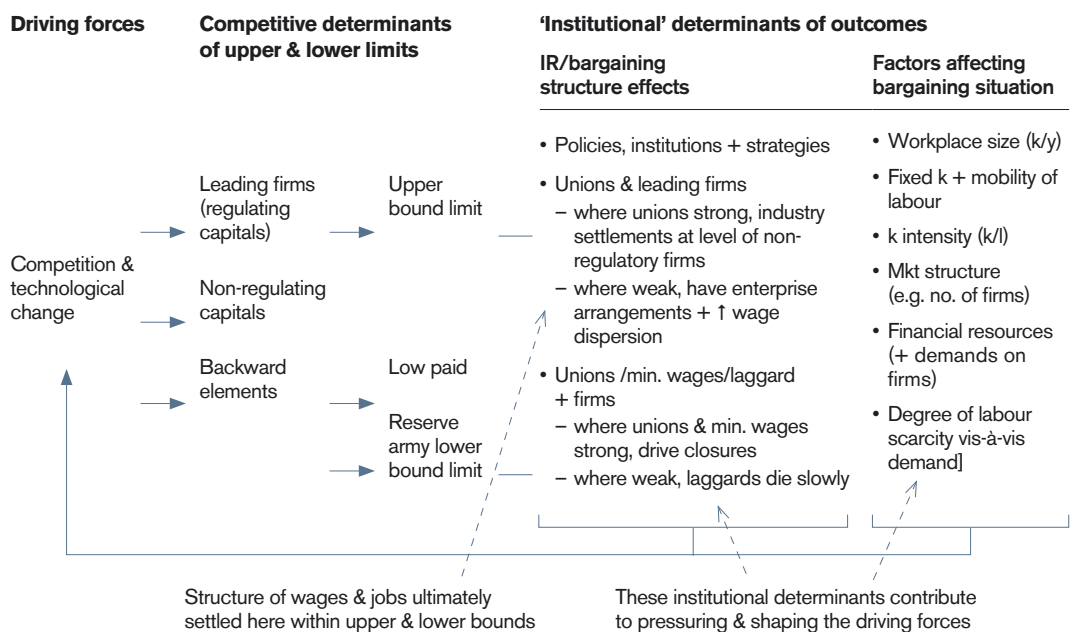
Botwinick integrates a concern with both competition and institutional forces by anchoring his analysis in an account of inter-firm (or what he calls inter-capitalist) competition. As a result of ongoing technological change and competition for market share, firms constantly struggle to gain competitive advantage, the metric of success being different rates of profit. Those firms that succeed have the highest rates of profit, those with the lowest ultimately close. The upper limit to wage settlements is set by the prevailing rate of profit in leading firms, the lower bound is set by marginal firms and how they interact with the reserve army of labour. Actual wage outcomes are set within this space. The key players in setting these are employers, unions and public authorities charged with setting wage standards. Their bargaining power is determined by a vast array of factors. Those noted by Botwinick include:

- workplace size (as an indicator of capital-output ratio);
- the degree to labour and capital mobility;
- the capital intensity of production (i.e. often referred to as the capital-labour ratio);
- market structure (especially the number of firms in a sector);
- the financial resources available to the firm; as well as
- the degree of labour scarcity *vis-à-vis* demand.

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These structural factors define the immediate bargaining environment in which employers, unions and public authorities ultimately structure wage outcomes. Developments in the upper reaches of the labour market are set by the engagement of organised labour with leading and 'average' firms. Where unions are strong, industry settlements prevail at a level sustainable to most 'average' firms. Where they are weak, enterprise arrangements prevail and wage dispersion rises. In the lower reaches of the labour market the laggard firms set the standards. Where unions and/or minimum wages set decent rates of pay, laggard firms close at a faster rate than if the opposite prevails. Where both are weak or accommodating laggard firms die slowly, and in the process nurture a relatively larger low paid sector. Figure 1 summarises the key features of Botwinick's model.

Figure 1: Botwinick's model linking competitive and institutional factors in wage determination



Source: Derived from Howard Botwinick, *Persistent Inequalities: Wage Disparity under Capitalist Competition*, Princeton University Press, Princeton, New Jersey, 1993.

3. Minimum wages and institutional context: how inclusive is the industrial relations system?

Botwinick's model is pitched at very high level of abstraction. Industrial relations and labour market researchers help provide the empirical detail useful for fleshing out how bargaining structures, strategies and practices shape wage outcomes. Much of this literature has been helpfully summarised by the OECD in a relatively recent meta-analysis of wage-setting institutions and outcomes (OECD, 2004). It argues that in making sense of wage setting arrangement it is important to pay particular attention to two factors: union density and collective bargaining coverage on the one hand and the importance of what it refers to as 'extension mechanisms' on the other. As is well known, union density rates have fallen in many countries in recent decades. The OECD makes the very important point that declining unionisation does not necessarily result in declining collective bargaining coverage. This is ultimately a matter of employer strategy and choice. Most importantly it argues that public authorities, through the process of extension, can

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make a collective agreement generally binding within an industrial sector, covering all employers who are not members of its signatory parties. In several countries, 'enlargement' beyond an agreement's initial domain is also possible. (OECD, 2004: 147)

The OECD also notes that in understanding the broader wage-setting environment it is essential that attention is devoted to the degree of centralisation and especially coordination within any country's labour relations system (OECD, 2004: 149–56).

The significance of these variables has been strongly corroborated by a large-scale study of 'low pay Europe'. Commissioned by the Russell Sage Foundation in the USA it involved comprehensive studies of labour market dynamics in five countries, with special attention devoted to five sectors. The countries were: Germany, the UK, the Netherlands, France and Denmark. The sectors studied were: retail, hotels, hospitals, food processing and call centres (Bosch and Weinkopf [2008], Caroli and Gautie [2008], Lloyd, Mason and Mayhew [2008], Salverda, van Klaveren and van de Merr [2008], and Westergaard-Nielsen [2008]). The key findings of the low wage Europe project of relevance to this paper are:

- 'The most important influence on the level of low-wage work appears to be the degree of "inclusiveness" of a country's labor-market institutions, especially its industrial relations system, broadly defined' (Schmitt *et al.* 2008: 7)
- 'Minimum wage can be an important mechanism for extending the "inclusiveness" of labor-market institutions' (Schmitt *et al.* 2008: 9)
- 'The effectiveness of "inclusiveness" in national labor-market institutions depends crucially on employers' ability to use "exit options" to side-step institutions that would otherwise raise wages for workers at the bottom of the wage distribution' (Schmitt *et al.* 2008: 12)
- 'Much greater wage compression in Europe (outside of the UK) may act as an effective subsidy supporting wage and non-wage benefits of front-line workers in Europe' (Schmitt *et al.* 2008: 15).

In short, one of the key findings arising from this study is that the reach of a minimum wage system is critically determined by the inclusiveness of the industrial relations system in which it is embedded. Policy on relativities is a key part of such arrangements. Where solidaristic principles prevail the claims of higher wage earners are constrained. Where no such policies or institutions supporting them exist there is an associated disconnect between movements at the top and bottom of the labour market. Minimum wages in an inclusive industrial relations system play a different role compared to when they are part of a more fragmented one. In an inclusive system they both constitute and reflect wage norms pervading the system. In a more fragmented system they usually play a less significant role with their relevance and impact confined to the lowest reaches of the labour market.

4. What are the key characteristics of Australia's system of minimum wages and how are they embedded in our broader industrial relations system?

Clearly there are many issues relevant to understanding even the operational significance of minimum wages on the broader wage environment. The most pressing, however, is:

Who is affected by minimum wages, both directly and indirectly?

As noted in the introduction, the Australian system of labour standards does not just have one or two basic minimum rates. Rates are set in different awards and for different classifications of labour covered by them. As such our key question becomes:

What is the reach and relevance of awards within workplaces and across the labour market?

The answer to this question provides a powerful basis for understanding the degree of inclusiveness and cohesion on the one hand and the degree of fragmentation and segmentation in the wages system on the other. But answering it is difficult. It requires understanding far more than awards and the formal dimension of industrial relations arrangements. In particular it requires placing awards in the context of agreements: collective and individual, formal and informal.

The common narrative informing much policy and analytical debate in Australia is that the system has moved rapidly from a highly centralised and regulated one to one which is now highly decentralised and 'deregulated'. Table 1 summarises statistics commonly cited to make this point.

Table 1: Readily available summary statistics on the changing relevance of awards

Variable	1990 (%)	2006 (%)
(a) Proportion of workers for whom awards directly determine pay	80	19
	1994 (%)	2007 (%)
(b) Proportion of agreements that totally replace awards	14	58

Sources: ABS, *Award Coverage*, Australia, Cat No 6315.0 1990, ABS, *Employee Earnings and Hours*, Australia, Cat No 6306.0 May, 2006, Agreements Database And Monitor (*ADAM*) Report, No 4 1994 and No 55, December 2007.

Populations: ABS – all employees derived from samples selected at random within business units ADAM – sample of agreements taken from Federal, NSW, Queensland, South Australian and Western Australian jurisdictions. Data collected and coded at the Workplace Research Centre (formerly acirt) at the University of Sydney.

On the face of it, awards have shrunk from covering directly four employees in five to now covering less than one in five. Equally over the same period of time, where agreements primarily worked to top awards, over half now appear to totally replace them.

These commonly used indicative statistics are, however, misleading. A number of recent surveys have revealed that awards have a far broader reach than is commonly appreciated. The *Australia at Work* project is tracking the labour contract and labour market transitions of over 8,400 workers employed in March 2006. Table 2 summarises workers' accounts of what is the primary instrument that determines their pay and compares this with ABS estimates.

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Table 2: Employee coverage of different types of pay instrument: ABS and *Australia at Work* comparisons, Australia, 2006, 2007 and 2008

Method of setting pay and conditions	ABS 2006 (%)	<i>Australia at Work</i>		
		2006 (n=6479) (%)	2007 (n=5816) (%)	2008 (n=5516) (%)
Award only	20.0	33.4	30.7	29.0
Registered collective agreement	40.1	21.7	21.1	22.9
Unregistered collective agreement	3.2	–	–	–
Registered individual arrangement	3.3	4.7	6.6	5.6
Unregistered individual arrangement	33.4	28.8	30.9	32.2
No agreement	–	4.7	3.3	5.3
Don't know	–	6.6	7.5	5.0
Total	100	100	100	100

Source: Brigid van Wanrooy, et al., *Working Lives: Statistics and Stories* [Report on Wave 2 of the *Australia at Work* project], Workplace Research Centre, University of Sydney, October, 2008, page 22.
Populations: ABS as for Table 2. *Australia at Work*, employees in the labour force as at 27 March 2006.

What is striking about these data is the mismatch between accounts of instrument coverage. ABS accounts are based on employers' reports. They report that under 20 per cent of employees have their wages set only on the basis of awards. *Australia at Work* collects information directly from employees. Around 30 per cent of employees indicate that awards are their primary basis of pay determination. This is almost completely off-set by estimates of agreement coverage. Far fewer workers than employers report these as the primary instrument for pay determination.

While there is no doubt that employers' pay roll clerks (the ABS's survey respondents) have a better understanding of the details of the formal instruments setting wages in their organisation, it is important not to regard the ABS material as 'correct' and dismiss the account based on workers' perceptions. The ABS data are primarily concerned with the formal instrument primarily involved in setting the actual rate paid. *Australia at Work* collects data on how wages are set more generally. The two estimates can be reconciled if it is appreciated that they are capturing information on two slightly different dimensions of the wages system. On the basis of this insight we added a new question to a semi-regular survey of workplace industrial relations that we undertake for some State governments (Considine and Buchanan, 2007). The results are reported in Table 3.

Table 3: Estimates of the incidence of different types of employment instruments and the number of workers covered, Victoria, May 2008

Predominant Instrument	Businesses (%)	Employees (%)	Total Employees	% of businesses with instrument reporting work 'in conjunction' with award	Estimates of workforce at workplaces where awards directly or indirectly operate
Award (>60%)	10	10	227,631		227,631
Overaward (>60%)	31	20	441,974		441,974
Collective agreement (>60%)	11	33	742,045	89	660,420
Individual agreement (>60%)	38	33	730,132	58	423,476
AWA/ITEA		3	74,041	58	42,943
	100	100	2,215,824		1,796,444 (81%)

Source: Victorian Workplace Industrial Relations Survey 2008.
Population: business units as defined by Dunn and Bradstreet and weighted to ABS population estimates of corresponding industries and size bands.
Sample size: n=800.
Unit of analysis of this table: employees as a group within the business surveyed. Predominant instrument defined as that which covers 60 per cent or more employees. Note: those workplaces with any kind of individual instrument (e.g. overaward as well as more formal arrangements) were asked if the instrument operated in conjunction with the award. The number of employees covered by an amalgam of award and individual arrangements was 657,767 or 26.7 per cent.

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The basis for reporting estimates is slightly different to that used by the ABS and *Australia at Work*. In surveys of this type the business organisation is taken as the unit of analysis. As a result, workplaces are classified as having a 'predominant' basis for wage determination. This is defined on the basis of the instrument that covers 60 per cent or more of a business's workforce. This reveals that while just under a third (31 per cent) of businesses report that they have a system based primarily on awards and overawards, such workplaces only account for 20 per cent of the workforce. This is because they are mainly employed at smaller workplaces. Conversely, while only 11 per cent of businesses report collective agreements being predominant they cover nearly one worker in three (33 per cent). What is most revealing about this table, however, is the proportion of businesses with agreements reporting that these are read in conjunction with the award. Amongst those with collective agreements, 89 per cent read them in conjunction with awards. And amongst those with individual arrangements, 58 per cent read these in conjunction with awards.

Given these numbers it appears that employers' accounts help make sense of the ABS and *Australia at Work* differences. Whereas the ABS only reports on awards separately where workers are paid at precisely the award rate, many workers and employers report awards are integral to the determination of pay in their businesses. Indeed, depending on how it is calculated the proportion of employees reporting that they are affected directly or indirectly by awards in the determination of their pay could be as high as 81 per cent.

The significance of awards in the wage determination process was explored very sensitively for the Award Review Taskforce in 2006 (ART, 2006). One of the many initiatives associated with the *Work Choices* revolution was a full-scale review of award coverage and classification arrangements. As part of this process a large-scale study of the 'Use and Relevance of State and Federal Awards' was undertaken. This involved telephone interviews with 2,408 workplace managers. One of its major insights is neatly captured in the following quote:

... there is no single indicator of the level of award 'relevance'. Even where businesses may not set pay and conditions exactly according to an award, in many cases awards are used to inform the setting of wages and conditions. (ART, 2006: 154)

The report provides over 50 tables of very detailed breakdowns documenting the reach and relevance of awards. The key findings have been consolidated into the following three tables.

Table 4 summarises the survey's findings about how many business have at least one employee covered by any of the major instruments used for determining pay. This shows that nearly all business (96 per cent) have at least one employee on either an award or agreement. Over two in five (43 per cent) have at least one paid exactly the award rate.

Table 4: Broadest measure of the incidence of different employment instruments, business unit size, Australia, May 2006

Businesses where any employee is covered by ...	Business unit size		
	<20	20+	All
... either an award or an agreement	92	98	96
... an award + overaward	65	74	68
... exactly the award rate	43	55	47
... a certified agreement	6	36	17
... an AWA	6	17	10

Source: Award Review Taskforce, Use and Relevance of State and Federal Awards, Final Report, 1 August 2006.
Population: all businesses in ACT, Northern Territory and Victoria and incorporated businesses in all other States. Sample size: n=2,408.
Respondent: workplace manager.

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This table begs the question: but how many employees within each workplace are covered by such arrangements? The answer is provided in Table 5.

Table 5: Extent of workforce coverage of different instruments, by business size, Australia, May 2006

Instrument type	% of businesses reporting this instrument	% of business reporting instrument replaces award	Average proportion of employees within the business covered by this instrument where it applies in the workplace, by business unit size (%)		
			<20	20+	All
Awards	83	0	75	74	75
Certified Agreement AWA	17	77	68	40	45
Unregistered arrangement	10	33	69	37	49
	65	0			

Source: Award Review Taskforce, *Use and Relevance of State and Federal Awards*, Final Report, 1 August 2006.
Population: all businesses in ACT, Northern Territory and Victoria and incorporated businesses in all other States. Sample size: n=2,408.
Respondent: workplace manager.

It reveals that awards operate in 83 per cent of businesses and where they operate they cover around three quarters of the business's workforce. The coverage of registered collective and individual agreements is not nearly as extensive, especially in businesses with 20 or more employees.

Finally, there is the issue of what the different instruments are used for. Are awards dealing with some matters and leaving others to agreements? The answer is summarised in Table 6.

Table 6: Matters on which different instruments are referred to when determining enforceable rights.

Subject matter of enforceable rights	Incidence among instruments reported by businesses in the survey			Incidence among businesses involved in the survey	
	Awards	Unregistered arrangements	Certified agreements	Award	Certified agreements
Pay	90	88	94	78	90
Leave	88	54	85	76	82
Hours	84	68	91	74	87
Classifications	80	57	87	68	82
Overtime and penalties	80	56	85	69	79
Incentives and bonuses	33	57	52	31	51

Source: Award Review Taskforce, *Use and Relevance of State and Federal Awards*, Final Report, 1 August 2006.
Populations: for columns 2, 3 and 4: All instruments referred to by any business involved in the study. Sample - n=3,704 awards and agreements.
For columns 5 and 6: All businesses in ACT, Northern Territory and Victoria and incorporated businesses in all other States. Sample - n=2,408 businesses.

Assessing what is covered in industrial instruments is very difficult. This table reports on this matter in two ways. Columns 2, 3 and 4 report on the content of instruments reported by each business. Many businesses had more than one instrument, so the sample here is bigger than for businesses. The last two columns summarise the incidence per business of what the instruments are used for. So taking the first row of data concerning pay, it reveals the following: around 90 per cent of awards, unregistered arrangements and certified agreements are referred to when determining pay. Among businesses, however, 78 per cent refer to awards when determining pay. Where the business has a certified agreement, 90 per cent of them refer to it when determining pay. Generally speaking, awards and certified agreements are very important where enforceable rights dealing pay and hours are concerned. On matters like incentives and bonuses, all instruments are less commonly referred to. Unregistered agreements are significantly more concerned with

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pay than any other issue: where they exist they are referred to 88 per cent of the time on matters of pay. The next most common issue for which they are referred to is hours of work.

The previous sections have provided quite detailed information about award and agreement coverage. How can we integrate this information to capture change over time? Table 7 summarises how labour market coverage by different legal instruments has changed since 1990. The first six columns provide estimates of coverage of the different instruments. These fall into two categories: registered and unregistered arrangements. The former is comprised of awards and agreements. These can be defined with a fairly high degree of precision because, by definition, they are governed by registration requirements that result in them having legal force. Unregistered arrangements cannot be so precisely defined, but they remain a major part of the system. They are commonly classified as: unregistered collective agreements; over-award arrangements; and individual common law contracts. To identify the relative extent to which the different regulatory structures are utilised, two summary measures are provided in the last two columns. The first concerns the reach of the award system. Given most agreements up to 2006 were still based on awards, these figures encompass workers wholly reliant on awards; those on registered collective and individual agreements; and those on over-award arrangements. The last column estimates the proportion of employees whose employment arrangements are governed, at least in part, by unregistered arrangements. Many of these arrangements operate in conjunction with awards and registered agreements, counted already in the 'award coverage' column, resulting in the last two columns totalling more than 100 per cent.

Table 7: Indicative estimates of the change in employee coverage of different instruments defining enforceable rights concerning work, estimates based on a meta-analysis of employer surveys, Australia, 1990–2006

Year	Type of instrument						Summary measures	
	Registered			Unregistered			Underlying award coverage (1+2+3+5)	Coverage of unregistered arrangements (4+5+6)
	Awards only (1)	Collective agreements (2)	Individual agreements (3)	Collective agreements (4)	Over-awards (5)	Individual common law contracts (6)		
1990	45	20	–	11	15	20	80	45
1995	40	30	–	3	15–20	10–15	85–90	30
2000	25	35	2	2	20	15	80	35
2006	20	40	3	3	15–20	15–20	80	35

Source: Full details of estimates summarised in this table are provided in Appendix A.

Note: Because these are indicative estimates only most per centages have been rounded to the nearest 5 per cent to show it conveys an indication of order of magnitude as opposed to precise estimate of actual coverage.

The key issues identified from the trends summarised in this table are as follows:

- over the last 15 years the proportion of workers covered by awards and registered agreements has been stable, as has the proportion of those covered by some kind of unregistered arrangement. This stability should not blind us to significant changes occurring within these domains.
- within the registered domain there has been a dramatic decrease in the percentage of employees relying solely on awards – from around 45 to around 20 per cent. Most of this change has been associated with more workers being covered by registered collective agreements. Registered individual agreements account for only a small proportion of the change, and until 2006 the overwhelming bulk of these registered agreements operated in conjunction with an award.

- data on the unregistered domain is less clear. The available data indicate that there has been a dramatic fall in the proportion of employees covered by unregistered collective agreements. These have probably been formalised into registered enterprise agreements or have disappeared as a result of economic restructuring. From the evidence available, the balance between over-award arrangements and individual common law contracts appears to have been relatively stable, with both arrangements covering between 15 and 20 per cent of employees.

To date, most of the policy debate has focussed on awards and registered agreements. This table highlights the importance of other elements of the system of wage determination, especially relating to unregistered arrangements. It is possible that many new agreements may simply represent the codification of long-standing unregistered agreements or over-award arrangements. In addition, it is important to appreciate the continuing reach of awards. While they may not be as directly relevant as they were once, they still remain a significant reference point for the determination of wages and working conditions. Moreover, it is reasonable to expect that, as awards diminish in influence, the regulatory gap is as likely to be filled by increased scope for managerial prerogative as it is to be filled by formally registered agreements.

5. Conclusion

Wage determination is a complex process involving competitive and institutional forces – the later of which are both formal and informal in nature. The impact of particular institutions, such as minimum wage arrangements, depends very much on the broader systems within which they are embedded. As the OECD and recent work in Europe have shown, the degree of inclusiveness of the industrial relations system is very important.

The data reported here reveal that the Australian system was not as ‘centralised’ and ‘regulated’ as is commonly believed. Equally it is not as decentralised and deregulated now as is commonly assumed. Awards are not just relevant to the 20 per cent or so totally dependent on them. They are integrally embedded in wage determination for many, many workers. Employee derived estimates put it at at least 40 per cent. Those derived from employers range up to 80 per cent depending on how the question asked.

This paper has only answered the first and most basic question about the significance of minimum wages for the broader wage-setting environment. To be precise it has helped quantify its reach as a reference point in the system. What impact that reference point has will be determined by how other factors – primarily the level of movement decided upon and the broader economic conditions prevailing at the time the decision is made (Briggs *et al.* 2006). This paper has revealed, however, that in any future work on this issue the role of awards should not be regarded as affecting only those ‘totally dependent’ on awards. To focus on this group to the relative neglect of those indirectly but intimately connected to it will result in poor analytical understandings and poorly informed and formulated policy prescription and decisions. Given the preoccupation with collective bargaining in the current IR reform debate it is time closer attention was devoted to not just ‘rationalising’ awards but, in addition, to thinking more carefully about the role they could and should perform in our IR system in the future. They are more than just a safety net for the ‘losers’ who cannot access the bargaining regime. They are rather an integral reference point with the potential to make Australia’s system one of inclusion and not exclusion. Whether this potential is realised remains to be seen.

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Appendix A: Summary data on labour market coverage of awards and agreements 1990, 1995, 2000 and 2005/6

There has been no consistent time series of statistics summarising trends in agreement and award coverage in Australia. The material summarised in Table B1 consolidates material collected from a variety of sources. These have been as follows:

- *ABS material collected as a by-product of its annual and sometimes biennial collection of detailed data on the distribution of hours and earners.* Data on award coverage was collected in 1990, 2000 and subsequent years. Earlier versions of this survey (i.e. in the 1980s) also collected data on over-award payments.
- *Data collected by the Federal Department of Workplace Relations, previously known as Industrial Relations.* This material was collected as part of the first two AWIRS surveys (Callus *et al.*, 1990 & Morehead *et al.*, 1997). The Department also commissioned occasional surveys to monitor workplace bargaining in 1995, and the incidence of Safety Net Adjustments in 1999/2000.
- *Data collected by State Governments as part of their State Workplace Industrial Relations Surveys (SWIRS).*

Each of these sources used different units of analysis and reporting.

- The ABS material collects data from a random sample of all employers paying pay roll tax, primarily from their pay roll clerks. It is collected to gather data on pay rates for particular occupations. Aggregated estimates of coverage of different modes of pay determination are collected as an adjunct to this primary purpose.
- The AWIRS surveys were collected from random sample of workplaces (i.e. not enterprises) generated by the ABS with five (and sometimes only twenty) or more employees. The data was gathered from the person with the most responsibility for human resources and industrial relations within the workplace.
- The other surveys collected samples of employers from registers like Dunn and Bradstreet, as well as Telstra's *Yellow Pages* directory. The size of the organisations varied between surveys. The WPB survey gathered data from workplaces with ten or more employees. The state WIRS gathered data from workplaces with five or more employees, and the respondent was similar to that for the AWIRS study (i.e. the person with the most responsibility for human resources and industrial relations within the workplace).

No matter what the unit of analysis or who responded, the data collected allowed estimates of employee coverage of different modes of wage determination to be generated. Surveys that were not strictly comparable were also examined. Prime among these was the award and agreement coverage data collected as part of the Business Longitudinal Survey conducted by the Bureau of Industry Economics/Industry Commission/Productivity Commission in the late 1990s. Details on where the findings of these surveys were published are provided in the reference list at the end of this attachment.

A factor that renders the construction of a time series particularly difficult is the fact that different surveys have used different categories when reporting their findings. The key problem here has been the different conventions followed in reporting on workers covered by over-awards and individual common law contracts. The ABS, the most widely quoted source of information on this topic, used to gather data on over-awards but no longer does so. Rather, it uses the catch all term 'individual arrangements'. This combines

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the number of employees free of awards and registered agreements, along with those on over-awards – a highly heterogeneous combination of approaches to wage determination. In contrast, the surveys conducted by the Federal Industrial Relations and Workplace Relations Department and by State Government agencies have always tried to capture and report separately on information about over-awards. A consolidation of all the relevant data is provided in Appendix Table B1 (page 60). This has been laid out so that the reader can easily compare data from a cross section perspective, as well as over time. Additional material on the spread of registered agreements over a more irregular period is provided in Table B2 (page 61).

Table B1: Incidence of different industrial instruments, estimates from different sources, Australia 1990, 1995, 2000, 2006

Year	Type of instrument						Other						Summary Measures		
	Award only (1)		Enterprise agreements (2)		Over-award (3)		Individual agreements (unregistered) (4)		Registered agreements (5)		Underlying award coverage (1+2+3)*		'Individualised' arrangements (3+4+5)		
	ABS	OTHER	ABS	OTHER	ABS	OTHER	ABS	OTHER	ABS	OTHER	ABS	OTHER	ABS	OTHER	
1990	-														
ABS	66.6		-		13.4		20.0		NA		80		34.4		
AWIRS	45		23		31		1		NA		99		32		
1995															
ABS	-				-		-		NA				-		
AWIRS	33		44								100				
WBS			35		13-23		9				81		32(37?)		
													22		
2000															
ABS	23.2		36.7		-		30.6		1.8		59.9		32.4		
DEWR (SNA)	22		42		22		14		-		86		36		
2006															
ABS	19.0		41.1		-		31.7		3.1		54.1		34.8		
SWIRS	15		29		24		30		3.4		64		57.4		

Sources: ABS, Incidence of Awards Survey; ABS, [May survey for over-award data] Employee Earnings and Hours; AWIRS: Callus *et al.*, 1990 and Morehead *et al.*, 1997; WBS (Workplace Bargaining Survey) as reported in DIR, Report on Enterprise Bargaining, 1995; DEWR (Department of Employment and Workplace Relations) Joint (Coalition) Governments' Submission, Safety Net Review – Wages, 1999-2000, Commonwealth Department of Employment, Workplace Relations and Small Business, Canberra, 2000 p. 96.

1 Excludes owner managers of incorporated entities.

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Table B2: The spread of enterprise agreements: 1989, 1992, 1994, 1995

Year	% of employees covered
1989	23(a)
1992	28(b)
1994	35(c)
1995	35(d)
2000	35-40(e)

Notes:

- This estimate is derived from unpublished information available in the Australian Workplace Industrial Relations Survey (AWIRS). That survey collected data on the situation prevalent in Australian workplaces in late 1989. The statistic refers to the proportion of employees covered by what were then known as 'Certified or Registered Agreements'. Data on unregistered agreements have been excluded because at that time they generally did not contain wage increases. The population for this estimate consists of all employees working in locations with 20 or more workers, in all industries other than agriculture and defence. The sample size was 2004 workplaces. For more details on AWIRS see Callus *et al.*, 1991.
- This statistic has been taken from Short *et al.*, 1993, Table 6. It refers to the proportion of employees covered by local written agreements, both ratified and unratified, in late 1992. The population for this survey was the same as for AWIRS. The sample was 700 workplaces.
- This statistic is taken from data collected from the Department of Industrial Relations' (DIR) 1994 workplace bargaining survey. It refers to the proportion of employees covered by registered and written unregistered agreements. The population consisted of employees working in workplaces with 10 or more employees. The sample size was 1060 workplaces. More details about this source can be obtained from DIR. See also *Agreements and Data-base Monitor (ADAM) Report No. 7*, December 1995: 10 and ADAM Report No. 9, July 1996: 20.
- Details similar to those for note (c) above. See especially DIR's report on enterprise bargaining for 1995. A summary of all relevant material is provided in Buchanan *et al.*, 1997.
- Estimates derived from splicing information from ABS, *Employee Earnings and Hours*, Australia, May 2000 Cat No 6305.0 and *Joint (Coalition) Governments' Submission, Safety Net Review – Wages, 1999-2000*, Commonwealth Department of Employment, Workplace Relations and Small Business, Canberra, 2000 p. 96.

The material summarised in Table B1 has been used to generate indicative estimates of agreement and award coverage based on a blend of information from the best available sources. The reasoning behind the blending for each year can be summarised as follows:

1990: Start with the ABS estimate of award coverage of 80 per cent and award free coverage at 20 per cent. From the estimate of award coverage, subtract the number of employees getting over-awards. According to unpublished ABS data released for a Human Rights and Equal Opportunity Study into over-awards, these arrangements covered 13.4 per cent of employees in 1990. According to AWIRS 1990 data reported in Morehead *et al.*, in workplaces with five or more employees 31 per cent of these employees were reported by managers as being on over-awards. Based on this, we propose raising the estimates of those on over-awards to 15 per cent. It is then necessary to separate out the number of employees in 1990 covered by collective agreements. While the ABS noted that in very few cases these collective agreements operated independently of awards, it is worth separating these figures in order to generate an estimate of those totally reliant on awards. In the AWIRS 20+ sample, those on certified or registered agreements numbered 23 per cent. Given that such agreements rarely existed in smaller workplaces, and this is probably an over-estimate for the entire population of employees, we rounded this estimate down to 20 per cent. Subtracting over-award (15 per cent) and registered/certified agreement (20 per cent) employees results in a total of 45 per cent of employees most likely to be totally dependent on awards. From AWIRS 90 data it appears that workplaces on unregistered collective agreements also had either over-awards or registered agreements as well. These have, therefore, not been separately deducted from the aggregate award coverage number.

1995: There are no ABS estimates to work with in this year. We started our calculation with the AWIRS 95 sample, particularly in relation to the coverage of enterprise agreements. The AWIRS 20+ estimates put employee coverage at 44 per cent, but the Workplace Bargaining Survey of the same year with a 10+ population put the estimate at 35 per cent. For the population of employees as whole we set designated certified agreement coverage at 30 per cent. The AWIRS 20+ sample estimated award coverage at 33 per cent. Given the size effect we increased this proportion to 40 per cent because the

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smaller the workplace the greater the likelihood of reliance primarily on awards. This left a residual of 30 per cent encompassing over-awards and common law contracts. AWIRS reported 13 per cent of employees covered by over-awards in 20+ workplaces and 23 per cent coverage in 5+ workplaces. In 20+ workplaces individual contracts were reported as covering 9 per cent of employees. We then estimated over-awards at 15–20 per cent and individual contracts at 10–15 per cent.

2000: Start with the ABS estimates. Award only employees equalled 23.2 per cent, those on registered enterprise agreements at 36.7 per cent and on AWAs at 1.8 per cent. We subtracted OMIE results in 66.7 per cent of covered formal arrangements. This left 33.3 per cent of employees on awards and common law arrangements. We then took the DEWR estimates for determining the ratio of over-awards to common law contracts. That ratio was 22:14. Applying this to ABS residuals gave an estimate of over-awards at 21 per cent and common law contracts at 13 per cent. These estimates should be checked against Iain Campbell's work in Labour and Industry which applies a different mode of reasoning.

2005/06: Start with the ABS data for estimates of award only, registered enterprise agreements and registered individual agreements. Then take ESWIRS to apportion ABS 'individual arrangements' between over-awards and individual common law contracts. This means 60 per cent on awards and certified agreements. From ESWIRS get the ratio of 24:30, assuming OMIE are in other individual arrangements. We simplified and made the ratio 1:1 and therefore split the ABS residual evenly at between 15 and 20 per cent each for over-awards and individual common law contracts.

Forum discussion

General discussion following the presentation focussed on:

- the lack of clarity in the available data concerning the influence of minimum wages; and
- the role of norms in shaping the effects of minimum wages.

Findings from existing research concerning the relevance of awards were considered to be uncertain and at times inconsistent, with many employers and employees not clear about the terms of their employment arrangements.

Some discussants suggested that there was a need for further research to bridge the gap in knowledge between the TNS paper presented at the Forum and the Buchanan research. A case study approach, such as that taken in the UK in relation to aged care workers, might be an effective way of examining the influence of awards.

Some participants emphasised the importance of norms for actual wages and conditions. For instance, the TNS research suggested that employers who pay above award rates are resistant to absorbing minimum wage increases into existing actual wages.

New Zealand was cited as an example of a country that deregulated wages and working conditions. However, in practice, norms continued to provide reference points for employers and employees, and an element of stability in the labour market.

It was suggested that some employers use the public information sources for minimum wages not necessarily to ensure compliance but to find out what the norm is for a particular industry or occupation. However, some participants observed that regulations are still very influential, with employers responding quickly to changes in regulatory minima.