

# Wage Differentials and Youth Unemployment

David Plowman\*

## Abstract

*There has been an increase in the rate of youth unemployment since the 1960s. Initially this increase was masked by the increased number staying on in the education system and the resultant drop in the participation rate for the under 20 age group. It is contended that the compression of youth/adult wage relativities since the 1970s has affected both the demand and supply for young workers. Demand has dropped since the experience premium attached to adult wages has been reduced. In the context of unemployed adult workers, the latter will be preferred to younger workers and new entrants to the labour market. On the supply side increased relative wages have induced more young workers into the labour force, increased the participation rate for this age group, and thus further increased the rate of unemployment. The persistence of this problem over time has given rise to relatively high levels of long-term youth unemployment. Policy options to remedy this social and economic problem are necessarily constrained. On the industrial relations front a constraint is trade union antipathy to youth wage reduction policies which could give rise to generalised wage reductions. This paper proposes the extension of the special provisions of awards which permit for reduced payments as a means of assuaging union concerns.*

## 1. Introduction

A major problem for economic policy in recent years has been the persistently high levels of youth unemployment. An indication of the high levels of unemployment for young would-be workers is given by recent unemployment figures. For example, in February 1994 the general level of

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\* Graduate School of Management, University of Western Australia.

unemployment was 10.9 per cent. At the same time, unemployment in the 15 to 19 age group was 35.6 per cent (ABS 1994).

Nurick (1985) argues that there has been a growing trend in teenage unemployment since the 1960s and that the unemployment rate for that age group increased ninefold between 1966 and 1984. The downturn in full-time teenage employment did not show in unemployment figures until the 1970s because of high number of teenagers staying in the education system. This had the effect of reducing the teenage participation rate. Teenage unemployment rates were also masked by the increase in part-time employment. Since the 1970s teenage unemployment levels have deteriorated further and, as noted above, now stands at three times the general unemployment rate.

There have been a number of policy initiatives designed to remedy youth unemployment and to enable young workers to get their first jobs. These policy initiatives have had mixed outcomes. In some cases they have had a short term impact on the statistical level of unemployment without bringing about long-term changes. In other cases they have been instrumental in enabling young workers to gain employment. In broad terms, however, no policy initiative to date has been capable of significantly reducing youth unemployment. The persistence of this problem has given rise to a secondary difficulty, that of long-term youth unemployment.

A difficulty for policy makers is that the options for remedying this major social problem are necessarily constrained. Thus, for example, economic constraints reduce the government's capacity to buy out the problem through job creation programmes such as the REDS scheme previously utilised by the Whitlam Government. Social constraints have reduced the capacity of policy makers to remedy the problem by instituting compulsory work programs. There have also been industrial relations constraints which have reduced union acceptance (and therefore policy makers' capacity) to introduce generalised wage reductions or employer subsidies for this group. The notion of a training wage has not been readily accepted by the union movement despite this movement's concern with youth unemployment. Political and economic uncertainties cause unions to be wary of subscribing to changes which may have repercussive effects on general wages and employment conditions.

It is the last constraint which forms the substance of this paper. The paper examines a potential approach to youth employment policy which would alleviate union anxiety and therefore reduce their opposition to wage reductions for long-term unemployed young workers. Such a policy is considered desirable if this group is relatively over-priced in the labour market.

## 2. Relative Wages

It has been argued that a major cause of youth unemployment is that youth has out priced itself relative to other age groups. It has been argued that with the 18 year olds receiving similar rates of pay as 'adults', the latter provide employers with a skill or experience premium at little or no extra costs. Thus, for example, an employer seeking to fill a welding position and confronted with the choice of an 18 year old or a 35 year old, the employer is in a position to buy 17 years of experience relatively cheaply.

The evidence would suggest that older workers are being hired at the expense of younger workers, even in sectors which traditionally have been considered to be less market oriented. For example, the *Australian Public Service Statistical Bulletin 1991-92* indicates that the under 20 age group constituted 25% of all appointments to permanent Australian Public Service staff in 1982-83, and that the under 30 age groups constituted 75% of such appointments. The 30-39 age group constituted 16% of such appointments. By contrast, in 1991-92 the under 20 age group constituted only 7.4% of Australian Public Service appointments, the under 30 age groups just over 50% and the 30-39 age group 31%. Thus, for this sector, the proportion of under 20s taken on has been reduced to less than a third in just one decade while the proportion of 30 to 39 year olds recruited has almost doubled.

If the assertion is correct, and youth wages are too high relative to other wages, an important consideration, one with industrial relations overtones, is how the youth/adult differential can be increased. In this context it is worth pointing out that unlike other relative wage changes, in particular those changing wage relativities based on sex and race, the area of youth wages is not one in which the Industrial Relations Commission has moved to narrow differentials. Unlike test cases for equality of Aboriginal wages (Cattle Station Industry Case 1966, 113 *CAR* 651-671) or equality on the basis of gender (e.g Equal Pay Cases of 1969 and 1972, 127 *CAR* 1142-1160 and 147 *CAR* 172-181 respectively) there have been no test cases which have sought to reduce relativities from those established in the Harvester judgement of 1907. That judgement determined a wage rate of \$6.00 per week for skilled journeymen, and of \$4.20 per week (70%) for unskilled workers. The same judgement established the wages for unapprenticed juniors found in Table 1.

It will be seen from Table 1 that, consistent with the Commonwealth Court of Conciliation and Arbitration's criteria for a 'needs' wage, an assessment was made of the needs of junior workers relative to adult unskilled workers. It will be seen that the wage differential was reduced with age but that even from the age of 20 to 21 a differential of some 14 per cent existed.

**Table 1.** Unapprenticed Junior Rates, Harvester Judgement 1907

Age	Proportion of Unskilled Adult (Male) Rate (%)
Under 15	29
15	36
16	43
17	50
18	57
19	71
20	86

Source: 2 CAR 31.

Some have argued that the compression of the youth/adult wage rates is a contributor to youth unemployment. For example, relying on Bureau of Labour Market Research data, Nurick (1985, p. 99) has argued:

The Whitlam years saw significant increases in many junior award wages relative to corresponding adult wages. As with the increases in the unemployment benefit, this compression of adult/junior relativities encouraged young people into the labour market (it was at this time that teenage labour force participation rates reversed their long decline). In addition, since the cost to an employer of a junior increased relative to that of an adult, it became less attractive to take on juniors when unemployed, experienced adults were available.

Though there has been no test case to compress youth relativities, an examination of the key decisions of 1921, 1952 and 1972 in the Metal Trades/ Metal Industry Awards indicates a compression in recent years in the junior/adult wage ratio found in the Harvester Judgement. These compressions is shown in Table 2 which also includes current metal industry award ratios.

Table 2 supports the main thrust of those who argue that a relativity compression has occurred. Though it will be seen that initially the relativity of junior rates moved in a downward direction (the result of the Arbitration Court's penchant to 'induce lads to take on the trade' and to narrow differentials with apprenticeship rates), in more recent years a contrary trend is discernible. The compression in relativities is most pronounced for those aged 17 and above. The Table indicates that the wage differential between 'adults' and those 20 years of age has all but disappeared.

An examination of other key awards (for example the Bank Officials' Award) suggests a similar trend to that found in Table 2.

**Table 2.** Unapprenticed Junior Male Rates, 1907–1991

Year	AGE					
	15	16	17	18	19	20
1907	36%	43%	50%	57%	71%	86%
1921	29	35	45	55	66	79
1952	24	34	46	58	73	88
1971	26	38	51	64	80	96
1991	35	45	55	65	79	93

Sources: 2 CAR 30, 15 CAR 1144, 73 CAR 324, 141 CAR 235 and Metal Industry Award 19884 as varied.

The compression of junior rates may be regarded as the effects of economic and social forces. The scarcity of labour in much of the post World War II period led to employers bidding up the price of youth labour, and this has been reflected in award changes. On the social front, the recognition of 18 year olds for conscription in Vietnam and for voting purposes made it harder to deny adult status to this age group for other purposes, including wages. This would appear to be the major explanation for the marked movement in wages rates for the 18 to 20 age groups dating from the 1970s.

It may be noted that the compression of youth/adult relativities affects both the demand and supply components of youth labour. As argued above, the compression of wage relativities is likely, other things be equal, to reduce employers' demand for young workers. The increased relative wages, however, are also likely to increase the supply of youth labour, thus increasing the participation rate and the relative rate of unemployment in that age group (Bureau of Labour Market Research 1983).

### 3. Increasing Differentials

Recognising that wage differentials are not sufficiently great at the 18 year old and above levels to be attractive to employers (evidence from the fast food industry would suggest wages for younger workers remain attractive to employers) the question is how best to increase differentials.

One way would be to seek an enlarged differential by excluding 18-21 year olds from part or all of generalised wage movements over the next few years or by seeking to reduce the wage rates for this group.

Economics teaches us that wages (even relative wages) are sticky in a downward direction. The social problem would still remain that 18 year olds

are 'adults' for voting and other purposes. Further, unions would have difficulty in accepting a blanket movement to reduce (even in relative terms) all employees in these age groups, and this for two reasons. Firstly, they have members in this age group who they would not want alienated. Secondly, and conversely, to the extent that any such relative changes advantage younger workers, they advantage a group less union prone.

Rather than seeking to apply a blanket rule to all in this group a different approach might be to create a special category within this age group which could be the subject of special treatment. We might call this group the long-term unemployed, and define long-term to mean, say, twelve months and longer.

It would be possible to seek relative wage adjustments for this group as a whole. For example, governments could offer subsidies or concessions to employers taking on such unemployed and allow them to pay reduced wage rates. Unions are not likely to respond enthusiastically to such an approach. They are likely to regard this as a back door method of wage reduction and as a system open to abuse – in to get a cheaper workforce rather than provide for longer term employment for those employed under the scheme.

A less intimidating approach would be to allow for existing award conditions which apply to disadvantaged groups to be extended to the long-term unemployed as defined.

Again, the actions of the Commonwealth Court of Conciliation and Arbitration during its formative period are illustrative of this approach. Thus, in his *New Province for Law and Order*, Higgins (1922, p. 9) noted that:

The Court, in obedience to the Act, provides exceptions to the minimum rate in the case of aged, slow or infirm workers, but the exceptional cases must be disclosed to the representatives of the union, and be well safeguarded.

Examples of the application of this approach are to be found in the 1907 Harvester case (1 CAR 30) and in the 1910 Bootmakers case (4 CAR 24). Part VIII of the wage schedule in the Harvester case provides for exceptions to the general rates under the following conditions:

Any old, slow, or infirm worker licensed to work at a lower rate (a) by the Registrar of the Commonwealth Court of Conciliation and Arbitration, or (b) under section 99 of the Factories and Shops Act 1905 (No. 2) of Victoria (or any substitution thereof), if license be approved by the said Registrar.

A modern equivalent of this approach is to be found in the Metal Industry Award. Section 34 of this Award (Part 1) reads as follows:

### 34. Old and Infirm Workers

Any aged or infirm worker who may deem himself unable to earn the minimum wage prescribed by this award may with the consent of the organisation or organisations of employees concerned or if such consent is refused then with the consent of the Industrial Registrar be granted a permit in writing to work for less than the wage so prescribed. The Industrial Registrar before granting any permit shall allow any organisation concerned an opportunity to state any objections it may have in the matter.

Such permit –

- (i) shall state the name of the employee; the occupation in respect of which it is granted and the minimum rate of wage permitted;
- (ii) shall, unless renewed, be for a term not exceeding one year, and
- (iii) shall be filed by the employee with the Industrial Registrar of the Commission in the State in which the permit is granted.

A possible approach is to seek the general expansion of this disadvantaged worker clause to include the long-term unemployed youth. The individualised nature of the application of such an award clause should alleviate unions' concerns that it might become a generalised means of reducing wage standards generally.

## 4. Age Discrimination

Amendments to the *Industrial Relations Act* which came into effect on March 31, 1994, have potentially reduced the capacity of this proposal to be implemented, or at least to be implemented solely for young workers. These amendments restrict discrimination in employment on a number of grounds including age. Section 170MD of the *Industrial Relations Reform Act* prescribes, inter alia, that:

The Commission must refuse to certify an agreement if it thinks that a provision of the agreement discriminates against an employee because of, or for reasons including, race, colour, sex, sexual preference, age, physical or mental disability, marital status, family responsibilities, pregnancy, religion, political opinion, national extraction or social origin.

These amendments should not present major constraints to policy makers wishing to pursue the avenue suggested in this paper. To the extent that the amendments were not intended to preclude the type of positive discrimination aimed at, policy makers may be disposed to amend the Act accord-



ingly. Furthermore, there are some discretionary powers available to the Commission which may enable the implementation of the scheme suggested. For example, section 170AC of the Industrial Relations Reform Act states, in relation to minimum entitlements, that the Commission may make an order setting:

- (a) the same minimum wage for all employees in a group specified in the order; or
- (b) different minimum wages for different categories of employees in a group specified in the order.

In the event that the above provision is not considered as providing an avenue for treating long-term youth as a special or different case, consideration could be given to provisions for traineeships suitably defined to cater for the long-term unemployed. These, by their nature, are more likely to attract the younger long-term unemployed. In short, in the context of a genuine desire to address the problem the recent amendments to the Act can be accommodated.

## **5. Conclusion**

Unemployment, in particular youth unemployment, is a major social and economic problem. This paper has suggested reasons which would lead to the conclusion that a contributing element to high rates of youth unemployment is the compression of youth/adult wage relativities. The increased wages, relative to adults, has induced more teenagers to enter the workforce (that is has induced an increase in the participation rate for this age group) while at the same time making this group of workers less attractive to employers.

Policy-makers are constrained in their capacity to implement policies to tackle youth unemployment. This paper has addressed one constraint, namely trade union opposition to policy options which could be construed as lowering wage rates in general. It has been suggested that one way of doing this would be to use the existing special conditions within awards which provide for reduced wages for particular groups (historically the aged, slow and infirm) under specified conditions. It is noted that recent amendments to the Industrial Relations Act may not constitute a major impediment to the operation of such a policy option.



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