

# Wages in managed markets: an explanation of the gender wage gap?

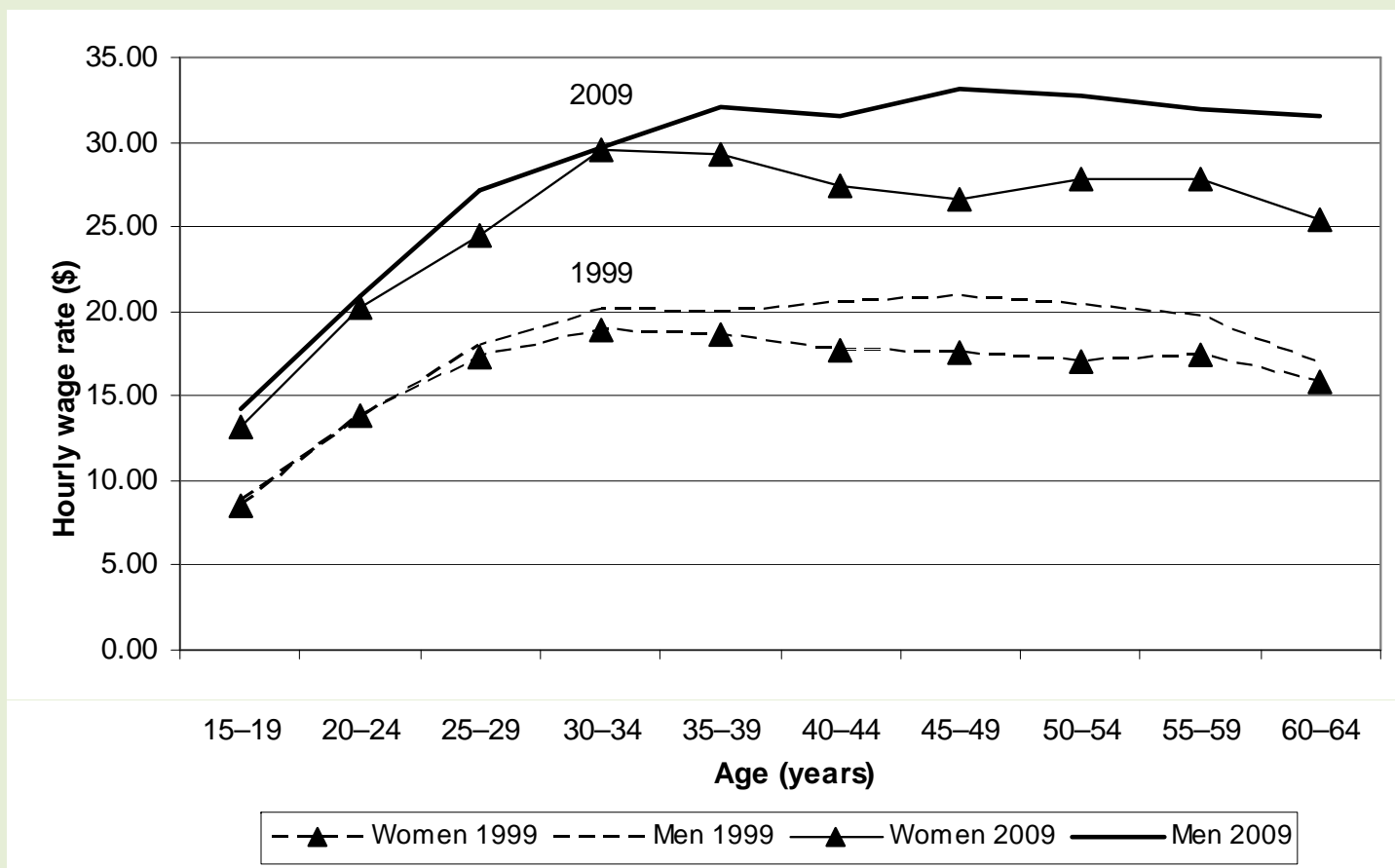
**Melbourne Institute Outlook  
Conference**

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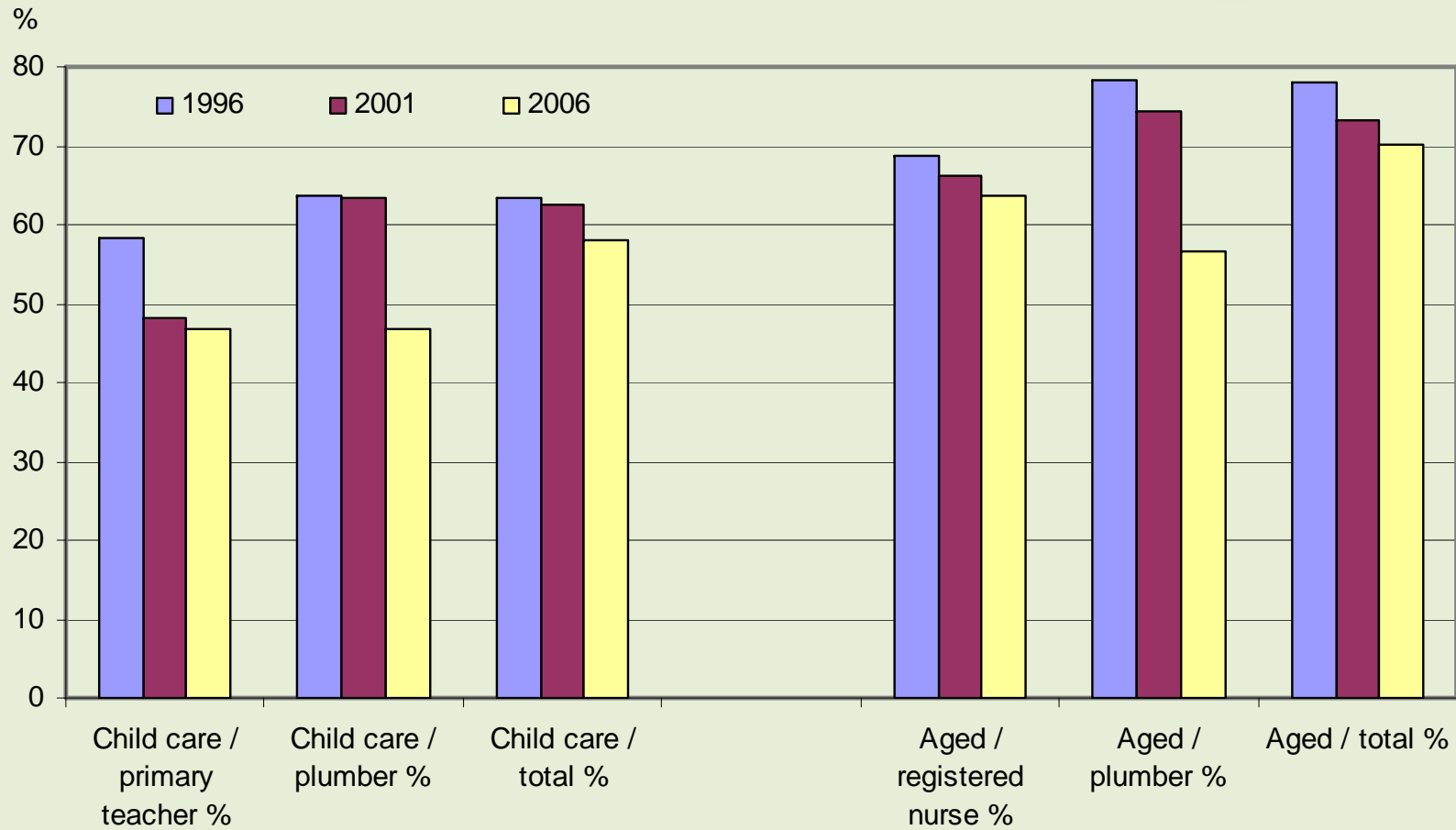
# Is there a growing wages gap?



# The Commission's recent work raised questions about low wages

- Findings of low wages and workforce challenges in social service sectors
  - The Contribution of the Not-for-profit Sector (2010)
  - Caring for Older Australians (draft January)
  - Disability Insurance (draft March)
  - Early Childhood Workforce (draft – forthcoming)

# And relative wages for care workers have fallen



## Other work identified strong growth in labour supply relevant to the 'care sectors'

- Labour market participation research
  - Labour market participation of women aged 45 years and older (2011)
  - Parental leave Inquiry (2009)
  - Part-time work (2008)

# Two possible explanations for why wages in these sectors are low

## Market forces?

- Growth in demand for workers as sectors grow

But also:

- Growth in the participation rates of women – especially in the 45+ age group
- Good matching of female entrants' skills to skill needs
- Sectors able to offer flexible employment arrangements (part-time) preferred by many women

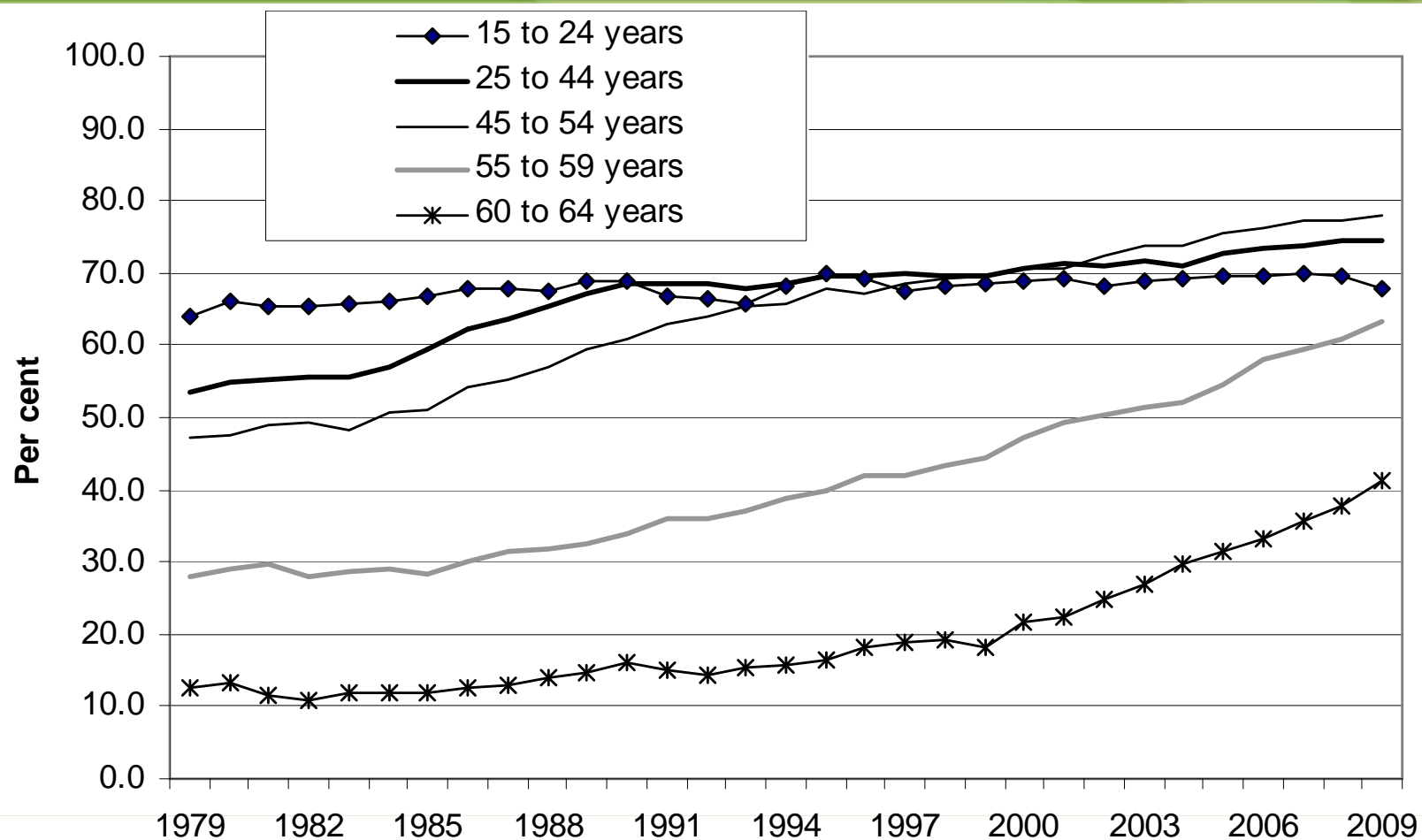
## Institutional forces?

- Government funds a large share of services – directly and indirectly (client subsidies)
- Funding formulas based around award wages
- Shift to enterprise bargaining in many other industries
- Limited capacity of workers in sector to bargain, and of providers to negotiate

## The market forces story: supply side

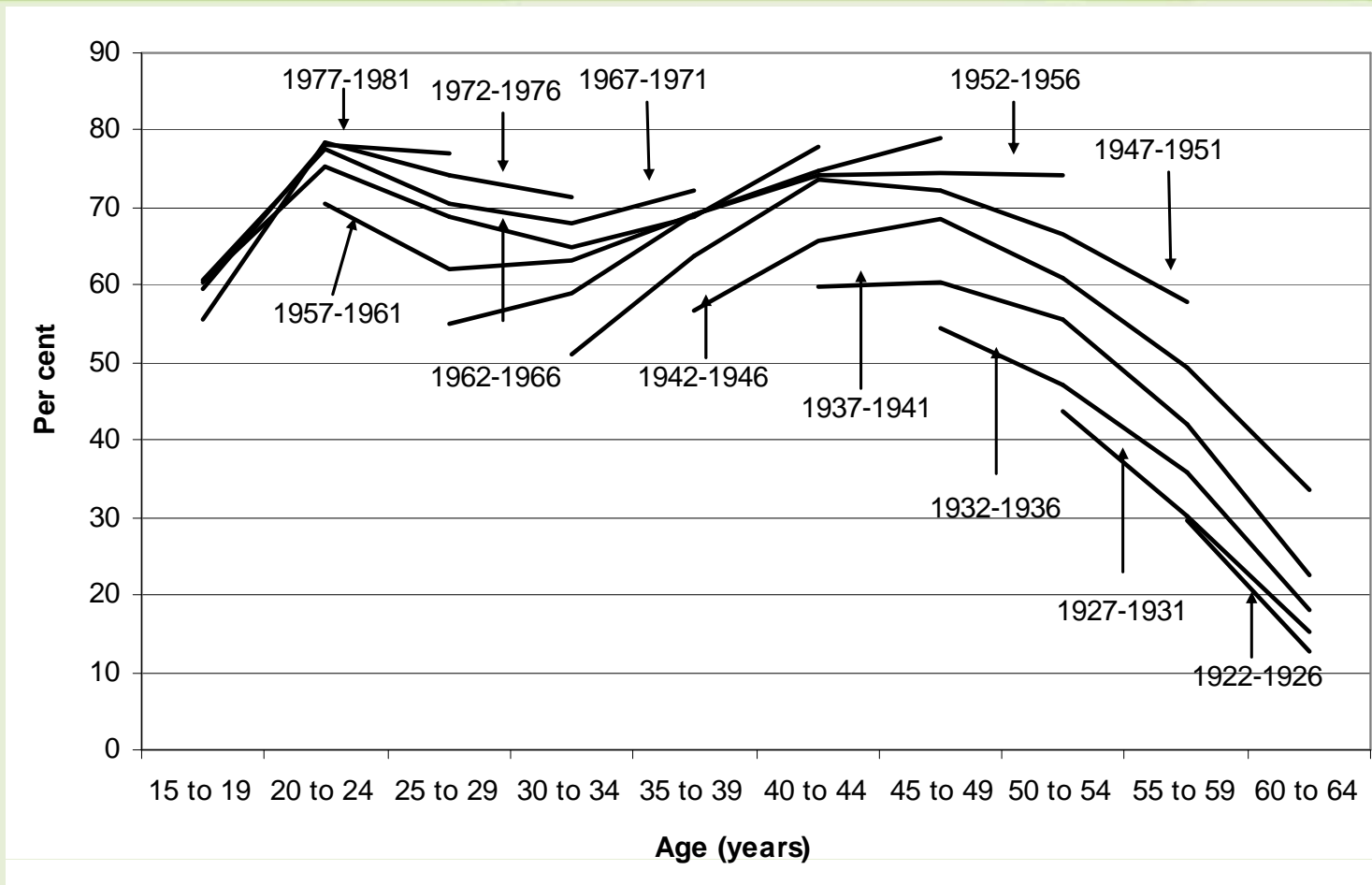
- Strong growth in female participation rates
  - Workforce attachment is growing
  - But some choose not to work – so limits to growth in participation
- High share of women choose to work part-time
  - Average hours fairly steady since early 1990s
- Higher growth rates in participation for older women
  - Lower average skills base and work experience for these newer entrants
  - Stronger preference for part-time

# Strong growth in female participation rates

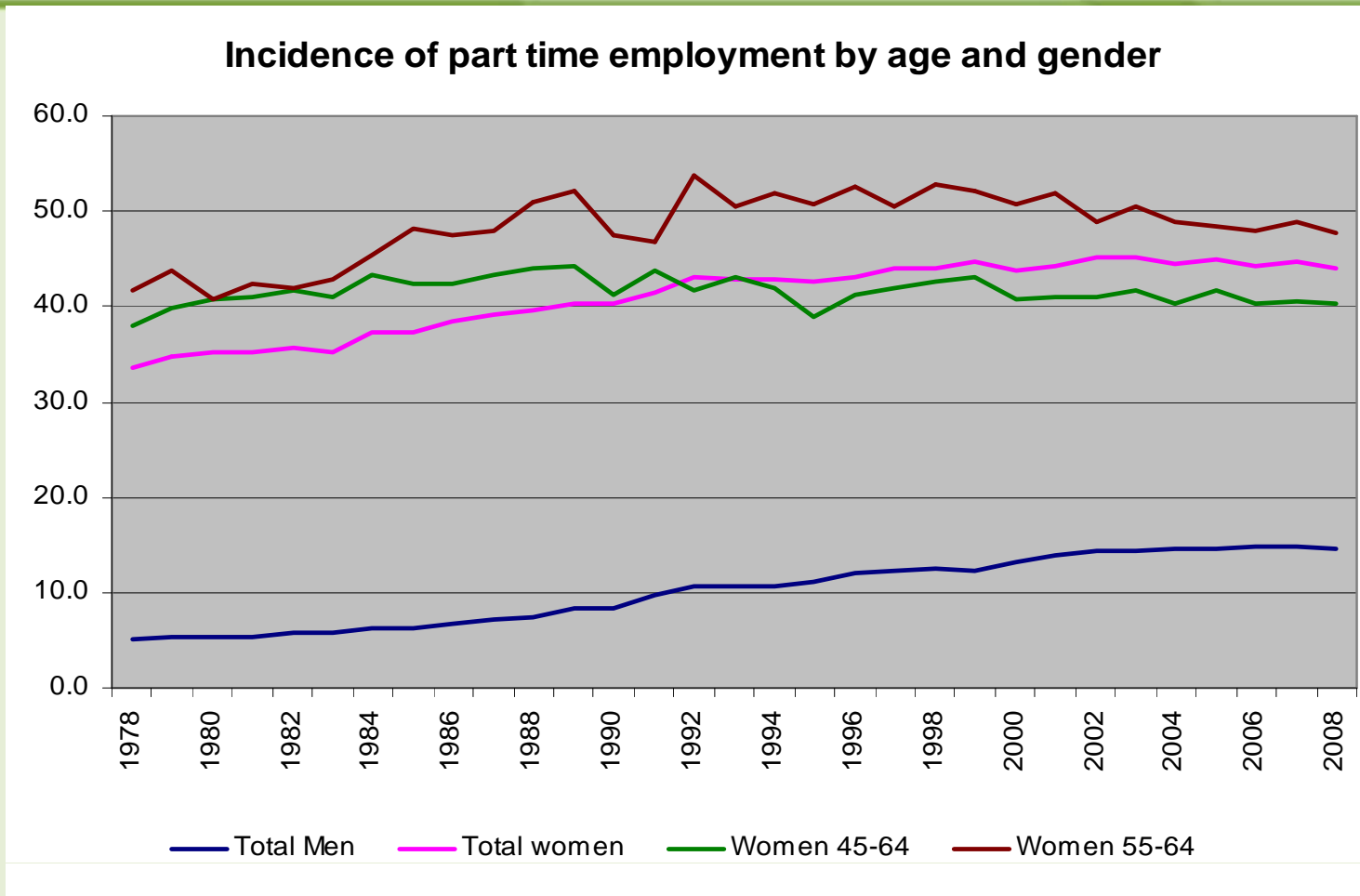




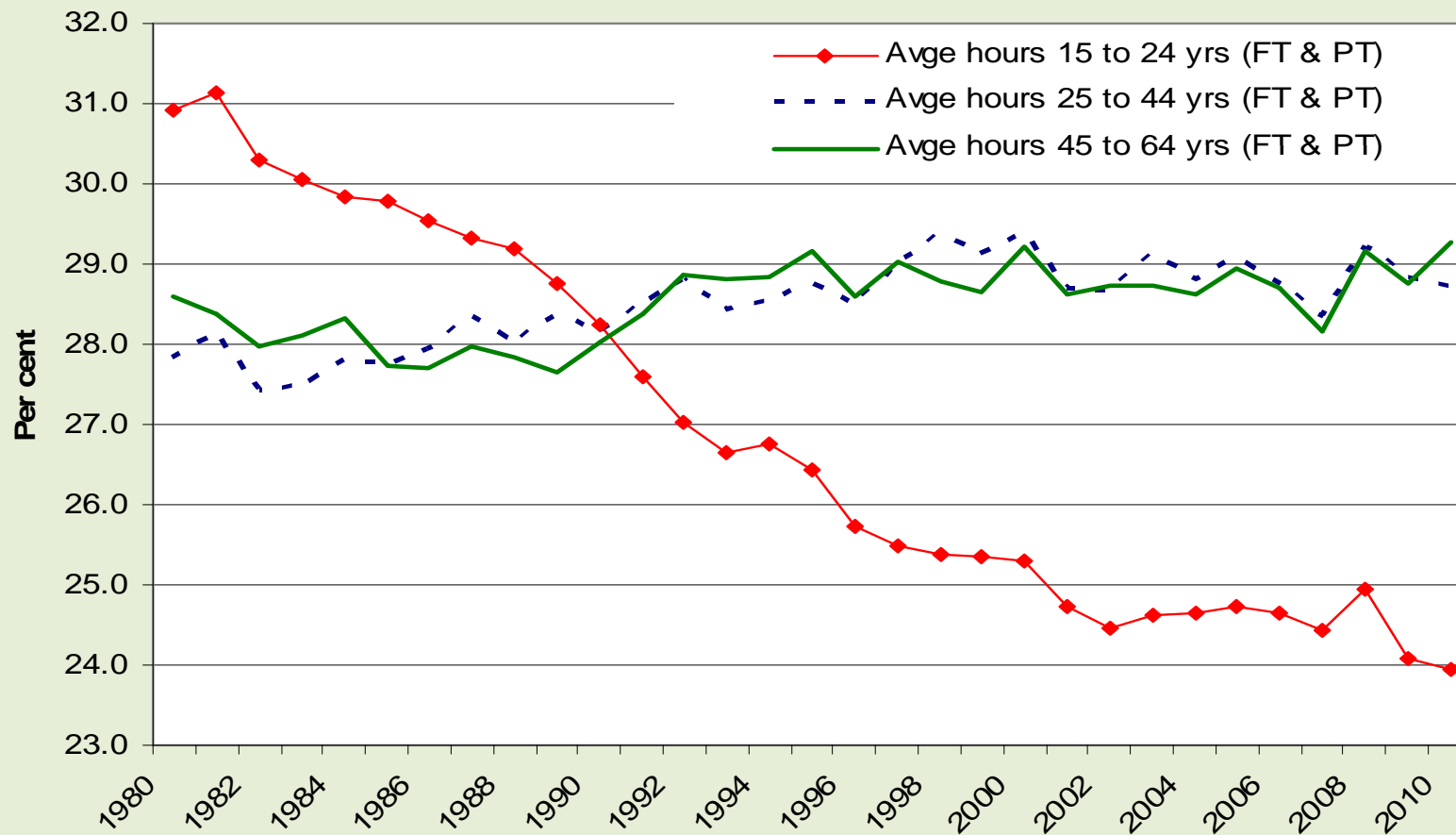
# Younger cohorts have higher lifetime participation rates



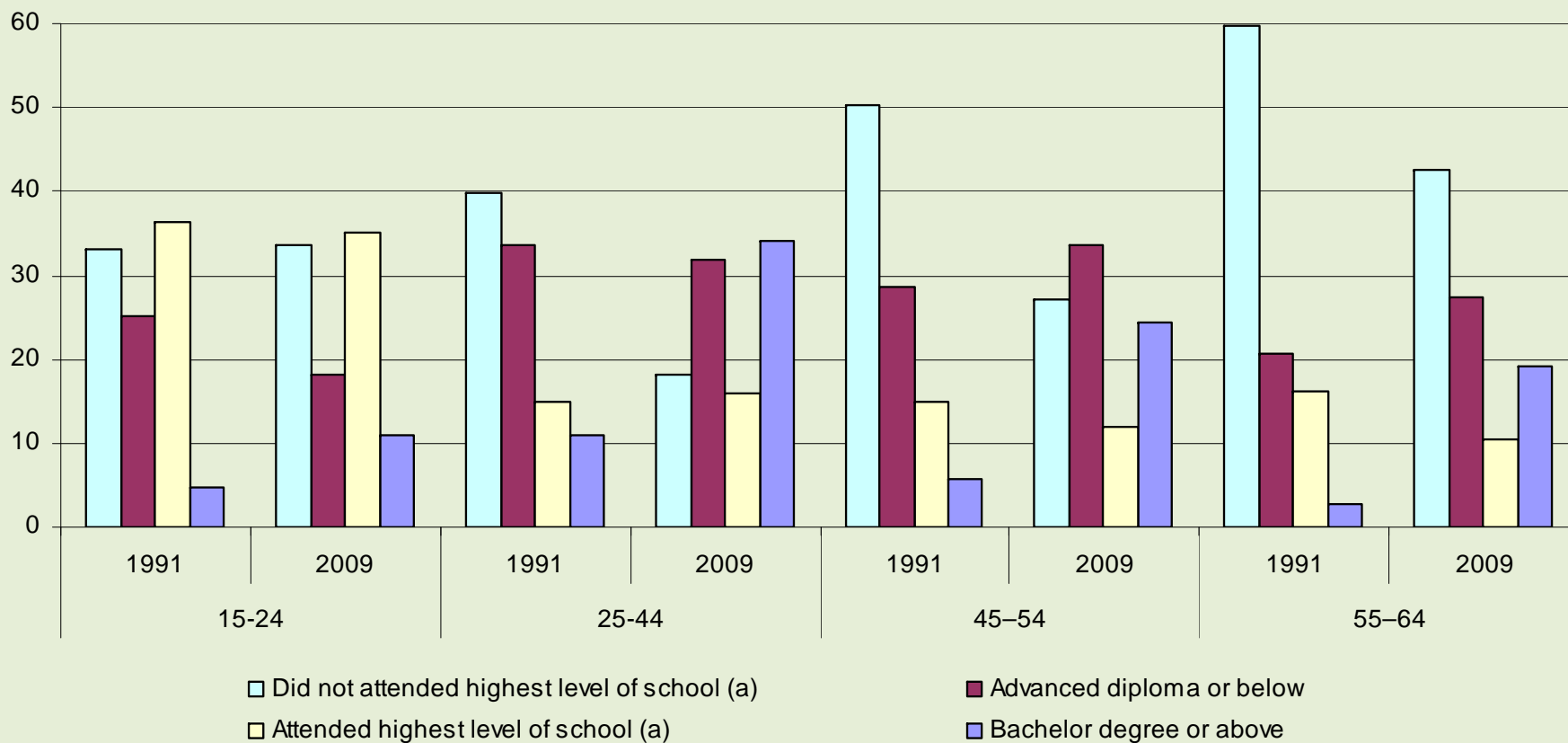
# Women have a greater preference for part time work



# Flat long term trend in average hours worked by most age groups of women since the early 1990s



# Changes in education by age group

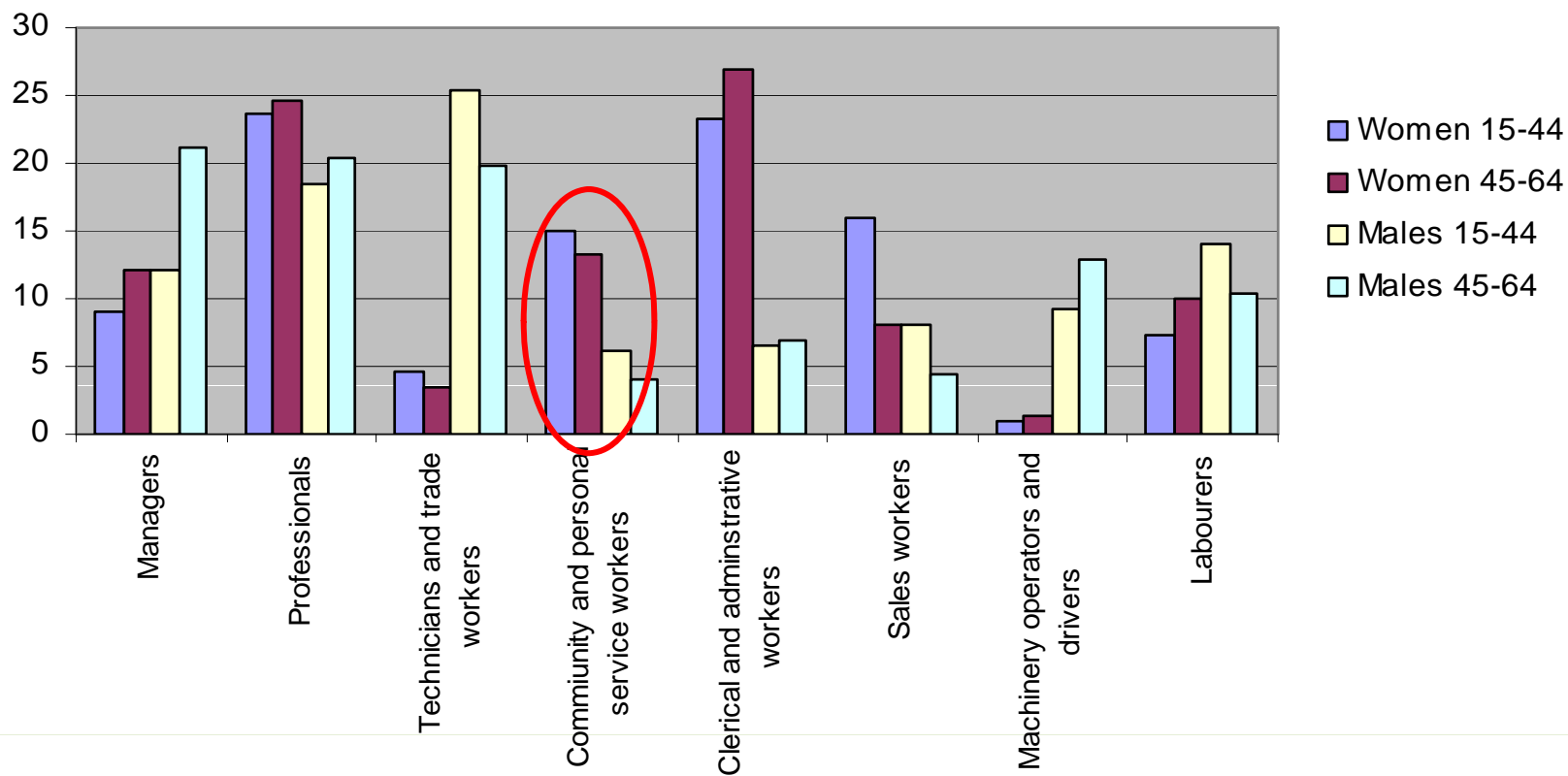


## The market forces story: demand side

- Women predominantly in service type occupations
  - Growth in employment in relevant occupations is strong but not unusual
- Women are predominantly in service industries
  - Growth in employment in relevant industries strong but not unusual
- Most of the growth in older women's employment was within industry rather than due to changes in industry structure
  - within industry average 4.2%pa over 1985-2009
  - due to industry structure change average 1%pa

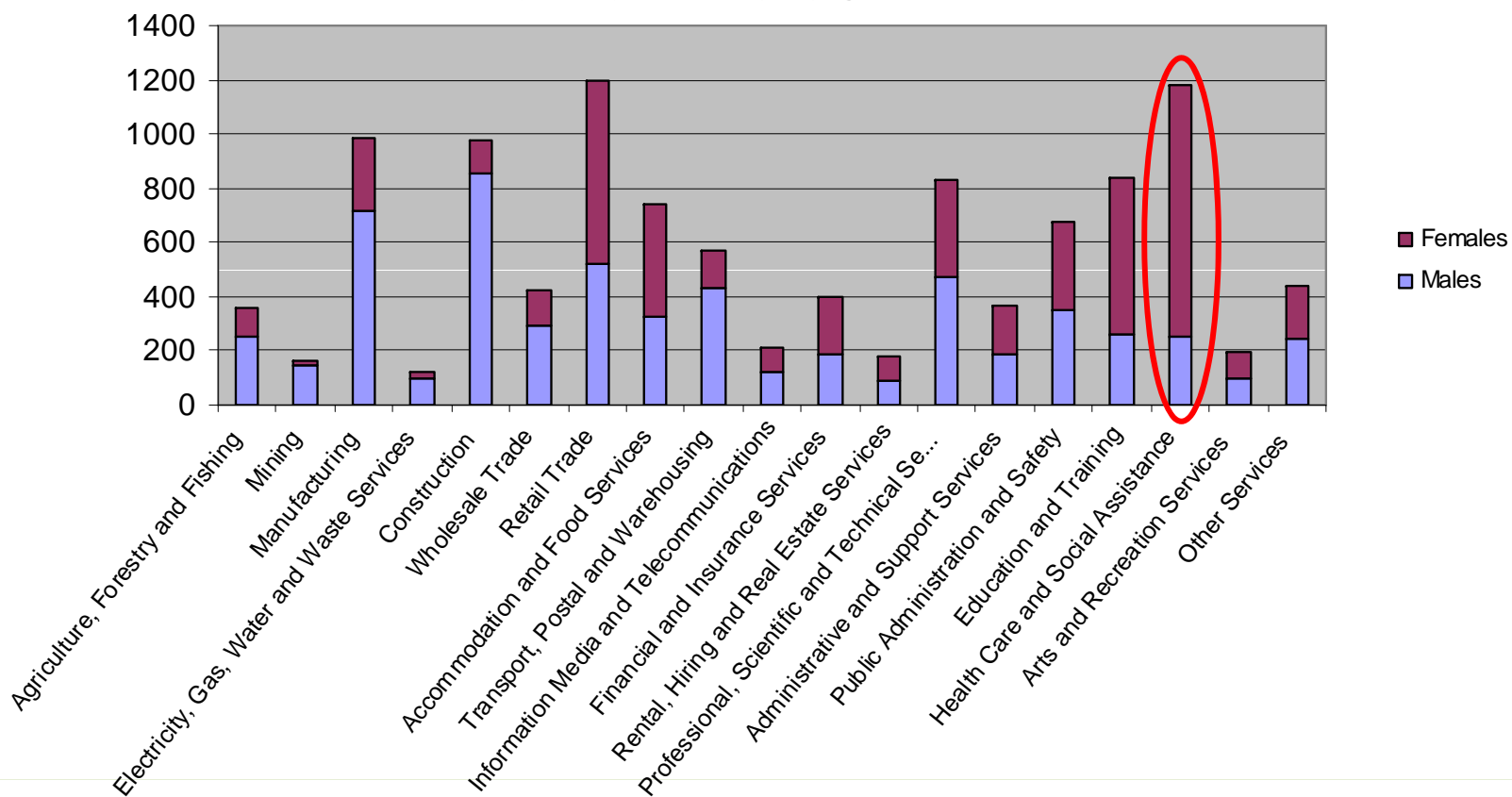
# Occupations: by gender and age group

Occupation by age and gender



# Number employed by industry by gender

Number employed by industry by gender November 2009



# Implications of these market trends

- Substantial growth in female participation rates has likely reduced the upward pressure on wages across a range of service occupations and industries
  - To date growth in the community services demand for workers has been modest relative to the supply growth
- But:
  - Many sectors are competing for the services of women – and women are increasingly better educated and more likely to have work experience
  - Evidence from inquiries suggests that workforce pressures are building in low pay sectors



# The institutional explanation

- Managed markets
  - Government funds over 90% of aged care services (excludes accommodation)
- Feminised industries: women make up
  - 93% of residential workers and 91% of community-based workers in aged care
    - 70% of personal care employees are part-time
  - 95% of child care workers
  - 87% of employees in community services women
    - work an average of 31 hours a week and have an average age of 41 years

# Wage setting in a managed market

- Funding formulas often based on award wages
  - Exceptions where services are tendered, or subsidies based on out of pocket (childcare)
- Providers may have little room to offer higher wages
  - Quality standards may prescribe inputs
  - Scope to find additional revenue sources may be restricted
- Awards are a low transaction cost option compared to enterprise or individual bargaining
  - Less return to effort for part time workers, who may also lack the skills for bargaining
  - Small providers may also lack skills
- Workers may face high marginal effective tax rates
  - Part-time and low wage may still qualify for family benefits part B

# Implications of the institutional forces

- Wages have risen in other sectors through enterprise and individual bargaining rather than awards
  - erosion of relative wages where awards form the basis of wages
- Limited capacity of sector to pay higher wages unless funding also rises
  - growing dependence of NFP and social services sector on public funding
- Sector's ability to attract labour will depend on the ability to pay competitive wages
  - conditions and concessions need to be taken into account
- If wages rise public funding must increase commensurately or level of services provided will fall

# Implications of market forces for future wages

- Market trends suggest that the growth in the supply of labour – and of labour with relevant skills - will slow significantly
  - Ceilings on the growth in participation rates of women
  - Strong preferences for part-time work
  - Higher education levels and workforce engagement of younger women may shift job preferences/opportunities
  - Population aging – and retirement of baby boomers
- At a time when the public are demanding more (and publicly funded) services
  - Disability, early childhood, aged care
- Market forces suggest relative wages will have to rise

# Wage adjustment in a managed market

- Providers will need to pay competitive wages to attract the workforce
- But how will these be determined?
  - Award adjustment to reflect growing scarcity?
  - Award adjustment to ensure 'fair' wages?
  - Reducing constraints on providers to allow them scope to offer higher wages?
  - Reducing the cost and hence willingness to engage in enterprise bargaining?
- What is the best wage adjustment pathway for workers, consumers of these services, providers and governments?

# What does this mean for the gender wage gap?

- Market forces should erode the gender wage gap
  - Increasing education and labour force experience of female workers
  - Slowing growth in supply relative to demand in occupations and sectors that are 'feminised'
- But it could be sensitive to institutional factors
  - This will effect how wage adjustment occurs and how long it takes

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The screenshot shows a Windows Internet Explorer browser window displaying the Productivity Commission website. The browser's address bar shows the URL <http://www.pc.gov.au/>. The website header features the Australian Government logo and the text "Productivity Commission". A navigation menu on the left includes links for "About us", "Projects", "Publications", "Supporting research", "Media releases", "Chairman's speeches", "Employment opportunities", and "Annual reports". The main content area is titled "Home" and contains a brief description of the Commission's role. Below this, there are several links with icons: "View current projects", "Find a report", "Review of Government Service Provision", "Overcoming Indigenous Disadvantage", "Indigenous Expenditure Report", and "Competitive Neutrality Complaints Office". On the right side, there is a "What's new" section with three items: "Joseph Stiglitz Seminar", "New Inquiry", and "Bilateral and Regional Trade Agreements". The bottom of the browser window shows the Windows taskbar with various application icons and the system clock displaying "2:28 PM Tuesday".