

The drivers of earnings inequality in Australia

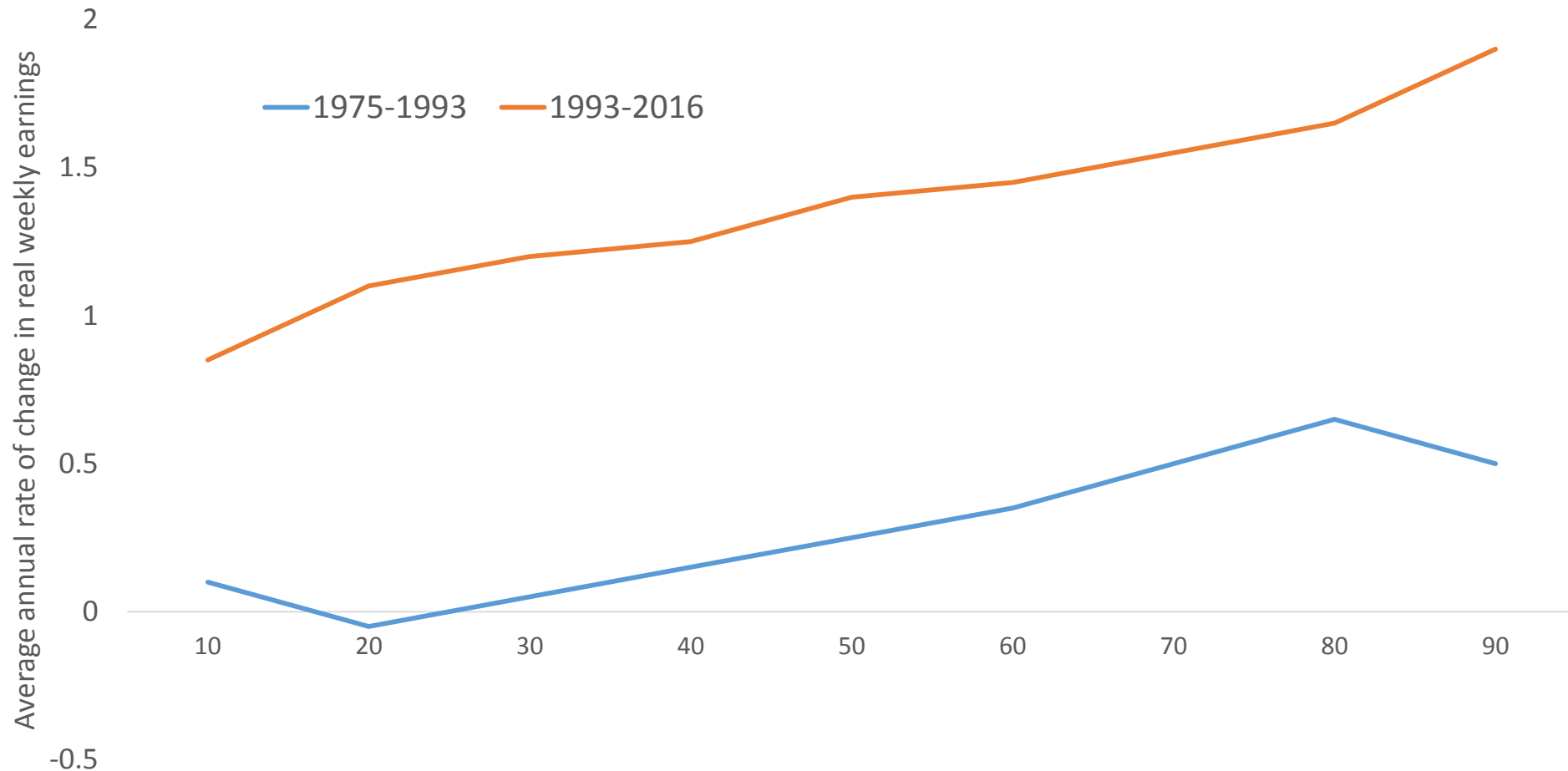
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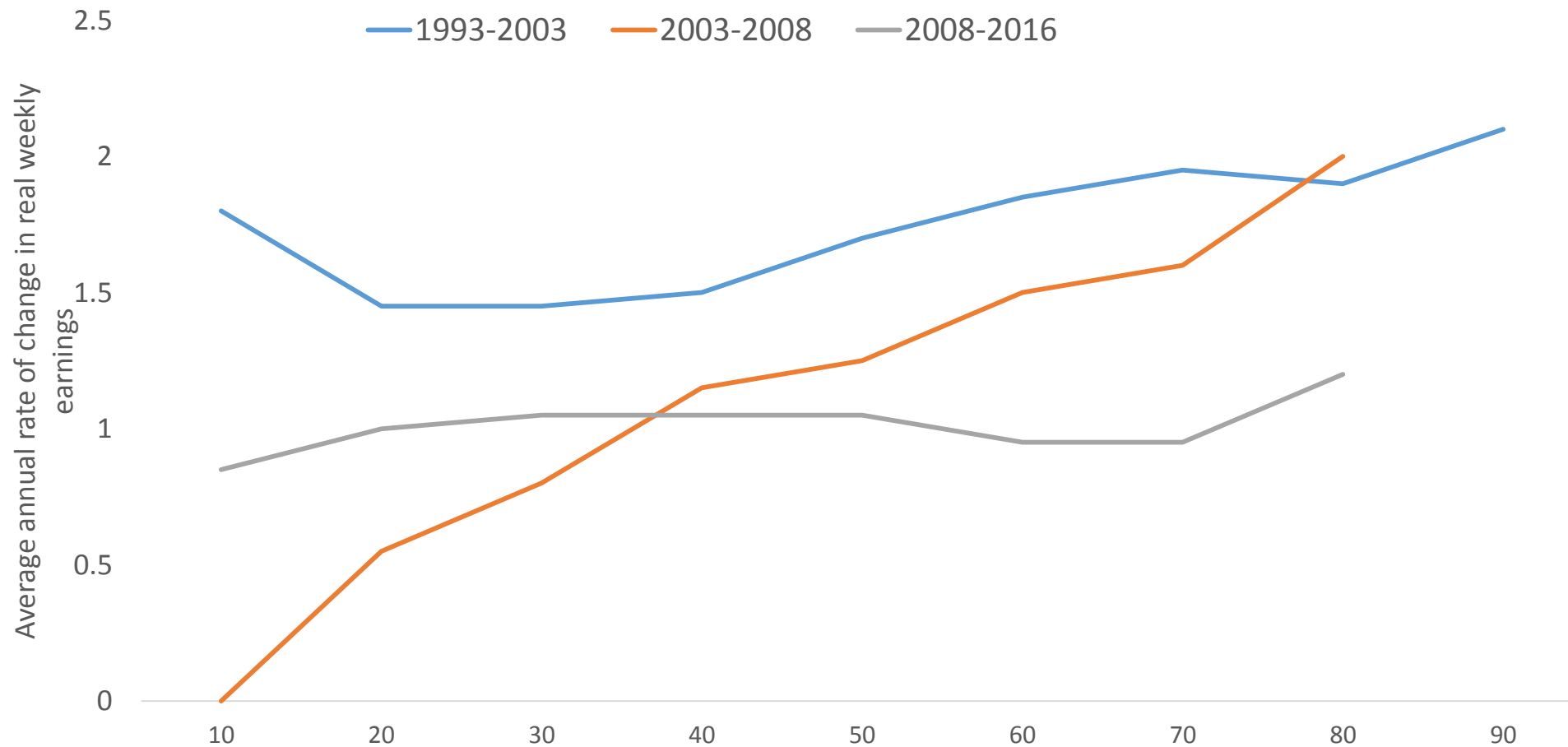
A brief history of earnings inequality 1

- Average annual rate of change in real weekly earnings, Persons employed full-time in main job, Australia, 1975 to 2016 (August)



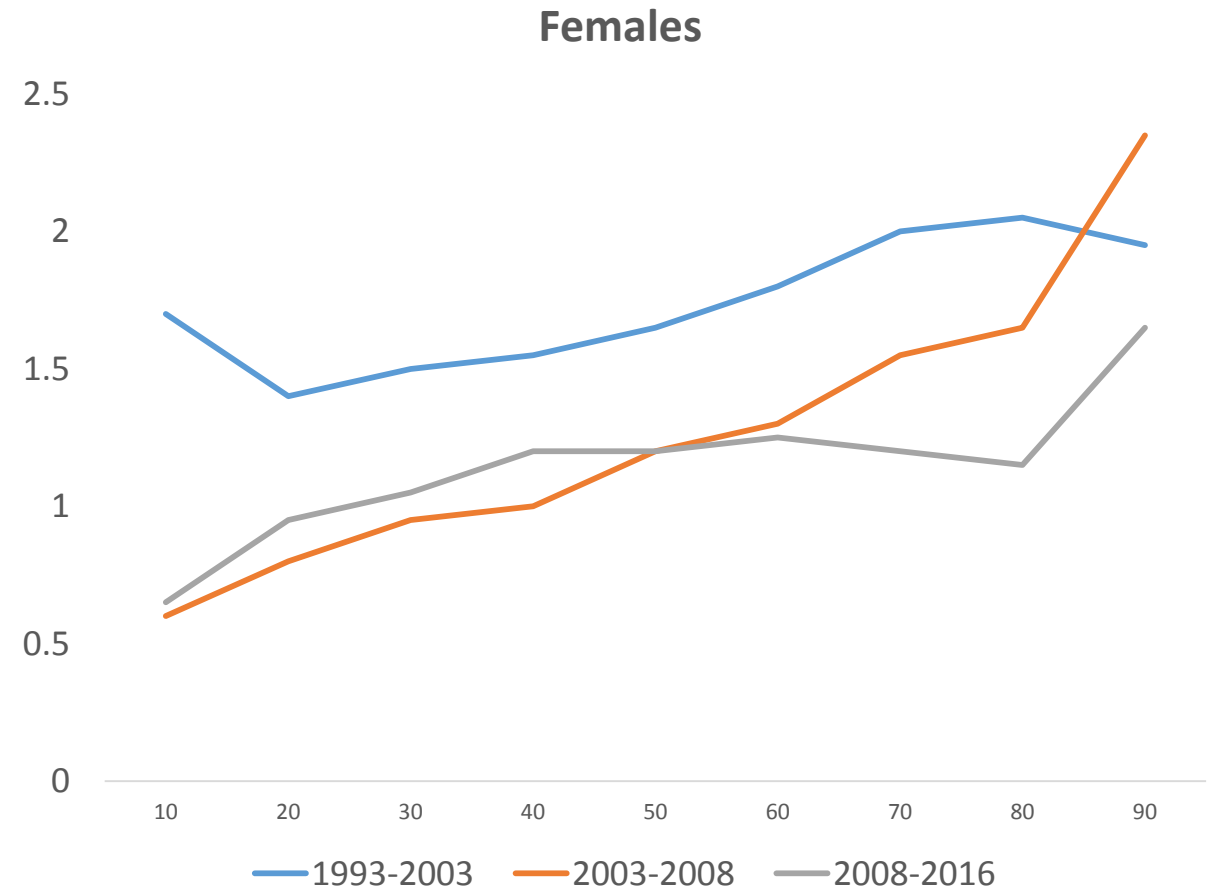
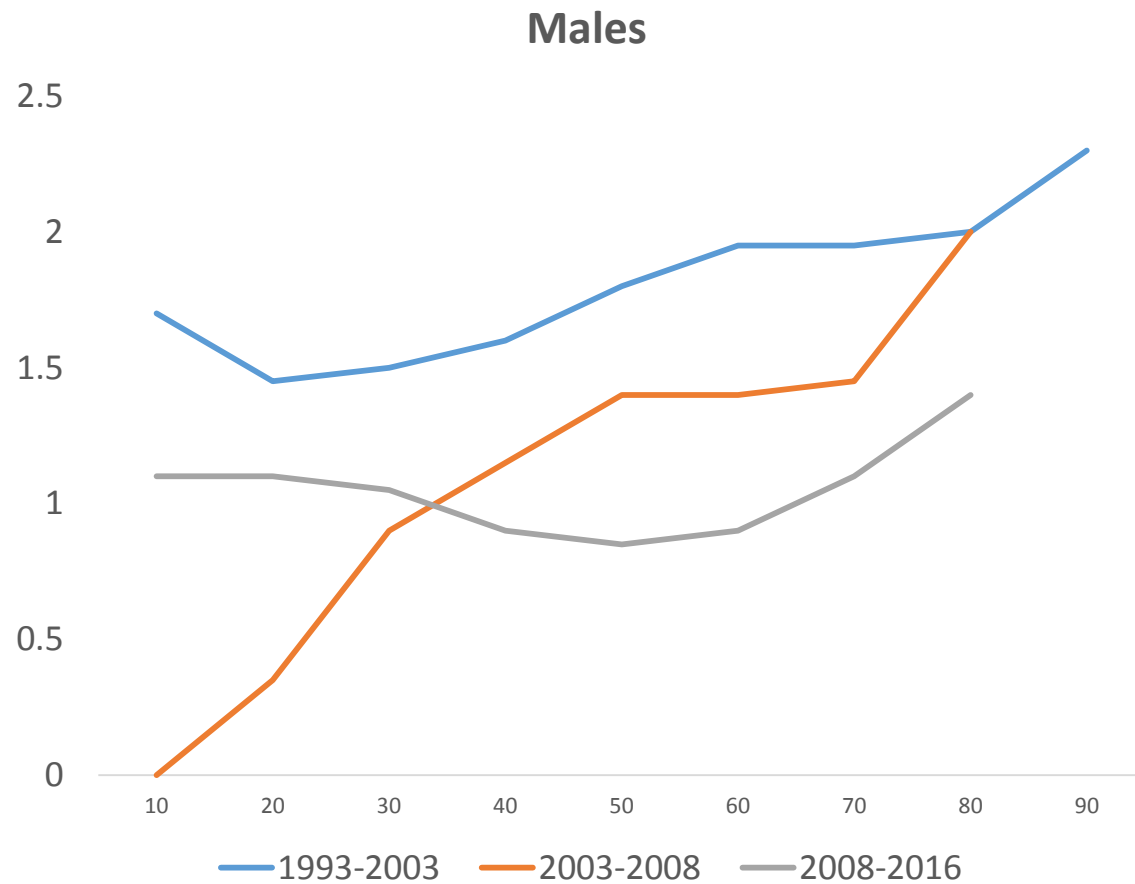
A brief history of earnings inequality 2

- Average annual rate of change in real weekly earnings, Persons employed full-time in main job, Australia, 1993 to 2016 (August)



A brief history of earnings inequality 3

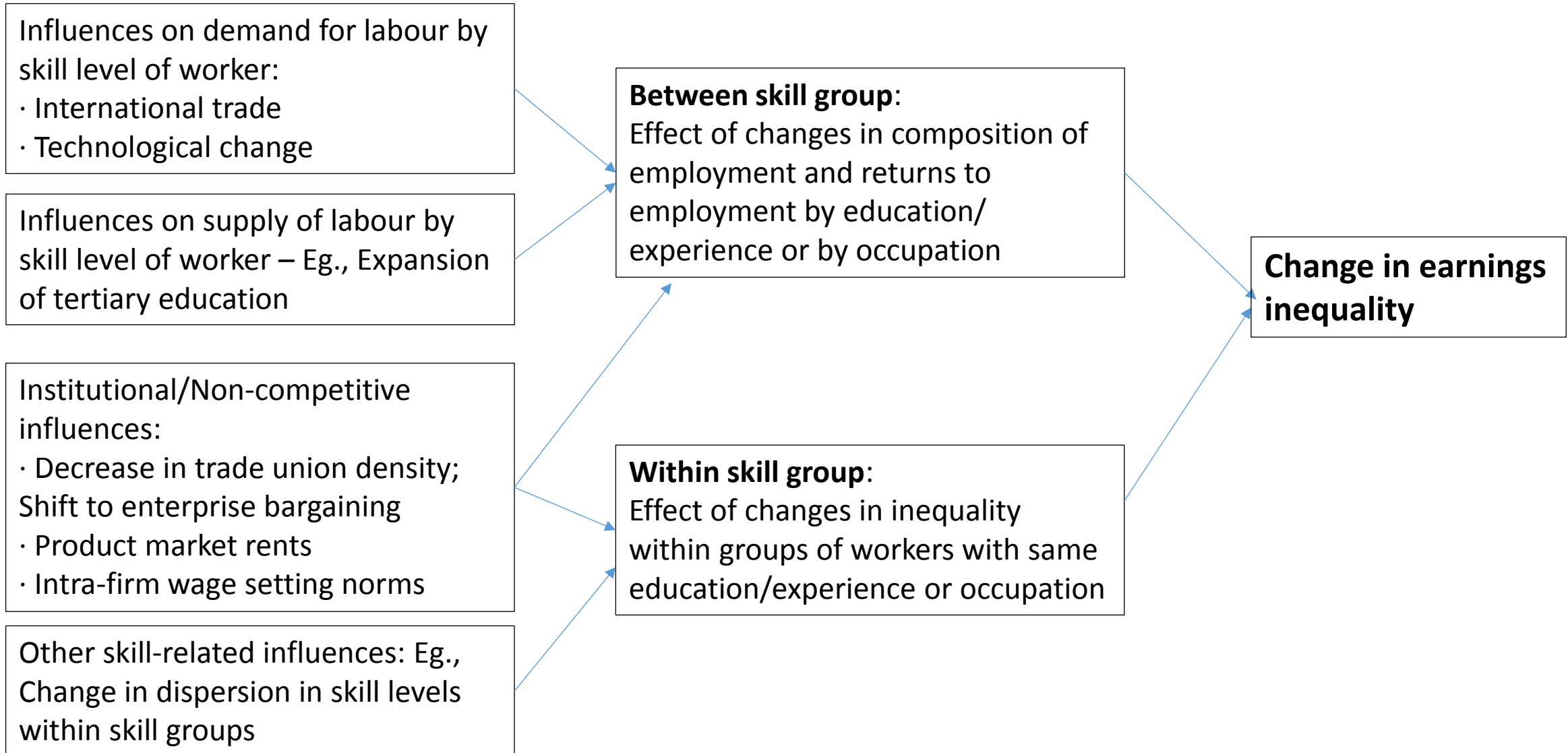
- Average annual rate of change in real weekly earnings, Persons employed full-time in main job, By gender, Australia, 1993 to 2016 (August)



Summary

- Higher average rate of growth in earnings post-1993.
- Consistent growth in inequality in full-time weekly earnings since mid-1970s.
- Growth in inequality in full-time weekly earnings in past 20 years most rapid in 2003-08.
- Slower growth in full-time weekly earnings post-2008, with relatively small increase in inequality.
- Similar outcomes for females and males post-1993.
- Growth in inequality may be under-estimated due to shift to part-time employment.
- Similar findings from other data sources (EEH; IDS).

The main potential drivers of earnings inequality



What do we know about the drivers of earnings inequality in Australia?

- 1] Lots that we don't know.
- 2] Little is explained by changes in composition of employment and returns to employment by **education/ experience** [Off-setting effects of demand and supply].
- 3] More is explained by changes in the **occupational** composition of employment and in average earnings by occupation; Eg., Job polarisation.
- 4] A role for technological change in explaining changes in demand for labour by skill level.
- 5] No recent work on the effects of international trade.

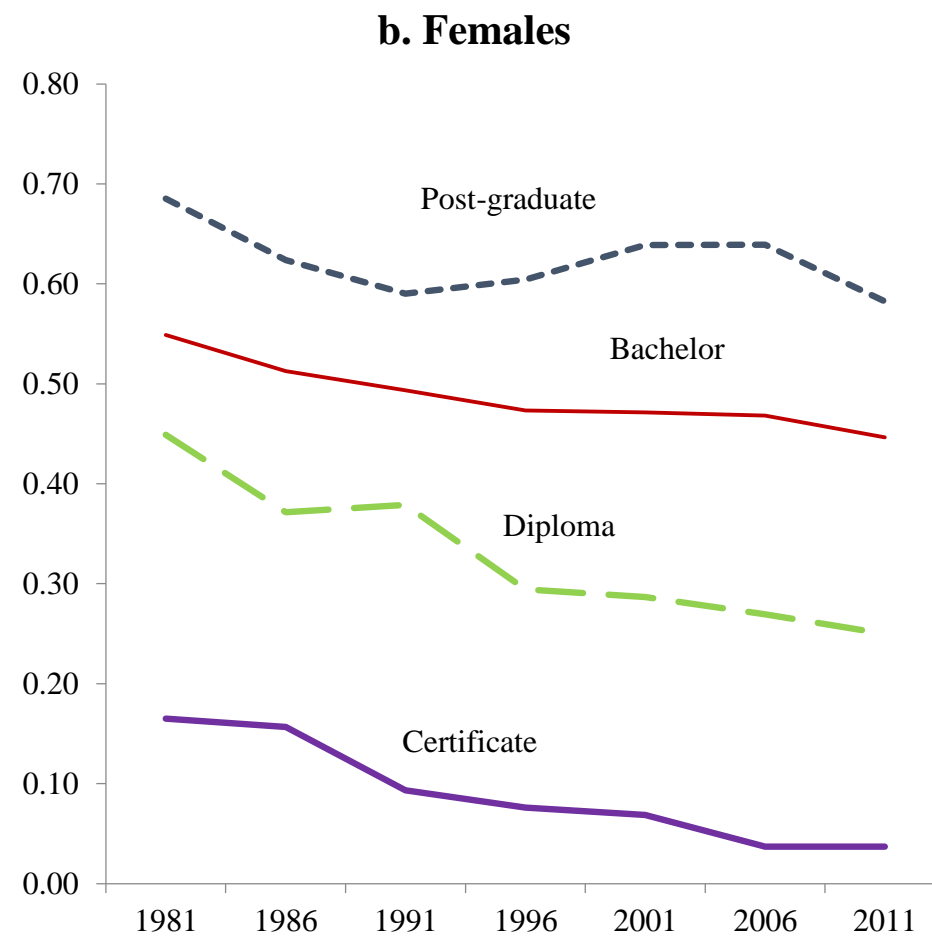
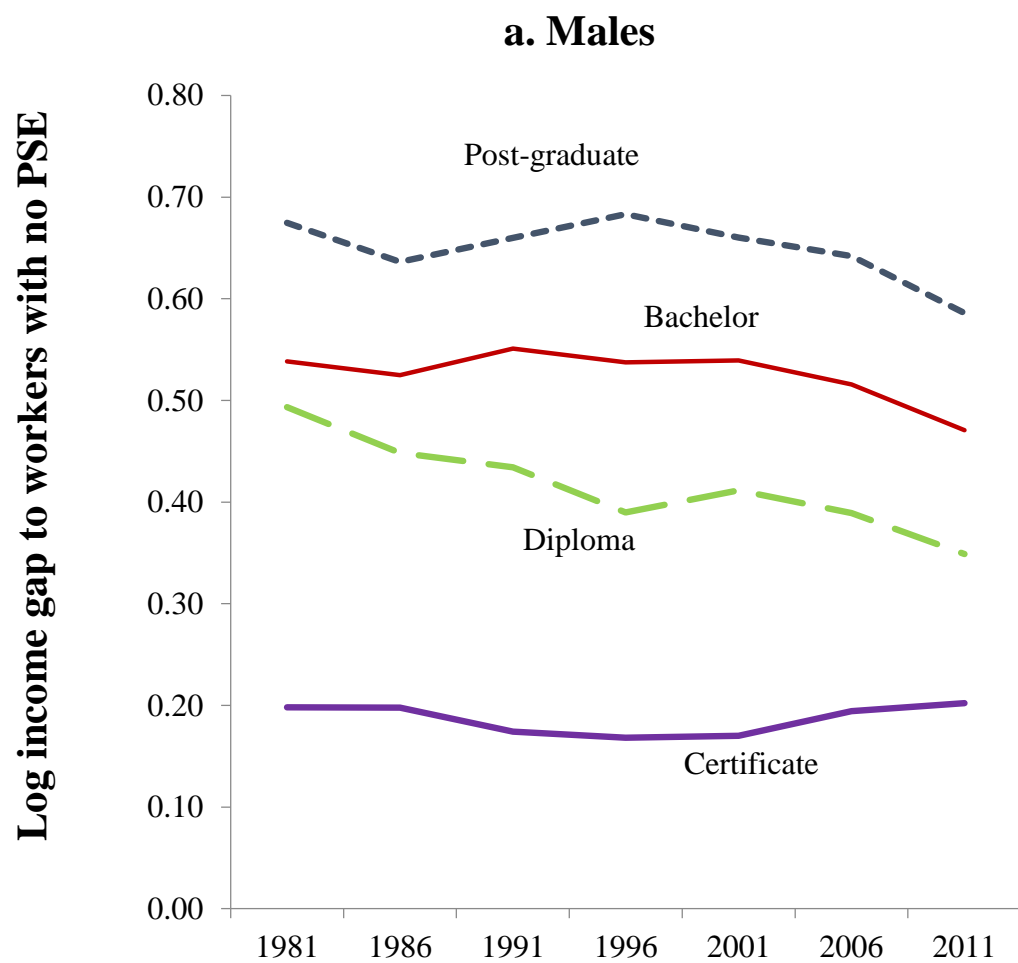
What do we know about the drivers of earnings inequality in Australia?

- 6] Institutional/Non-competitive explanations seem potentially important (eg., effect of decline in union density; changes to intra-firm wage-setting); But again, little recent work on this topic.
- 7] Would be interesting to examine what is implied by the concentration of recent growth in earnings inequality between 2003 to 2008.

Between skill group influences (Points [2] and [3])

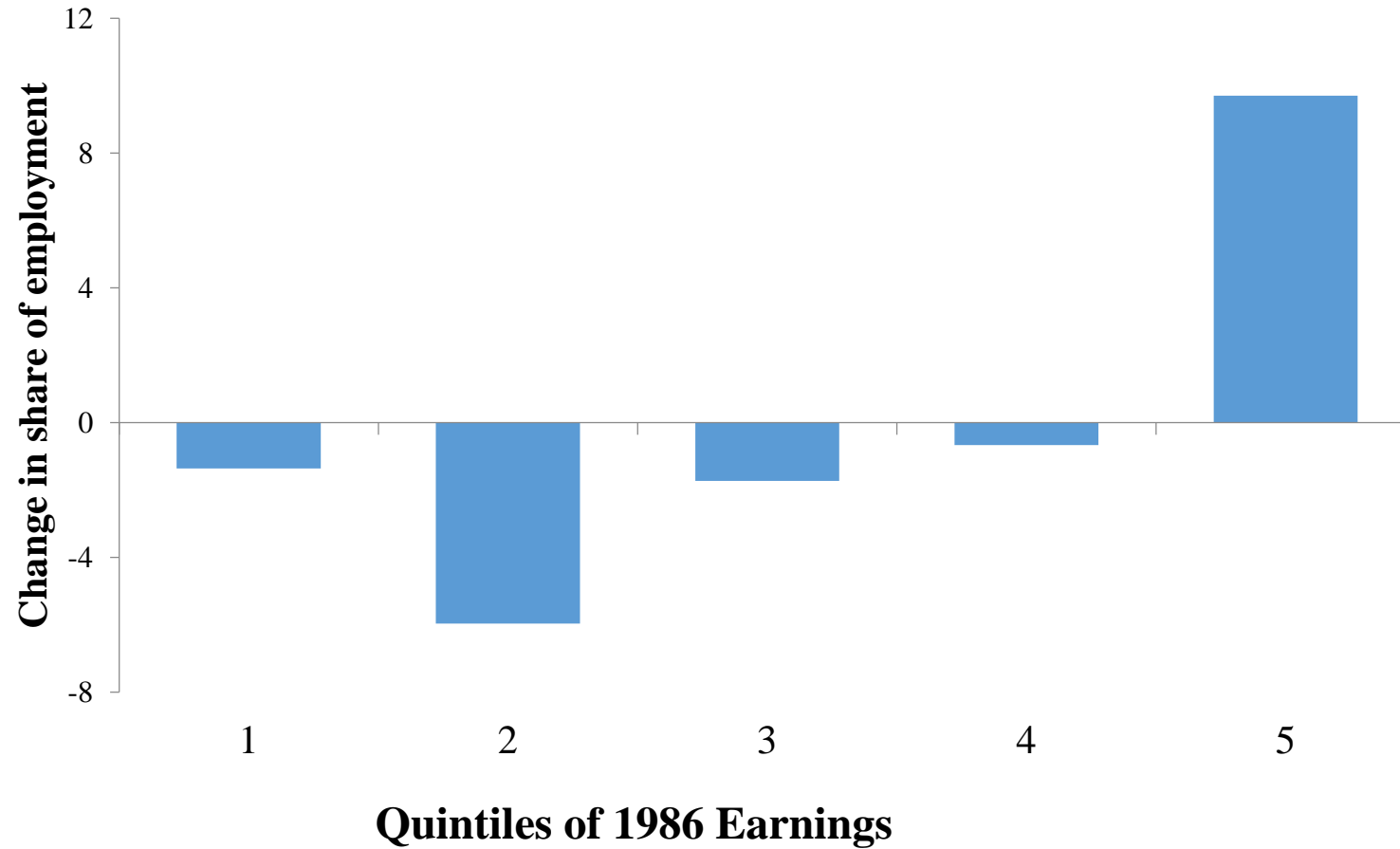
	Males	Females
1) Percentage of SD in log weekly earnings explained by changes in composition of workforce by and returns to age/education		
1982-2013	3.7%	19.0%
2)] Percentage of 90/10 differential in log weekly earnings explained by changes in composition of workforce by and returns to occupation		
1986-1995	57.8%	140.5%
1996-2006	135.9%	120.1%

Why education hasn't mattered

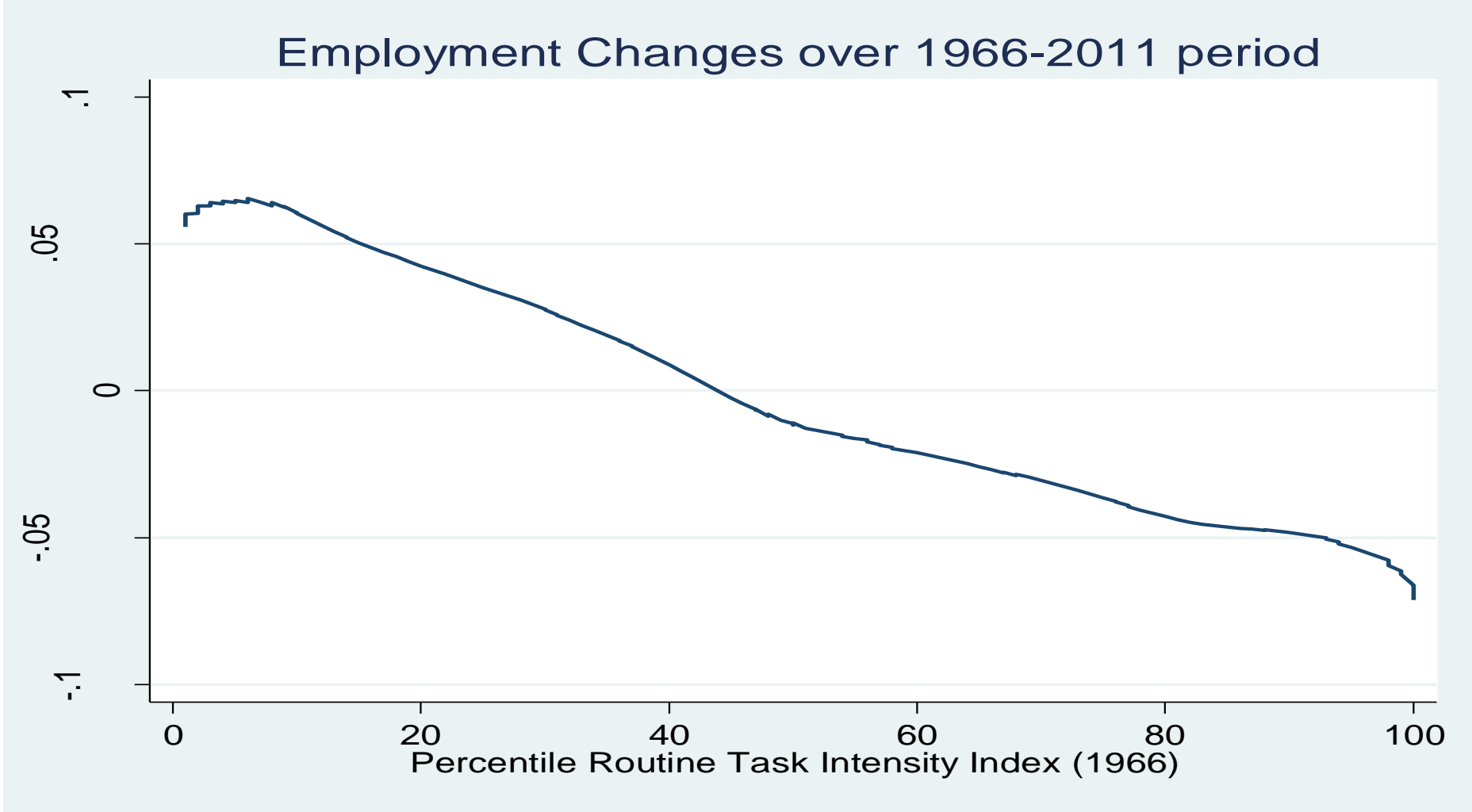


...and why occupation has mattered

1966 - 2011



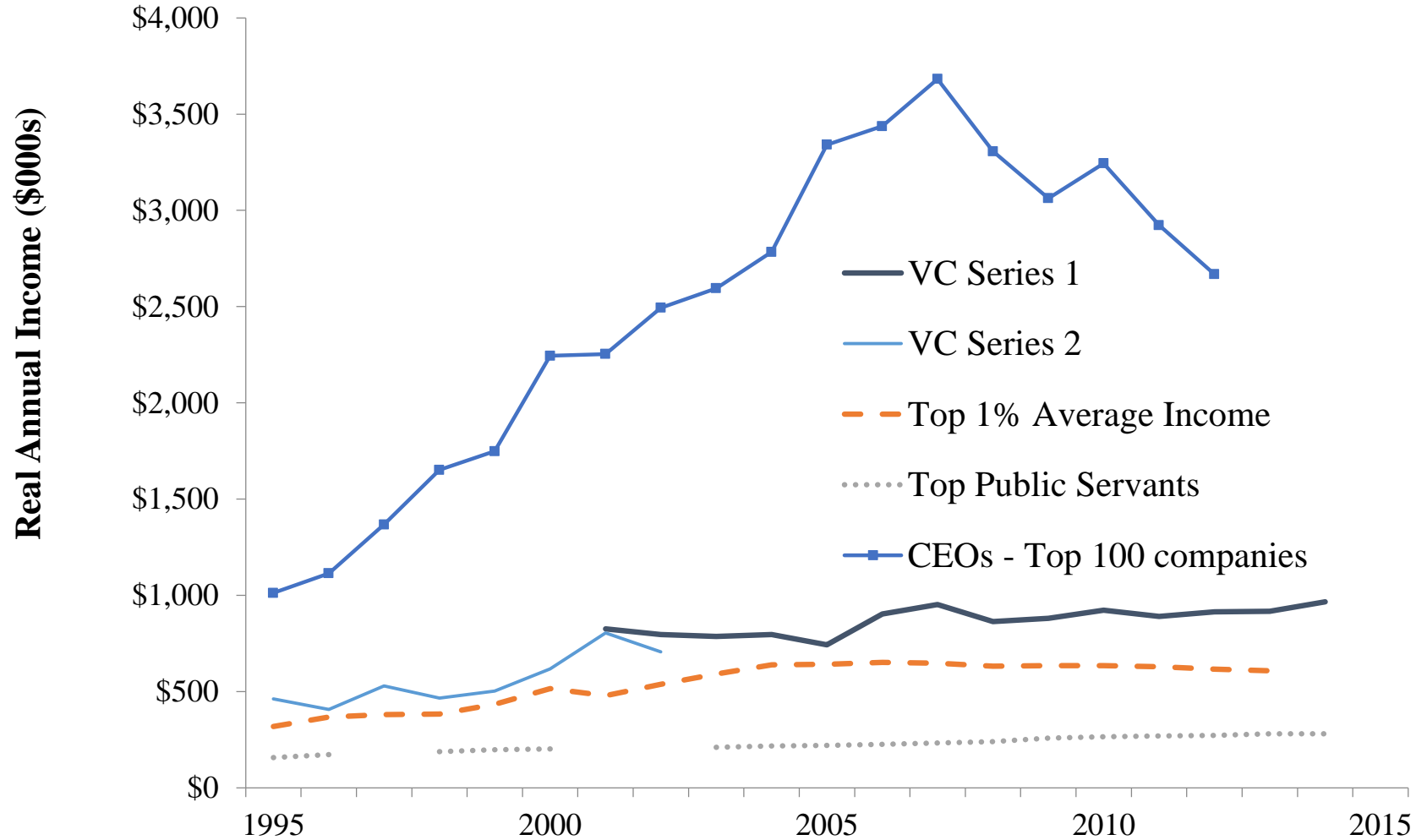
Technology and the demand for labour by skill (Point [4])



It would be good to know more about institutional/non-competitive explanations (Point [6]): a) Unions

	Changes in union density		
	Persons	Males	Females
1975-1992	-11.2	-12.1	-8.0
1992-2000	-14.7	-16.8	-11.9
2000-2008	-5.7	-7.4	-3.9
2008-2016	-5.0	-6.4	-3.3

b) Intra-firm wage setting



This talk draws on:

- Borland, J. and M. Coelli (2016), 'Labour market inequality in Australia', Economic Record, 92, 517-47.
- Coelli, M. and J. Borland (2016), 'Job polarization and earnings inequality in Australia', Economic Record, 92, 1-27.
- Borland, J. (2014), 'Growing apart – Earnings inequality in Australia from 1975 to 2013', Labour Market Snapshot, July;
<https://sites.google.com/site/borlandjum/labour-market-snapshots>