Kennett’s industrial relations legacy: 
the impact of deregulation on earnings in Victoria

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Ian Watson

ACIRRT
University of Sydney

i.watson@econ.usyd.edu.au
www.usyd.edu.au/acirrt

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Summary

What is the connection between labour market deregulation and earnings inequality? Using Victoria as an empirical study, this paper explores this question making use of a recent workplace survey. The results of this analysis show that a low wage sector emerged in Victoria during the late 1990s and that it was concentrated around ‘Schedule 1A’ employees, those workers who failed to gain protection under Federal jurisdiction and had their wages and conditions determined by a combination of minimalist legislation and internal workplace regulations.

A much greater dispersion of earnings was evident in Schedule 1A workplaces compared to those under Federal coverage. More seriously, Schedule 1A coverage was characterised by a larger clump of low wage workplaces and inferior employment benefits. The association between low wages and Schedule 1A coverage was examined in a multivariate analysis and was found to persist after controlling for a range of other factors.

Comparisons between Victoria and NSW earnings over a ten year period reflected badly on Victoria (as did national comparisons) and added weight to the analysis of the workplace survey data.

These empirical findings suggest that labour market deregulation does indeed contribute to earnings inequality and that it also weakens the situation of those workers who are already structurally disadvantaged in the labour market. The paper concludes by exploring the implications of deregulation for social protection.
Introduction: inequality and ‘deregulation’

Inequality in earnings has been increasing in most industrialised countries since the late 1970s, with the increase being particularly sharp during the 1980s (Blau and Kahn 1996, p. 793 n. 5). Various causes have been suggested for this phenomenon, including technological change, the growth in the tertiary educated workforce, and changes in labour market institutions, particularly the decline of trade unions (see Freeman 1996, Katz and Murphy 1992). The role of industrial relations systems has also been explored. The more decentralised such systems become, the more likely that earnings dispersions increase (Calmfors and Driffill 1988; Blau and Kahn 1996; Wooden 2000; Norris and McLean 1999). Inequality can, of course, increase through a growth in earnings at the top of the labour market whilst the bottom remains unaffected. However, an important feature of the 1980s, particularly in the United States, was that those at the bottom of the labour market actually went backwards (Waltman 2000, p. 37; Burtless 1998, p. 7). The old adage, the ‘rich get richer and the poor get poorer’, was an appropriate description for these trends.

In Australia growth in inequality has been evident over the same period, but to a much lesser extent than in the United States. Particular concern has focused on the bottom of the labour market, and the extent to which the ‘poor got poorer’. Jeff Borland (1998), for example, showed that between 1975 and 1995, the bottom 10 per cent of earners suffered a 9.4 per cent decrease in their real earnings. The incidence of low paid jobs also increased. McGuire, for example, examined the situation of those earning less than 75 per cent of median earnings, and found an increase in their numbers of nearly four per cent over the period 1983-85 to 1990-92 (McGuire 1993, Table 1). Recent findings (Borland 1999) have suggested that earnings inequality has been increasing during the 1990s. At the same time, the issue of the ‘working poor’ has emerged in the Australian literature as a cause for concern (Eardley 1998, Watson and Buchanan 2001, Dunlop 2000). In explaining this growing dispersion in earnings, Borland has favoured ‘a range of factors’ though he emphasises an increase in the relative demand for high-skilled workers (Borland 1999, pp. 193, 197). Though Borland has examined the role of declining union density (1996), he has not explored changes in the industrial relations system and has noted that further research is required to demonstrate ‘in a more rigorous manner’ a link between such changes and the growing dispersion of earnings (1999, p. 194).

In his analysis of the changing industrial relations system, Wooden (2000, p. 145) also examined trends in earnings dispersion. He briefly surveyed the period from 1975 to 1998 and observed that inequality grew steadily over this whole period, a period characterised by both highly centralised and highly decentralised bargaining structures. Wooden did, however, observe a ‘marked widening in the earnings dispersion among men’ in the period after 1994 when enterprise bargaining was taking off. Wooden concluded his overview with the observation that:

it would be extremely surprising if earnings inequality did not increase further under enterprise bargaining given one of the objectives of bargaining is to increase the degree of diversity of wage outcomes ... it does seem reasonable to conclude that enterprise bargaining may have contributed to this growth [in earnings inequality] in the 1990s. (Wooden 2000, pp. 146 & 147).

The Australian Industrial Relations Commission (AIRC) itself recognised the inherent trend towards inequality within the the bargaining stream and the threat this posed to the award system if the latter could not provide decent minimum wages and conditions:
The award system that currently exists is arguably based on considerations of equity and public interest. Any enterprise bargaining system must, of its very nature, lead to differing outcomes. In our view, the only way that they can be reconciled is if within the award system there are awards which provide equitable minimum standards of wage rates and ultimately conditions upon which enterprise bargaining is anchored. To that extent, the two can be complementary. But the stability and viability of those awards can be undermined if the disparate outcomes of enterprise bargaining flow back into them (AIRC 1993, p. 14).

Unfortunately, detailed research into the link between the industrial relations system and earnings dispersion is hard to come by, particularly for the 1990s. Watts and Mitchell (1990) closely examined this issue for the period 1975 to 1987 and found ‘a relatively stable inter-industry distribution of average male earnings, which cannot be attributed to the institutionalized nature of wage fixing in Australia’ (p. 356). They were, nevertheless, able to link changes in wage movements to changes in wage fixing principles for two key periods (the centralised system of 1975 to 1981 and the centralised Accord period of 1983 to 1987) and they concluded that: ‘different eras of incomes policies have impacted differently on the distribution of earnings’ (p. 355).

One of the dilemmas in these kinds of analyses is that several different dimensions of institutional change are often being examined. One axis concerns the centralised-decentralised spectrum, and enterprise level bargaining is usually contrasted with multi-employer arrangements such as incomes policies. Another axis concerns the regulation-deregulation spectrum, in which formal arrangements and institutions (such as Awards and a role for the AIRC and for unions) are contrasted with informal arrangements at a workplace level (such as individual contracts and the absence of unions). Discussion about ‘reforming’ the industrial relations system often sees these two axes entwined, with ‘deregulation’ and ‘decentralisation’ used interchangeably. Sometimes, decentralisation is restricted to discussion of the wage-fixing system, and deregulation to the labour market more generally, but even this distinction often breaks down in subsequent discussion (eg. Preston, 2000).

It is certainly the case that a system can simultaneously exhibit regulation and decentralisation: indeed, registered enterprise agreements can be highly regulatory instruments. The problem partly lies in the terminology, particularly around the notion of ‘deregulation’. Buchanan and Callus argue that the ‘deregulationists’ who form the core of of the ‘movement for labour market deregulation’ have focused on the rules and regulations which limit employers’ ‘ability to organise the means of production as they see fit’ (1993, p. 515). The deregulationist ire has been directed at the role of unions and industrial tribunals and at the award system more generally. Yet, for Buchanan and Callus:

Casting the debate as choice between a ‘regulated’ or ‘deregulated’ labour market, however, is misleading. Those advocating radical reform are not seeking to deregulate the labour market but rather change how the labour market is regulated. ‘Deregulationists’ wish to replace regulations that are external to the workplace with rules that are determined within business units. (1993, pp. 515-516).

Drawing the link between protection and regulation is also useful. Iain Campbell, for example, has argued that casual work is highly regulated but offers very little protection to employees.2

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1 Thanks to Chris Briggs for drawing my attention to this quote.
2 This insight comes from Iain Campbell’s PhD thesis, pp. 60, 63 & 99. (Campbell 1998). Thanks to John Buchanan for this information.
In summary, while the larger question of the links between decentralised wage fixing systems and earnings inequality remains an important research pursuit, a more narrowly focussed question also suggests itself. What happens when labour market regulations which have historically offered protection to workers are dismantled in favour of systems of ‘internal’ regulation? What do such changes mean for earnings inequality, particularly for low wage workers? There is certainly an expectation amongst researchers who have examined the equity effects of enterprise bargaining that ‘internal’ regulation will have more adverse effects on the low paid workforce than will forms of ‘external’ regulation (ACIRRT 1999). Preston, for example, argues that ‘a weakening of institutional structures will most likely have an effect at the bottom of the wage distribution and contribute to greater wage inequality’ (2000, p. 453).

Given these expectations, is it possible to compare the earnings outcomes between these different forms of regulation in a manner which is precise and which does not rely on enterprise level case studies or anecdotal evidence? This paper embarks on that task by means of an empirical study of one state, Victoria, where both forms of regulation have co-existed for several years.

The changes in Victoria during the 1990s under the Kennet Liberal National Party Coalition government provide a useful setting for exploring these questions. Kennet’s ‘deregulation’ of the labour market did not amount to an abandonment of regulation in the labour market. Rather, significant sectors of the workforce remained (or moved) under Federal jurisdiction. These workers were thus regulated by a combination of awards and enterprise agreements—that is, centralised and decentralised modes of wage determination. At the same time, that sector of the workforce which remained under the remnants of the old State industrial relations system—a group termed ‘Schedule 1A’ workers—also remained subject to regulation. But it was a very minimalist form of protective regulation, partly inscribed in a set of legislative minimum conditions and partly determined by the internal regulations operating within enterprises. In this light, it is clear that a comparison between the labour market circumstances of Federal employees in Victoria and Schedule 1A employees provides a neat empirical comparison for the contrast between a formal regulatory framework and an informal system of minimalist protective regulation. Moreover, Schedule 1A employees come closest to the goal pursued by deregulationists: a workforce largely subject to managerial prerogative in which ‘external interference’ surfaces only in the form of a minimalist legislative safety net.
Background: the Victorian setting

In 1992 the Kennett Liberal National Party Government introduced legislation which lead to the demise of the State award system in Victoria. Victorian awards ceased operation in 1993, though their conditions were rolled over into agreements for employees who continued with the same employer. The Employee Relations Act 1992 (Vic.) established a set of minimum terms and conditions of employment in its Schedule 1. These included minimum hourly wages and provisions for annual leave and sick leave. In late 1996, the Kennett Government referred various industrial law matters to the Commonwealth Government. The Schedule 1 provisions were then incorporated into the Commonwealth Government’s own Workplace Relations Act 1996 (Cth) and were termed ‘Schedule 1A’ provisions. These various changes left Victoria with a dual industrial relations system: those employees who were already under Federal coverage—specifically Federal Awards, Federal Enterprise Agreements, or Federal Australian Workplace Agreements—and those employees who remained subject to the Schedule 1A provisions. While these provisions were embodied in Federal legislation, they were essentially the same provisions which had applied under the old State legislation. In essence, Schedule 1A employees were those employees who had been under the old state award system, as well as employees who had signed various kinds of (non-Federal) agreements with their employers.

Despite known shortcomings in the Schedule 1 provisions of the 1992 Victorian Act, the same State minimum wage regulations were rolled into the Commonwealth 1996 legislation. In particular, three weaknesses were evident:

1. the AIRC had no power to vary or make new industry sectors;
2. the AIRC was confined to setting minimum hourly wage rates and had no express power to set piece rates;
3. the AIRC was also confined to setting only minimum hourly wage rates for the first 38 hours worked in a week (Victorian Industrial Relations Taskforce, 2000b, p. 34).

As a result of these differences, this dual system of industrial relations also amounted to a dual system of protective regulation, in which one group of workers experienced only minimal prescription concerning their earnings and employment conditions, while another group of workers experienced a more comprehensive range of protections. This dual industrial relations system was of major concern to the Brack’s Labor Government which came to power in 1999. In March 2000 it convened a ‘Growing Victoria Together Summit’ to explore future directions for the State. One of the recommendations of that summit was a proposal to establish a taskforce to examine the Victorian industrial relations system. The Victorian Industrial Relations Taskforce was subsequently established, with Professor Ron McCallum as chair and with representatives from employers, unions and the community. While many of the issues which the Taskforce confronted related to industrial law, one of its key concerns was whether the emergence of this dual system had also resulted in a two-tiered workforce, in which wages and conditions among Schedule 1A workers were systematically inferior to those workers with Federal coverage.3

The Australian Centre for Industrial Relations Research at Training, at the University of Sydney (ACIRRT), was commissioned to undertake research into this core concern and the

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3 One of the key terms of reference for the Victorian Taskforce was: ‘To what extent are employees covered by Schedule 1A disadvantaged in comparison with employees covered by federal awards and agreements?’ (Victorian Industrial Relations Taskforce,(2000a), p. 17)
findings from this research are used in this paper to tackle the more generic question of the impact of ‘deregulation’ on the low paid workforce. In pursuing this question, I make use of two approaches. First, I undertake a direct comparison of the earnings and employment conditions of Schedule 1A workers with those workers who came under Federal jurisdiction. Second, I compare wages and conditions in the Victoria labour market with that of NSW (as well as national figures) over a ten year period. While the latter approach is a more indirect analysis of the consequences of changing forms of regulation, it is a reasonable assumption that any relative deterioration, during the 1990s, in the situation of low wage workers in Victoria would reflect on the institutional arrangements in that labour market. The data used for the first question comes from the ACIRRT Victorian Employers’ Survey (AVES), a telephone survey of 835 workplaces conducted during June 2000. The data for the second question comes from unpublished ABS Labour Force Survey tables.

4 The AVES achieved a response rate of 53 per cent. The population consisted of all workplaces in Victoria and the sample was drawn from an electronic phone directory. The sample data were weighted using the ABS Business Register so as to represent this population.

5 The Labour Force Survey data was provided by the ABS as customised frequency tables. These data was collected from households during August 1999 and August 1989 as part of the August ‘Supplementary Survey’ which is carried out as part of the monthly Labour Force Survey. These data was restricted to non-managerial employees aged 21 and over. This eliminated the extremities caused by high managerial salaries on the one hand, and junior rates of pay, on the other. Non-employees are excluded because the analysis is focused on the industrial relations system and its wage-fixing outcomes. This population is the same one used by the ABS for its own earnings series (such as Average Weekly Earnings). The earnings measure used in this analysis is hourly rates of pay. This eliminates problems caused by differing hours of work, particularly between full-timers and part-timers. It does not, however, take account of unpaid overtime. While it is a useful comparative measure, the hourly rate of pay does not automatically reflect living standards. It reveals nothing about access to work, such as whether full-time hours or year-long work are available. Given current developments in the labour market, particularly the growth of casual work and under-employment, these issues are serious ones. Nevertheless, for the purposes of this analysis, the focus on the hourly rate of pay is appropriate.
Findings from the ACIRRT Victorian Employers’ Survey (AVES)

Descriptive overview

The AVES found that nearly 54 per cent of Victorian workplaces had Schedule 1A employees while another 1 per cent had a combination of both Federal and Schedule 1A employees. The remaining 45 per cent of workplaces had employees with Federal coverage. In terms of employees, AVES found that 33 per cent of Victorian employees came under Schedule 1A coverage and the remaining 67 per cent had Federal coverage. In absolute numbers, there were about 561,000 Schedule 1A employees and about 1.1 million Federally covered employees.

Most of the Schedule 1A workplaces were found in the smallest size band, termed ‘micro’ workplaces (less than 5 employees). Workplaces with Federal employees, on the other hand, were common in the medium and large size bands. In terms of coverage, the smallest workplaces had the highest levels of Schedule 1A coverage while the largest workplaces had the highest levels of Federal coverage.

Table 1: Industrial coverage of workplaces by industry and workplace size

<table>
<thead>
<tr>
<th>Industry</th>
<th>Micro (under 5)</th>
<th>Small (5 to 19)</th>
<th>Medium/large (20 plus)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Federal</td>
<td>Sch 1A</td>
<td>Federal</td>
</tr>
<tr>
<td>Agriculture</td>
<td>47</td>
<td>53</td>
<td>46</td>
</tr>
<tr>
<td>Mining &amp; construction</td>
<td>32</td>
<td>68</td>
<td>60</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>41</td>
<td>60</td>
<td>48</td>
</tr>
<tr>
<td>Wholesale &amp; retail</td>
<td>52</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Hospitality, recreat &amp; pers serv</td>
<td>50</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>70</td>
<td>30</td>
<td>65</td>
</tr>
<tr>
<td>Educ, health &amp; commun serv</td>
<td>33</td>
<td>67</td>
<td>72</td>
</tr>
<tr>
<td>Other</td>
<td>29</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>58</td>
<td>49</td>
</tr>
</tbody>
</table>

Population: All workplaces
Note: Row sub-totals (100 per cent) are not shown because of space limitations. Breakdown for ‘both’ category not shown for micro and small workplaces because the numbers are so small.

As is well known, the industry location of workplaces has a profound influence on the characteristics of those workplaces and of the employees working there, and this proves to be the case for industrial coverage in Victoria. As Table 1 shows, in micro workplaces the highest levels of Schedule 1A coverage were found in mining/construction; education, health and community services; and in ‘other’ (mainly business and property services). On the other hand, infrastructure had the highest level of Federal coverage in this sector. In the small workplace sector, only ‘other’ (mainly business and property services) had high levels of Schedule 1A coverage and the industries with the highest levels of Federal coverage were education, health and community services, infrastructure, and mining/construction. Finally in medium/large workplaces there were no industries with high levels of Schedule 1A coverage.

6 For greater detail on the findings from the AVES, see Victorian Industrial Relations Taskforce (2000c).
7 A reduced ANZSIC industry grouping was used in analysing the AVES because some industries would have had too few workplaces for adequate analysis if the full 17 ANZSIC categories had been used.
Rather, most industries had high levels of Federal coverage or a combination of Federal and Schedule 1A coverage.

Segmentation by gender is highly significant in Australian industry, with some industries highly feminised (e.g., education, health and community services, hospitality) and others dominated by men (e.g., agriculture, mining, construction). At first glance, there seems to be a reasonable balance in the gender pattern, with about one third of men under Schedule 1A coverage and one third of women also under Schedule 1A coverage. However, closer scrutiny of the industry situation reveals some important variations. In manufacturing, for example, Schedule 1A coverage was at higher levels for women than it was for men (by over 12 percentage points). On the other hand, men were more likely to have greater levels of Schedule 1A coverage in agriculture and in hospitality, recreation and personal services (though the differences here were much slighter). No doubt occupational differences in employment within these industries had contributed to this pattern.

When it came to geographical location, two industry groups had particularly high levels of Schedule 1A coverage in non-metropolitan areas: mining/construction and agriculture. At 53 per cent and 47 per cent, this level of coverage was well above the all-industry average for non-metropolitan areas (29 per cent). As for metropolitan areas, the highest Schedule 1A coverage was to be found in the property and business services sector. Most of the other industry groups were close to, or below, the all-industry average for metropolitan areas.

A low wage ghetto?

In the AVES, respondents were asked about the minimum rates of pay in their workplaces. Specifically, they were asked for the minimum hourly rate of pay for adult ordinary hours earnings, as well as an estimate of the number of employees earning that rate. Looking first at mean minimum hourly rates, we find that better outcomes were achieved by Schedule 1A workplaces: mean workplace minimum hourly rates were higher in workplaces with Schedule 1A coverage compared to those with Federal coverage, and median earnings followed a similar pattern. On average, Schedule 1A workplaces paid nearly one dollar an hour more to their minimum hourly rates employees than did their Federal counterparts. Table 2 presents a number of summary measures for workplace minimum hourly rates of pay.

### Table 2: Summary measures of workplace minimum hourly rates

<table>
<thead>
<tr>
<th>Industrial coverage</th>
<th>Mean $</th>
<th>Median $</th>
<th>Standard deviation $</th>
<th>Interquartile range $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal coverage</td>
<td>13.47</td>
<td>13.13</td>
<td>3.11</td>
<td>3.00</td>
</tr>
<tr>
<td>Schedule 1A coverage</td>
<td>14.40</td>
<td>14.00</td>
<td>4.30</td>
<td>4.16</td>
</tr>
<tr>
<td>Total</td>
<td>13.98</td>
<td>13.48</td>
<td>3.83</td>
<td>3.24</td>
</tr>
</tbody>
</table>


*Population:* All workplaces

*Note:* workplaces with both Federal and Schedule 1A coverage have been defined into that category with the lowest minimum rates.

Is it the case then that the less protected sector of the workforce has achieved better earnings outcomes, and that the concerns of the Victorian Industrial Relations Taskforce were misplaced? The answer lies in the nature of the measures used: namely the use of averages. The problem with both means and medians is that they provide no indication of how many

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8 The term ‘minimum rates’ is used to designate the minimum rate prevailing within each workplace.
workplaces congregate around that average, nor do they pinpoint whether there are large ‘pockets’ in particular parts of the distribution, such as near the bottom. To pursue the question of whether a ‘low wage ghetto’ exists in the less protected sector entails examining the dispersion of earnings and the numbers of employees found in particular clumps within that distribution.

Analysis of standard deviations and inter quartile ranges (Table 2) suggests that there was much greater dispersion in minimum hourly rates among the Schedule 1A workplaces. In other words, average workplace minimum hourly rates were not lower in the Schedule 1A sector compared with the Federal sector, but there was much greater inequality in minimum rates in the Schedule 1A workplaces.

![Figure 1: Distribution of workplaces by coverage and workplace minimum hourly rates of pay](source: ACIRRT Victorian Employers’ Survey 2000. Population: All workplaces. Note: workplaces with both Federal and Schedule 1A coverage have been defined into that category with the lowest minimum rates.)

The distribution of minimum hourly rates for Federal and Schedule 1A workplaces is shown in Figure 1. Not only does this confirm the impression of a much greater dispersal of minimum rates among Schedule 1A workplaces, but it also suggests why the Schedule 1A averages were so much higher in Table 2. The Schedule 1A sector had many more workplaces paying higher minimum rates than did the Federal sector. But it also had a noticeable low wage bulge in that area of the distribution below $10.50 an hour. This insight is useful for quantifying the extent of a potential low wage sector when it comes to examining grouped earnings.

To pursue the question of ‘clumps’ within the earnings distribution, it is worth grouping the minimum rates. Figure 1 provides three useful cut-off points for this grouping: under $10.50
an hour; between $10.50 and $18.00 an hour; and over $18.00 an hour. As the Totals row in Table 3 shows, 10 per cent of workplaces with Federal coverage had minimum rates of under $10.50 per hour whereas the comparable figure for Schedule 1A workplaces was 18 per cent. At the top end of the distribution, only 4 per cent of Federal workplaces had minimum rates above $18.00 an hour whereas the figure for Schedule 1A workplaces was 16 per cent. This again emphasises the most characteristic feature of the Schedule 1A sector: a much greater dispersion of minimum rates of pay.

Table 3: Workplace minimum hourly rates of pay by industry, Schedule 1A & Federal coverage

<table>
<thead>
<tr>
<th>Industry</th>
<th>Schedule 1A workplaces</th>
<th>Federal workplaces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under $10.50</td>
<td>$10.50 - $18.00</td>
</tr>
<tr>
<td>Agriculture</td>
<td>26</td>
<td>74</td>
</tr>
<tr>
<td>Mining &amp; construction</td>
<td>24</td>
<td>41</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7</td>
<td>84</td>
</tr>
<tr>
<td>Wholesale &amp; retail</td>
<td>18</td>
<td>81</td>
</tr>
<tr>
<td>Hospitality, recreation &amp; services</td>
<td>28</td>
<td>66</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>17</td>
<td>77</td>
</tr>
<tr>
<td>Education, health &amp; comm services</td>
<td>10</td>
<td>70</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>66</td>
</tr>
</tbody>
</table>

Population: All workplaces.
Note: workplaces with both Federal and Schedule 1A coverage have been defined into that category with the lowest minimum rates.

The most prominent low wage sector sectors emerge when the industry differences are examined. Three comparisons from Table 3 are noteworthy:

1. in agriculture, 17 per cent of workplaces with Federal coverage paid minimum hourly rates under $10.50 an hour whereas 26 per cent with Schedule 1A coverage paid under this rate;

2. in mining and construction, 8 per cent of workplaces with Federal coverage paid minimum hourly rates under $10.50 an hour whereas 24 per cent with Schedule 1A coverage paid under this rate;

3. in hospitality, recreation and personal services, 10 per cent of workplaces with Federal coverage paid minimum hourly rates under $10.50 an hour whereas 28 per cent with Schedule 1A coverage paid under this rate.

**Explaining the minimum rates picture**

These findings suggest that a low wage sector has emerged amongst Schedule 1A employees in Victoria. However, is this situation a reflection of their industry location, their workplace size, their occupational composition or their workforce’s demographic composition? Is it possible that the difference does not lie in the kind of coverage but in some of these other factors? To explore this line of questioning a binomial logit model was fitted to the data. This model set out to explain what factors were associated with this low wage sector. Specifically, the dependent variable (the outcome to be predicted by the model) was whether a workplace had minimum rates employees on under $10.50 an hour or not. The independent (explanatory) variables were: whether the workplace had Schedule 1A coverage or not; industry location;
dominant occupation in that workplace receiving workplace minimum rates; workplace size; workplaces with high concentrations of women workers, high concentrations of non-English speaking background (NESB) workers, and high concentrations of part-time workers.

The results of this modeling are shown in Table 4 and demonstrate that Schedule 1A coverage was statistically significant in predicting whether a particular workplace would be a low wage workplace, controlling for the effects of workplace size, industry, occupation and various demographic factors. Specifically, a workplace which had Schedule 1A employees had nearly twice the odds of being in the low wage category compared with a workplace with Federal coverage, with all other variables held constant. Industry, as a whole, was not statistically significant, nor was occupation nor workplace size (though medium sized workplaces themselves were much more likely than large workplaces to be in the low wage category). Finally, of the demographic factors, only workplaces with high concentrations of NESB workers proved statistically significant (and the odds ratio here was particularly large).

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Odds ratio</th>
<th>Std error</th>
<th>t statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule 1A coverage</td>
<td>1.86 *</td>
<td>0.56</td>
<td>2.07</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.70</td>
<td>0.89</td>
<td>1.01</td>
</tr>
<tr>
<td>Mining &amp; construction</td>
<td>1.26</td>
<td>0.71</td>
<td>0.41</td>
</tr>
<tr>
<td>Wholesale &amp; retail</td>
<td>1.13</td>
<td>0.51</td>
<td>0.28</td>
</tr>
<tr>
<td>Hospitality, recreation &amp; services</td>
<td>1.50</td>
<td>0.70</td>
<td>0.87</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.58</td>
<td>0.37</td>
<td>-0.85</td>
</tr>
<tr>
<td>Education, health &amp; community services</td>
<td>0.95</td>
<td>0.59</td>
<td>-0.08</td>
</tr>
<tr>
<td>Other</td>
<td>0.40</td>
<td>0.26</td>
<td>-1.43</td>
</tr>
<tr>
<td>Managers, Profs, Assoc Profs, Adv Clerical &amp; Serv Workers</td>
<td>1.56</td>
<td>0.84</td>
<td>0.83</td>
</tr>
<tr>
<td>Tradespersons &amp; Related Workers</td>
<td>0.67</td>
<td>0.30</td>
<td>-0.88</td>
</tr>
<tr>
<td>Intermediate Clerical, Sales &amp; Service Workers</td>
<td>0.50 *</td>
<td>0.21</td>
<td>-1.69</td>
</tr>
<tr>
<td>Intermediate Production &amp; Transport Workers</td>
<td>0.40</td>
<td>0.27</td>
<td>-1.37</td>
</tr>
<tr>
<td>Elementary Clerical, Sales &amp; Service Workers</td>
<td>0.84</td>
<td>0.44</td>
<td>-0.33</td>
</tr>
<tr>
<td>Workplace size under 5 employees</td>
<td>2.57</td>
<td>1.91</td>
<td>1.27</td>
</tr>
<tr>
<td>Workplace size 5 to 9 employees</td>
<td>1.90</td>
<td>1.46</td>
<td>0.84</td>
</tr>
<tr>
<td>Workplace size 10 to 19 employees</td>
<td>4.06</td>
<td>3.08</td>
<td>1.84</td>
</tr>
<tr>
<td>Workplace size 20 to 99 employees</td>
<td>5.19 *</td>
<td>4.05</td>
<td>2.11</td>
</tr>
<tr>
<td>Workplaces with two-thirds or more women workers</td>
<td>1.09</td>
<td>0.40</td>
<td>0.24</td>
</tr>
<tr>
<td>Workplaces with two-thirds or more NESB workers</td>
<td>5.41 **</td>
<td>2.42</td>
<td>3.78</td>
</tr>
<tr>
<td>Workplaces with two-thirds or part-time workers</td>
<td>0.47</td>
<td>0.21</td>
<td>-1.68</td>
</tr>
</tbody>
</table>


Population: All workplaces

Notes:
* statistically significant at the 5 per cent level; ** statistically significant at the 1 per cent level.
n = 834

Note that standard errors (and thus t statistics) take account of the design effect.

Log likelihood = --319.367

Pseudo R² = 0.11

Goodness-of-fit test: Pearson chi2(427) = 396.36 (Prob > chi2 = 0.85)

Model test (chi square): 77.84 (Prob > chi2 = 0.000)

Omitted categories for dummy variables: Federal coverage; manufacturing industry; labourers & related workers; workplace size 100 and over; for demographic variables the omitted categories are workplaces with less than two-thirds the particular demographic.
Employment benefits for Schedule 1A employees

As well as the hourly rate of pay, the other key dimension to employee remuneration is the payment of various employment benefits in the form of ‘loadings’. These may be basic entitlements or they may be paid for variations in the working situation. Do employees working under Schedule 1A coverage enjoy the same benefits which are standard amongst employees under Federal coverage? The AVES examined this issue by focusing on whether employees were paid higher rates of pay for working overtime; whether they were paid penalty rates for working on weekends; whether they were paid shift allowances; and whether they were paid an annual leave loading.

While each of these benefits was standard amongst employees with Federal coverage, their availability to employees with Schedule 1A coverage was exceptionally limited. Across all industries only 41 per cent of Schedule 1A workplaces paid a higher rate of pay for overtime. The lowest proportion was found in hospitality, recreation and personal services (19 per cent) and the highest was in wholesale/retail (65 per cent). Less than one quarter of Schedule 1A workplaces paid penalty rates for working on weekends. The proportion was higher in manufacturing (43 per cent) and mining/construction (39 per cent) and very much lower in hospitality, recreation and personal services (8 per cent) and education, health and community services (10 per cent). Shift allowances were the least common form of benefit paid by Schedule 1A workplaces. Only 6 per cent of such workplaces paid their employees shift allowances. The only industries in which more than 10 per cent of Schedule 1A workplaces paid this allowance were manufacturing (14 per cent), wholesale/retail (14 per cent) and mining/construction (11 per cent). Finally, annual leave loading was paid in just over one third of Schedule 1A workplaces. Manufacturing had the highest proportion (54 per cent), followed by wholesale/retail (47 per cent) and mining/construction (45 per cent). The lowest proportion was found in hospitality, recreation and personal services (24 per cent).

How does the payment of benefits relate to the minimum hourly rates situation? It could be the case, for example, that Schedule 1A workplaces which did not pay benefits were paying higher minimum rates. In other words, employees in these workplaces had ‘traded off’ their benefits in return for higher hourly rates. On the other hand, it might be the case that Schedule 1A workplaces which paid low hourly minimum rates were also not extending benefits to their employees, thereby compounding their financial disadvantage. Table 5 answers this question and shows that, with the exception of shift allowances, the lowest paying workplaces were also less likely to pay benefits. For example, whereas 41 per cent of all Schedule 1A workplaces paid overtime rates, the comparable figure for Schedule 1A workplaces in the lowest paying category was only 28 per cent. Similarly, about 24 per cent of all Schedule 1A workplaces paid weekend penalty rates, but the figure for the lowest paying workplaces was just 16 per cent. Finally, about 35 per cent of all Schedule 1A workplaces paid annual leave loading, but the figure for the lowest paying workplaces was also only 16 per cent. Figure 2 summarises these results in a graph.

When the differences between the ‘Under $10.50’ category and the ‘Total’ category were tested for statistical significance, the differences for annual leave loadings proved statistically significant, but the differences for overtime, penalty rates and shift allowances were not.
Table 5: Benefits paid by Schedule 1A workplaces according to minimum hourly rates category
(percentage of Schedule 1A workplaces in each dollar bracket)

<table>
<thead>
<tr>
<th>Benefits paid</th>
<th>Min hourly rates in Schedule 1A workplaces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under $10.50</td>
</tr>
<tr>
<td>Higher rate of pay for overtime</td>
<td>28</td>
</tr>
<tr>
<td>Penalty rates for working weekends</td>
<td>16</td>
</tr>
<tr>
<td>Shift allowances</td>
<td>7</td>
</tr>
<tr>
<td>Annual leave loading</td>
<td>16</td>
</tr>
</tbody>
</table>

Population: All workplaces with Schedule 1A coverage

Figure 2: Benefits paid by Schedule 1A workplaces
(percentage of Schedule 1A workplaces in each dollar bracket)

Population: All workplaces with Schedule 1A coverage
Findings from ABS Labour Force Survey data

The second strategy for assessing the Kennett legacy in Victoria entailed comparing wage outcomes in that State for the 1990s with wage outcomes elsewhere. Such a comparison does not provide a direct assessment of the impact of industrial relations deregulation since the State-based data inevitably combines outcomes from both State and Federal jurisdiction. Nevertheless, the influence of Schedule 1A wage outcomes on the State-based data will be considerable and inter-state comparisons should therefore reflect on this process of deregulation. In the following discussion Interstate and historical comparisons are used to examine whether earnings in the Victorian labour market deteriorated during the 1990s. The data used for this analysis comes from unpublished ABS Labour Force Survey tables for August 1989 and August 1999.10

In 1999 Victoria did indeed have a greater proportion of its workforce in low wage jobs compared with NSW and the national average. About 24 per cent of Victorian employees earned under $12 per hour in 1999, compared with 19 per cent in NSW (and 21 per cent nationally). When it came to very low wage employees, the differences were much weaker. About 10 per cent of Victorian employees earned under $10 per hour, compared with 8 per cent in NSW (and 9 per cent nationally).11 These results are summarised in Table 6.

<table>
<thead>
<tr>
<th></th>
<th>Victoria</th>
<th>NSW</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; $10 per hr</td>
<td>&lt; $12 per hr</td>
<td>&lt; $10 per hr</td>
</tr>
<tr>
<td>Males</td>
<td>11</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>Females</td>
<td>10</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>Persons</td>
<td>10</td>
<td>24</td>
<td>8</td>
</tr>
</tbody>
</table>

*Source: Unpublished ABS Labour Force Survey data, August 1999*

*Population: Non-managerial employees aged 21 or over.*

When an occupational analysis was conducted, it became evident that part of Victoria’s disadvantage arose because a considerable proportion of elementary clerical, sales and services workers (eg. sales assistants) were in the under $10 bracket, and a considerable proportion of intermediate production and transport workers (eg. machinists and truck drivers)

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10 For the interstate comparison, the benchmarks chosen are NSW and national figures. While the choice of NSW may seem an unfair one, given the dynamic labour market in that State, it is still the most appropriate benchmark for Victoria. The structure of the Victorian economy is closer to that of NSW than to any other State. Furthermore, historically the two States have always compared themselves. As well as this comparison, figures for Australia are also used so that the Victorian situation can be compared against the national averages. For the historical comparisons, the benchmark year chosen is 1989. Both 1999 and 1989 are at similar points in the business cycle which makes the comparisons more reliable. While some of the key economic indicators differ between the two years, both these points in time have, nevertheless, been characterised by solid economic growth and reasonable jobs growth. In addition, 1989 predates the Kennett era in Victoria and is therefore a useful base period for examining the situation in the labour market prior to radical changes in the industrial relations system.

11 For the under $12 per hour bracket, all of the Victorian/NSW comparisons are statistically significant at the 95 per cent level. The Victorian/Australia comparisons are statistically significant at the 95 per cent level for persons, and at the 66 per cent level for males and females. For the under $10 per hour bracket, all of the Victorian/NSW comparisons are statistically significant at the 66 per cent level. The Victorian/Australia comparison for persons is significant at this level as well.
were in the under $12 bracket. The industry picture shows a very distinctive profile for Victoria (Table 7) and suggests that Victoria had several industries which were notable for their concentrations of low wage workers: retail trade (where 39 per cent of employees earned under $12 per hour); accommodation, cafes and restaurants (where 45 per cent of employees earned under $12 per hour); and personal and other services (where 32 per cent of employees earned under $12 per hour). In all cases, the Victorian situation was worse than that prevailing in NSW.

The Labour Force data also showed an important metropolitan/non-metropolitan distinction, with nearly 30 per cent of non-metropolitan employees earning under $12 per hour, compared with 23 per cent of metropolitan employees. We saw earlier that the AVES highlighted that Schedule 1A employees were congregated in small workplaces where minimum wages tended to be low. The Labour Force data confirmed the importance of workplace size and showed substantial differences between small workplaces (those with under 10 employees) and other workplaces. Over 38 per cent of employees in these small workplaces were earning under $12 per hour, compared with about 22 to 27 per cent in the medium sized workplaces. There was another sharp difference between these medium sized workplaces and the largest workplaces (those with 100 or more employees). Less than 14 per cent of these large workplaces had employees earning under $12 per hour.

An interstate comparison showed the same pattern in NSW and nationally—that is, larger workplaces paid better wages. But despite this commonality, Victoria stands out as a State in which the smallest workplaces were more disadvantaged. As just noted, some 38 per cent of
employees in small workplaces were earning under $12 per hour (and 20 per cent were earning under $10 per hour). The comparable NSW figures were 30 per cent and 14 per cent, respectively. The comparable national figures were 33 per cent and 16 per cent. Medium sized NSW workplaces also fared better than their Victorian counterparts. When it came to the largest workplaces, there was little difference between the two States. In summary, State differences between Victoria and NSW became greater as the workplaces become smaller, and it was in this sector of the labour market that Victoria’s earnings disadvantages were most evident. This finding is consistent with the results of the AVES survey, which suggested that a low wage sector existed amongst Schedule 1A employees in small workplaces.

How has the situation of low wage workers changed over time? Has there been an improvement or a deterioration in the earnings situation for low wage workers since the end of the 1980s? To answer these questions, data from 1989 was compared with the 1999 data. The 1989 dollar amounts were adjusted using the consumer price index so as to allow comparisons based on real earnings. The results are shown in Table 8 which indicates that there was an improvement in earnings for low wage workers in Victoria between 1989 and 1999. The proportion of workers earning under $10 per hour declined from 14 per cent to 11 per cent, whilst the proportion earning under $12 per hour declined from 29 per cent to 24 per cent. The most likely reason for these improvements was the series of AIRC ‘safety net’ adjustments which occurred during the 1990s and which targeted the lowest paid workers.

Table 8: Low wage employees, Victoria, NSW and Australia, 1989 & 1999
(percentage in each earnings bracket for years data; per cent change for decline row)

<table>
<thead>
<tr>
<th></th>
<th>Victoria</th>
<th>NSW</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; $10 per hr</td>
<td>&lt; $12 per hr</td>
<td>&lt; $10 per hr</td>
</tr>
<tr>
<td>Males</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>12</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>1999</td>
<td>11</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>% decline</td>
<td>11</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Females</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>17</td>
<td>33</td>
<td>16</td>
</tr>
<tr>
<td>1999</td>
<td>10</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>% decline</td>
<td>37</td>
<td>22</td>
<td>51</td>
</tr>
<tr>
<td>Persons</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>14</td>
<td>29</td>
<td>12</td>
</tr>
<tr>
<td>1999</td>
<td>10</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>% decline</td>
<td>25</td>
<td>16</td>
<td>37</td>
</tr>
</tbody>
</table>


Note: Per cent decline is not the same as change in percentage points. For example, a drop from 13.9 per cent to 10.4 per cent is a 3.5 percentage point drop, but a 25 per cent decline. Earnings brackets for 1989 were calculated to match equivalent 1999 brackets by using the CPI.

These improvements in earnings for low wage workers in Victoria were, nevertheless, less than the comparable improvements in NSW and nationally. As Table 8 also shows, the percentage decline in the under $10 per hour bracket was 25 per cent in Victoria, but 37 per cent in NSW and 34 per cent nationally. In the under $12 per hour bracket, the Victorian decline was 16 per cent, compared with a NSW figure of 30 per cent and a national figure of 24 per cent. In summary, whilst the situation for low wage workers in Victoria improved during the 1990s, the improvement was not as great as in NSW or nationally. In relative terms, Victoria went backwards.12

12 All differences between 1989 and 1999 (for both brackets and for all areas and for males, females and persons) are statistically significant at 95 per cent level. The two exceptions to this are: Victorian males 1989
While these results appear clear-cut, establishing causality is another matter. The adverse findings for Victoria may be the result of a general deterioration in the labour market which accompanied a more general economic decline during the early 1990s. As so often happens in the analysis of macro-level data, linking these kinds of results with institutional changes in the labour market is far from straightforward. Nevertheless, the evidence from the Labour Force Survey data is consistent with the AVES analysis, and when taken together, both provide a coherent account. Another way of putting this is to say that the LFS data does not contradict any of the AVES analysis—an analysis which is more precisely targeted on the question of institutional change and its impact on earnings—and that this is a useful kind of corroboration.

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...to 1999 (not statistically significant) and NSW males in under $10 bracket 1989 to 1999 which is statistically significant at the 66 per cent level.
Conclusion

This study of earnings outcomes in Victoria during the Kennett era has indeed highlighted the adverse effects of ‘deregulating’ an industrial relations system. There is little doubt that those workers who were left with minimal regulatory protection fared badly in the labour market. There is, however, an important qualification to this conclusion. Compared to their Federal counterparts, those Schedule 1A employees in industries which were ‘booming’, such as property and business services, did not fare too badly, nor did those Schedule 1A workers in industries with good levels of unionisation, such as manufacturing. Indeed, in some cases Schedule 1A employees achieved better outcomes than their Federal counterparts. By way of contrast, Schedule 1A workers in vulnerable industries like agriculture and hospitality, in vulnerable locations such as non-metropolitan Victoria, or in vulnerable demographic groups (like NESB workers), fared very badly in comparison with their Federal counterparts. In other words, workers who were already in industrially ‘vulnerable’ situations were more exposed to adverse outcomes if they only had Schedule 1A coverage. In this sense, the kind of ‘deregulation’ which Kennett’s changes brought about served to reinforce existing labour market disadvantage.

Turning from a concern with the low paid to the more global issue of inequality, it is clear that Kennett’s changes also brought about a greater dispersion in workplace minimum earnings amongst the less regulated workforce. The differences between Schedule 1A employees and Federal employees in this area were quite stark (as Figure 1 showed). In other words, workers located in the deregulated sector faced significantly greater earnings inequalities than those in the more protected sector.

These two observations can be drawn together by noting the connection between ‘deregulation’ and the perennial tension between the market and social protection. This tension has been explored at length by Karl Polanyi in *The Great Transformation* (1957) and more recently by John McMurtry in *The Cancer Stage of Capitalism* (1999). In his seminal study Polanyi explored the emergence of economic liberalism during the nineteenth century and identified an important tension between what he called the ‘self-regulating market system’ and the idea of ‘social protection’. By social protection he meant adequate labour standards, a stable and sound monetary system, and wise management of natural resources. For Polanyi, when the market was allowed to ‘self-regulate’, these areas of social protection fell apart and the horrors of nineteenth century laissez-faire capitalism, such as child labour, were laid bare. Since the emergence of market-based industrial societies, every historical era confronts this same dilemma: how much of the ‘social good’ will be managed by conscious decision-making processes, and how much will be left to the market to decide? McMurtry’s analysis builds upon these insights and shows that in the most recent stage of capitalism (the ‘cancer stage’), social protection has become totally overwhelmed by market forces. McMurtry argues forcefully for the defence of what he calls ‘the civil commons’, those forms of social protection which preserve human life and which ensure the survival of the planet.

One way of viewing ‘deregulation’ is that it represents a concerted movement toward the market and a conscious stripping away of social protection. For those who are already well positioned in the labour market, this process enhances their circumstances. But for those whom the labour market already treats harshly—because they work in particular industries, are found in non-metropolitan areas, or have English as their second language—this kind of movement away from social protection can have serious adverse consequences. The Victorian study showed this very clearly.
At the same time, the issue of regulation goes beyond the interests of the low paid workforce. The problem of inequality identified above suggests that much more is at stake. The more strongly regulated the labour market, the more constrained are the forces of earnings inequality. Because growing inequality has serious implications for political democracy (Waltman 2000), for the health of civil society (Zappalà et al 2000) and for long run economic sustainability (Froud et al 1998), labour market deregulation poses a serious threat to a society’s long term future. In this sense, ‘social protection’ is also shorthand for the protection of society itself.
References


The 1995 Australian Workplace Industrial Relations Survey (AWIRS 95), Longman, South Melbourne.


