

employment levels. He recognises, however, that studies have shown that the 1970s equal pay decisions had a small adverse impact on employment. He refers in particular to Gregory and Duncan (1981) and McGavin (1983) (Ex 101, p 14). He distinguishes these studies by saying that there were factors favouring female employment at the time and that the labour market is now different. The factors favouring female employment at the time were said to be: the increasing importance of the service sector, the growth of part-time employment, changes in public sector employment rules and excess demand with low unemployment rates. In contrast it is said that unemployment now remains persistently high; employment growth, especially full-time employment growth amongst women and men is weaker than in the 1970s and that the scope for further increases in female labour force participation is more limited. He also considers that the degree of substitutability between males and females is almost certainly much greater than in the past.

However those observations were tempered during his evidence in the following ways:

- i. Women's participation in the labour force grew substantially after the 1970s at least in part because of wage increases in female occupations.
- ii. The service sector is probably growing as rapidly today as it was in the 1970s.
- iii. Part-time employment has been growing strongly since the 1970s. Professor Wooden says that the rate of growth is less strong for

adult women now although it is still positive.

- iv. The reference to public sector employment rules was a reference to the removal of the prohibition against married women working in the public sector although clearly that is an outcome which applies continuously throughout the period to date.
- v. As to substitutability Professor Wooden considered that it may well be the case that more women are moving into male occupations than the reverse direction.

Professor Green gave evidence that factors such as the rapid growth in the service sector and increases in part-time work (factors which insulated the female labour force from the full effect of wage increases in the past) are "still evident today" (Ex 271 par 111).

Professor Green says that it is apparent that, despite forecasts of lower employment growth for women as the result of equal pay decisions, female labour market participation and jobs growth accelerated over the 1970s and 1980s. According to the ABS Labour Force Survey, female participation rates increased from 38.6 percent in 1970 to 44.7 percent in 1980 to 52.7 percent in 1997. This represents an increase of around 14 percent, compared with a fall in male participation over the same period of 11 percent. Correspondingly, the female to male employment ratio which stood at 0.47 in 1970 also increased to 0.57 in 1980 and 0.76 in 1997. He also points out that that while the full-time female to male employment ratio increased consistently from 1970 onwards, part-time work for men rose in relation to female part-time employment over the

1980s and 1990s (Ex 271 para 64).

Mr Bennett agreed that in reviewing the impact of pay equity increases on the economy and employment it was necessary to have a look at sectoral impacts. He conceded that female employment had grown more than male employment but was uncertain that that was attributable to the equal pay decisions or other effects such as social or economic. He agreed that regard would have to be given to sectoral factors or consequences in order to be accurate in predicting employment impacts.

In my view the findings by Gregory and Duncan (1981) as to the impact of relative wage movements through equal pay decisions cannot be quarantined to the period of the 1970s, and remain a valid guide for assessing any present day economic impacts of equal pay adjustments. Whilst significant changes in economic circumstances have no doubt occurred since the 1970s particularly in relation to the level of unemployment, there remain today many of the factors which existed in the 1970s (perhaps diminished to some extent) which insulated female dominated occupations from the full impact of movements in relative wages. Significantly, female employment and labour participation has continued to rise throughout the period from the 1970s to date. There was some reduction in the rate of growth in the 1990s but all projections continue to indicate a substantial increase in female employment and participation relative to male employment (both in full-time and part-time employment). There is no clear indication of any substitution of female employment for male employment. Moreover the evidence of Professor Wooden

suggests some positive economic developments in the 1970s such as the growth in female employment (as opposed to male employment), and the growth in female labour force participation, was directly related to the equal pay adjustments. Furthermore any adverse economic impacts are unlikely to be uniform across female dominated industries or occupations or even classes of female employees. For example, Mr Bennet agreed that it was necessary to pay regard to sectoral impacts. Freebairn (1998) finds that for married women, the elasticity of labour supply, representing both participation and hours of work decisions, is significantly positive (p 16).

A suggestion was also made in the Employers' Federation/Chamber's submission that, firstly, unemployment is concentrated disproportionately at the bottom salary levels or scales and secondly, that high relative wages for the unskilled is a factor behind the substantially higher unemployment rate. A number of references are proposed in support of this proposition. Reference is made to Borland and Kennedy (1998), Freebairn (1998), Hamermesh (1995), Sloan (1996) and Valentine (1996) (see Ex 408). These references concern a number of topics including the impact of minimum wages. The sources identified do lend some support for the first part of the Employers' Federation/Chamber proposition but not for the second.

Before proceeding to consider the general economic theories raised by the parties as to equal remuneration and the impact of pay adjustments, I should note the argument raised by the Employers' Federation/Chamber at page 125 of Exhibit 446. In essence it is argued that

intervention to redistribute wages according to institutionalised pay equity principles is unlikely to produce a permanent realignment. It is said that not only is there economic analysis demonstrating the stability of relative wages over time, but, to the extent that there are changes in that pattern, there is evidence that the changes are consistent with the demands of supply and with imbalances by occupation, industry, region, skill and age in the direction of market clearance. The paper by Freebairn (1998) is chosen in support of this proposition.

I do not accept the proposition as it is advanced by the Employers' Federation/Chamber for a number of reasons. Firstly the development of the proposition in this way demonstrates the difficulty of the Commission attempting to evaluate contentions put upon the basis of papers tendered but left relatively unreferenced (and largely not discussed) in submissions. Secondly the paper by Freebairn does not seem to me to support the propositions as advanced. For example I refer to the following extract from that paper:

Overall, notions of fairness and equity between people at any time and across time for an individual result in sticky relative wage patterns across occupations, industries, regions, ages, gender, skill level and time of work. However, shifts in supply and demand for particular categories of labour influence relative wages in the direction of market clearance, but the relevant wage response is slow and in most cases small. Institutional and policy changes have on occasions influenced relative wages. Then, the wage curve in Figure 1 for a particular category of labour is largely positioned by the economy wage average, it has some positive elasticity, and it can lie above or below the wage that clears demand and supply (p 8).

Furthermore the proposition does not sit well with the evidence actually in the proceedings about the effect of the introduction of the equal pay

cases in the 1970s. This goes directly to the work carried out by Gregory and Duncan in 1981 and the support for those propositions in the literature which then follow.

The remaining discussion of the impact of the introduction of a pay equity policy essentially falls under two areas. In the first case there is a general theoretical discussion of the impact of wage increases of whatever kind. These are generally accompanied by wide ranging and in my view generally unhelpful (in the final analysis) discussions about the broad impact of wage adjustments of whatever kind. (In fairness to the economists developing such discussions, either in oral evidence or in studies, it was noted by some of them that in the absence of any foreknowledge of findings and/or recommendations which might be made by the Commission, assumptions in their models as to the extent of adjustments were simply that - assumptions.) Secondly, there are the detailed analyses conducted by the NSW Treasury and Mr Richardson of Access Economics which are based upon various economic models designed to produce various estimations based upon a series of assumptions. This latter consideration is more helpful although it is still based on a premise (as I have noted without foundation) that across-the-board salary movements will occur.

GENERAL THEORETICAL DISCUSSION OF ECONOMIC IMPACTS

Some labour economists take the view that increasing wages will necessarily and generally affect employment and those wage adjustments will have an adverse effect on female employment.

An extreme example of this form of analysis is the evidence given in the statement of Professor Emerita Hughes (Ex 329). She suggested that the traditional wage setting in Australia has resulted in market forces being modified by the arbitration system and by legislation which led to impediments to the efficient organisation of production, by the incorporation into industrial awards of non-market factors such as maternity and paternal leave as well as of uneconomically high shift, weekend and holiday rates. It is said that such trends resulted in complexity and rigidity adding to labour costs whilst separating remuneration from productivity. The macro economic effect was to contribute to rampant inflation in the 1980s. It is also argued that the economic effect was that relative wages fell in comparison to other countries and unemployment grew. It is also argued that an enterprise focus removes some of these difficulties but that a comparative worth approach ignores market forces. To rectify unduly low earnings in occupations dominated by women, because these low earnings are deemed to result from discrimination against women, by means of a return to industry wide arbitration style inquiries, could lead to wage increases above productivity, suggested outcomes of that being higher prices for consumers, loss of domestic or export markets, bankruptcy for firms and unemployment for the work force (p 11). There are also some comparisons drawn with centrally planned economies such as the Soviet Union, Albania and China although it is not clear what the connection of those comparisons is with the operation of the arbitration system in this country (see page 12 Ex 213).

At a macro economic level it is submitted by Professor Emerita

Hughes that Australia has a poor history of economic management. It is not internationally competitive and welfare indicators are a major concern with higher rates of unemployment. In this light it is said that reintroducing industry wide inquiries, particularly if they are not related to productivity and market trends, would offset the greater flexibility being introduced through enterprise agreements. Significantly, it is stated that compensating women for direct and indirect discrimination by raising their wages above market levels would injure the economy as a whole and women in particular (p 16).

I set this evidence out in some detail to demonstrate its character and width. Evidence of this kind is a mixture of policy, ideology and some economics. There is little put by way of supporting material and the level of generalisation is really quite unhelpful.

In my view the essential thesis contained within this statement is that there should be no intervention by third parties in the process of wage fixing regardless of the effect of market rate assessments.

In setting out her alternative approaches to improving women's earnings, she said:

If women's work participation decisions are not voluntary, but the result of social pressures, the social causes of distortions need to be rectified. Compensating women for direct and indirect discrimination by raising their wages above market levels would not only injure the economy as a whole, but women in particular. Unemployment for women in low socio-economic neighbourhoods would decline. (Ex 329 p 16)

...

The gravest current discrimination against women lies in barriers to entry into skilled manual trades for women from low socio-economic areas.

...

A major educational and social effort in low socio-economic areas would improve the lifetime productivity and earnings of women from such areas. (Ex 329 p 17)

The difficulties associated with such broad-brushed approach are manifest:

- (i) The general economic assertions do not allow for the variety of factors which would come into play in determining macro and micro economic outcomes arising from any set of wage adjustments either general in nature or focussed upon a particular group. The variety of different theoretical prospects which emerge is well set out in the paper by Associate Professor Borland (Ex 277, Annex 2). As he states the extent of the consequences for the economy depends upon judgements made about assumptions for the economy and labour markets where that policy is to be implemented. Those judgements are to be guided by both theoretical and empirical evidence, the possible impacts are likely to be complex, and the consequences are likely to differ considerably between different occupational groups. In looking at the possible impacts on employment opportunities Associate Professor Borland identifies the Hicks-Marshall rules of derived demand. Those rules suggest that occupations in which the negative employment impacts for women are likely to be greatest are those in which there is a high degree of

competition for product; there is more scope for substitution with other occupational groups; the affected occupation accounts for a larger share of total costs, and the demand for complementary factors of production is more price sensitive. (Ex 277 para 32)

- (ii) The broad-brush approach stands in stark contrast to the careful evidence derived from the modelling exercises conducted by the NSW Treasury and Mr Richardson. In those approaches, one can see clearly the assumptions made in those models in judging the relative estimates of economic impact.
- (iii) The long history of industrial legislation, industrial jurisprudence and wage fixing by industrial tribunals demonstrates that a balance needs to be reached between equity and fairness considerations and purely economic considerations. Thus all legislatures continue to provide for safety net adjustments on an industry wide basis and provide for remedies in cases where equity and fairness dictate the need for intervention against arbitrary market forces. This is more the case in NSW where the legislative scheme speaks against some of the policy considerations which underpin the statement by Professor Emerita Hughes.
- (iv) Many of the statements which have been made make little or no allowance for imperfections in the market let alone the effect of occupational segregation. To propose that one may allow the market setting to predominate even in cases of direct discrimination is in my view

a totally unacceptable proposition.

I prefer the approach taken by Professor Green demonstrated in paragraph 84 of his statement in Exhibit 271 as follows:

Wooden makes several predictions about the impact of an increase in women's wages on the labour market. These are discussed in turn. The first claim is that higher wages will result in capital substitution and higher unemployment. Whilst it is true that some substitution will probably occur it is unlikely to be substantial due to the nature of the sectors in which women are predominantly employed. The service sector and the clothing industry, for example, are highly labour intensive by necessity.

In a similar vein I consider there is some substance to the submissions by the Crown to the effect that discriminatory wages represent a sub optimal allocation of resources and therefore an inefficient resource allocation in the economy. I shall return to this submission shortly.

Before turning to economic modelling I will deal with some of the other general theoretical considerations as well as the particular consideration concerning minimum wage adjustments. A good starting point is the useful summary of these theoretical considerations which was provided by Associate Professor Borland. I will briefly summarise some of the main propositions below:

1. A key determinant of the employment consequences of changes to award wages in female-dominated occupations will be the nature of wage adjustment and changes to the cost of labour which occur. In this respect the size of the adjustment made to award wages in

female-dominated occupations will be critical.

He also noted that there is also the possibility of offsetting conditions in which employers may offset costs associated with pay equity adjustments (Ex 277, Annex 2, para 41).

2. There is an issue of equal treatment between males and females in the labour market. To the extent that equal labour market treatment of males and females is part of an equity objective - and existing wage differences reflect unequal treatment of male and female employees - implementation of pay equity policies should improve equity outcomes. A second equity related consequence is likely to relate to the distribution of income in society. Following the implementation of a pay equity policy some workers may receive higher wages, and the distribution of employment may also be affected. Both of these factors should affect the distribution of income which is likely to involve consequences for equity objectives in society (Ex 277, Annex 2, para 28).

3. Where gender wage differences are due to females receiving lower returns for their skills than male employees, this will mean price signals in the labour market are distorted. In this situation the gender composition of labour demand - based on price signals which do not reflect social costs - will be inefficient. Following implementation of the pay equity policy however, individuals will

now make labour supply decisions and employers make labour demand decisions on the basis of price signals which more accurately reflect the true marginal benefits and marginal costs of those decisions. Therefore, any changes in the composition of employment due to the implementation of a pay equity policy are likely to represent an improvement in efficiency in resource allocation. On the other hand where gender wage differences reflect unobserved gender differences in non-wage compensation or in job amenities and disamenities, price signals will not be distorted. In this case changes in the composition of employment consequent upon implementing a pay equity policy are likely to represent a worsening of efficiency (Ex 277, Annex 2, para 32)

4. Increases in award wages in specific occupation groups which cause changes in labour costs will initiate an adjustment process which is likely to involve changes to employment. The aggregate level of employment, the composition of employment by occupation and industry, and the distribution of employment between the states in Australia may be affected (Ex 277, Annex 2, para 24).
5. Other consequences are also likely to follow from the implementation of a pay equity policy. First, changes to labour supply, both in aggregate and to particular occupations may occur. As well as representing a cost to employers the wage rate is also the price at which households can sell labour. Hence changes in

wage rates will affect households' incentives to supply labour.

Secondly, the joint effect of changes in employment and labour supply may mean the rate of unemployment is also affected.

Thirdly, human capital acquisition and the quality of jobs in the economy may be altered. Fourthly, changes in labour supply and employment, as well as other aspects of resource allocation, may have implications for the distribution of income. Finally, changes in the cost of labour for public sector employees will have consequences for government budgetary policy (Ex 277, Annex 2, para 26).

6. Theoretical analysis suggests that there is a wide range of factors which will determine the magnitude of each type of effect on employment not the least of which is the variety of considerations in the Hicks-Marshall rules. Particular considerations would also include the size of changes to award wages and the nature of the ultimate effect of adjustments to wages on labour costs; firms' objectives; the types of labour markets in which firms operate; the nature of consumer demand for the products which firms produce and firms' production technologies (Ex 277, Annex 2, paras 68 and 69).
7. Increases in award wages in specific occupational groups in NSW are likely to cause changes in the relative prices of different types of labour, and may also have an affect on the aggregate rate of

wage inflation. Changes to the relative cost of labour will cause a process of general equilibrium adjustment in demands for labour and other factors. Adjustments in employment need to be treated carefully as arguing that a pay equity policy might reduce the level of employment means that employment is lower than it would have been in the absence of such policy. This does not necessarily mean that total employment is reduced. In an environment where, in the absence of a pay equity policy, there would be a positive rate of employment growth it could simply mean that there is a lower but still positive rate of employment growth (Ex 277, Annex 2, paras 38, 40).

8. The overall affect on employment from a change in wages will depend on how the change in award wages for workers in the specified occupation group affects their own employment, and the employment of workers in other occupation groups. Direct changes in the employment of workers in the occupation group whose wages are increased through a pay equity policy may occur for two reasons, referred to as a substitution effect and a scale effect. First, the increase in the relative cost of workers in a particular occupation group in NSW may cause employers to choose to substitute other factors of production for workers in that occupation group. Second, the increase in the marginal cost of production which occurs due to the higher cost of employing workers in the particular occupation group may necessitate an increase in the

price of the output and hence there will be a reduction in the level of employment due to the decline in demand. (Ex 277, Annex 2, paras 47-48). The main factors which will affect the size of the substitution and scale effects, and hence the size of the decrease in employment which will occur, can be derived from theoretical analysis of the behaviour of a profit maximising firm. These factors are summarised in the Hicks-Marshall rules of derived demand (which are referred to earlier in this part of the report).

No doubt, this analysis by Associate Professor Borland led Mr Cox to conclude that the possible impact of pay equity adjustments is likely to be complex. He also pointed out that Associate Professor Borland's paper does not and was never intended to provide any firm conclusions regarding aggregate impacts (Ex 277 para 27).

Before turning to the modelling question I propose to deal with two issues raised by Associate Professor Borland which he describes as 'Micro Studies of Labour Demand'. He contends that in Australia there has been little research work devoted to estimating the relationship between labour costs and employment in specific occupation groups. However, in international literature there are two types of studies which provide micro level of information on labour demand. Firstly, it is stated some studies have estimated the relation between labour costs and employment for specific occupation or industry groups. Secondly, there is a large body of literature which has sought to estimate the effect on labour demand of changes to minimum wages in the United States. (Ex

277, Annex 2, para 87)

The first of these analyses concerns the work Hamermesh (1993) which attempts to predict the effects of an increase in wages on unemployment in a specific occupation, industry or group. Noting that there are wide variations between industries and occupation groups and that there is no typical firm or industry, a general conclusion as to wage elasticity of labour demand was predicted in the United States which suggested that on average the overall effect of one percent increase in wages would be to decrease employment in a specific occupation or industry by about one half of a percent. There appears to be no replication of these studies in Australia.

MINIMUM WAGE

Secondly, there is a discussion of the minimum wage. This is a reasonably controversial area of discussion and has led to some debate particularly in literature and more particularly in the United States. Professor Green refers to some recent empirical analysis in his statement of evidence as follows:

Card and Krueger (1994) have shown that increasing the minimum wage in New Jersey in 1992 resulted in faster employment growth compared to Pennsylvania which didn't receive the increase. They then revisited their findings (Card and Krueger (1997)) following a challenge to their results. Using New Jersey as a control group, they demonstrated greater employment growth in Pennsylvania following an increase in the minimum wage in 1996. They were able to use New Jersey as the control group because its minimum wage exceeded the new minimum wage in Pennsylvania (Ex 271 para 85).

Notwithstanding the debate, Associate Professor Borland considers however a reasonable summary of the debate between theorists is given by Freeman (1996) as follows:

No study in the United States or the United Kingdom has found that increases in minimum wages reduce total employment with an elasticity near unity; the debate over employment effects is a debate of values around zero ... absence of noticeable employment losses in these studies does not, of course, imply that minimum wages much higher than those observed do not risk large job losses (Ex 277, Annex 2, para 90).

The discussion of Statutory Minimum Wages Employment and Poverty contained in Chapter 2 of the OECD publication "Employment Outlook; June 1998" (Ex 445) presents a good summary of the economic debate concerning minimum wages and also is useful in dealing with some of the general economic theories put to the Commission. I propose to set out some of the findings of this study but in doing so I note that the section on minimum wages does not deal specifically with Australia.

Footnote 1 of Chapter 2 notes that it is not always easy to make a clear cut distinction between those countries with a statutory or national minimum wage and those without and refers specifically to the Australian situation where the Australian Industrial Relations Commission introduced a new Federal minimum wage in its April 1977 Safety Net Review Wages Decision which applied to employees who work under Federal Awards (and where subsequently State Wage Decisions applied the Federal minimum wage). However, the OECD noted that there was no automatic link between the Federal minimum wage and

the wages set under State awards and hence it had decided not to include Australia in this study as having a national minimum wage. I will set out the main OECD findings below:

1. Standard economic theory predicts that the imposition of a minimum wage will simply truncate the earnings distribution at that wage, but the empirical evidence points to much more complicated effects. Spikes tend to appear at the new minimum wage, indicating that many of those previously earning below the new minimum now earn exactly that amount. This suggests that minimum wages can be effective in achieving one of its equity goals of ensuring that “fair” wages are paid to workers. There is also some evidence of spill-over effects that lead to an increase in wages for those previously at or just above the new minimum. Partly as a result of these effects, those countries with higher minimum wage rates relative to the medium have less earnings dispersion and a lower incidence of low pay. In addition, minimum wages narrow earnings differentials across demographic groups, particularly the young and old and between men and women (p 32).
2. Under the assumption of a perfectly competitive labour market, a minimum wage which is set above the market clearing wage, will result in a decline in labour demand and a lower equilibrium level of employment. Alternative economic models have been put forward

that predict insignificant or positive employment effects of minimum wages. The simplest such model is a labour market with a monopsonistic employer.

3. One argument against a statutory minimum wage is that, if set above the market clearing level it will result in job losses and so the very workers that it is intended to benefit may lose out. (This is very similar to the theoretical discussion entered into by Mr Bennett (Ex 331)). However, some recent studies have questioned both the empirical work as well as the theoretical basis for predicting job losses (p 42).
4. There has been much debate as to which model best represents the way labour markets operate. Generally, negative employment effects are more likely the higher the level of the minimum wage relative to workers' productivity; the more elastic the demand for labor, the less elastic the supply of labour, and the smaller the investment response of firms and individuals. The larger the elasticity of substitution between skilled and unskilled labour, the larger the negative employment effects for the less skilled are likely to be. Consequently, the size and the sign of any employment effects may differ across firms, individuals (by age and skill levels) and geographical areas, and according to the level of the minimum wage.

5. Thus there may be both positive and negative employment responses. There may be a certain degree of non linearity in employment responses. It is also important to distinguish between long run and short run employment effects. In the broad, youth and women are the groups most likely to be in minimum wage jobs. It is particularly women and the less skilled who are most likely to be trapped in low paying jobs. There is limited evidence available which suggests that monopsony is likely to occur with respect to the employment of women. However, the evidence available to date on the employment effects of minimum wages for women does not permit one to draw clear conclusions.

6. The bottom line on statutory minimum wages is that both opponents and proponents have overstated their respective cases. If minimum wages are set carefully, they can improve the material well-being of some low wage workers, have some positive impact on work incentives, and limit the extent of earnings inequality. Minimum wages are not the solution for family poverty and low family incomes, and they can give rise to job losses, especially for young people (Editorial pages viii and ix and pages 31-45).

Associate Professor Borland accurately points out that in relation to Australia the group of workers affected by minimum wage laws is likely to be quite different to workers affected by award wage changes in female-dominated occupations; and that - as a percentage of the average hourly wage - the

minimum wage is set far below the level of award wages for most occupation groups in Australia (Ex 277, Annex 2, para 91). However, the observations which I have drawn attention to are important for a number of reasons. Firstly, they may be directly applicable to outworkers in the clothing trades. Secondly, the theoretical discussion deals directly with some of the debate concerning wage adjustments and employment. Thirdly, it is not the case that all female dominated industries are covered by State awards or for that matter any award regulation.

The economic experts were not generally aware of a paper which was put to the Inquiry by counsel assisting. This paper was written by Richard Dickens, Stephen Machin and Alan Manning and entitled "Minimum Wages and Employment" and published in the *International Journal of Manpower*. This became Exhibit 273 in the proceedings. The main conclusions to be drawn from this article are as follows:

1. A number of recent empirical studies have identified employment effects that are at odds with the orthodox theoretical approach which predicts an unambiguous negative impact on employment in relation to minimum wages. These are as follows:
 - i. Card, D., "Using Regional Variations in Wages to Measure the Effects on the Federal Minimum Wage", *Industrial and Labor Relations Review*, Vol. 46 No. 1, 1992, pp 22-37.

- ii. Card, D., "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89", *Industrial and Labor Relations Review*, Vol. 46 No. 1, 1992, pp 38-54.
 - iii. Card, D. and Krueger, A., "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania", Princeton University Industrial Relations Section Discussion Paper No. 315, 1993.
 - iv. Machin, S. and Manning, A., "Minimum Wages, Wage Dispersion and Employment: Evidence from the UK Wages Councils", *Industrial and Labor Relations Review*, Vol. 47, No. 2, 1994, pp 319-39.
2. Unlike the earlier work that was largely based on aggregate time series regressions, these recent pieces of empirical research have usually used micro data sources without drawing on standard competitive theory to formulate empirical models.
 3. The most commonly stated alternative theoretical approach to the orthodox competitive model of the labour market is monopsony where the supply of labour to the firm is not perfectly elastic at an exogenously given market wage and each firm has some discretion in setting wages. Most importantly in the monopsony model is the

assumption that the labour supply curve facing the firm is not perfectly elastic (p 2).

4. Monopsony has generally been regarded sceptically by economists and has usually been the subject of a caricature of the monopsony model (one given by the economic experts sometimes in the evidence in this matter) in which the existence of a company town is regarded as not only sufficient for a monopsony but also necessary.
5. However in Dickens, Machin and Manning (1994) elasticity of the labour supply curve facing a firm is treated as finite contrary to the traditional competitive model. It is argued that it is not credible to believe that employers who cut wages by a tiny amount instantaneously lose all their workers (which is what is implied by the perfect competitive model).
6. In order to properly evaluate the likely effects of minimum wage on employment one needs to look at the elasticity of the labour supply curve faced by individual firms; the elasticity of the marginal revenue product of labour; the degree of heterogeneity among firms and the effect of aggregate wages on the labour supply to apply to an individual firm (the knock-on or spill over effects) (p 5).
7. The authors find that there are non negative effects of minimum

wages on employment based both on the theoretical structure of monopsony and on the empirical work undertaken. It follows that the implication of this view is that the elimination of minimum wages will not have the effect contemplated namely that employment levels will be increased.

ECONOMIC MODELS

THE CONTENTIONS

The Employers' Federation/Chamber submitted that the Commission has received the CREA model which was a comparative static model and the Access Economics model which was a dynamic and long run assessment model. It was submitted that in consequence the Commission had at its disposal a carefully considered framework for the outcome of pay increases awarded to narrow earnings differentials (Ex 446 p 129). It was submitted that the models showed similar short term outcomes, both negative for employment and economic growth. It was further submitted that the Access model looked at long term impacts. It was said that this was significant because of the work on "sticky" wages or the lagged adjustment to wage increases. It is not entirely clear what precisely is the significance perceived, the references to support it being singularly lacking in detail.

The Employers' Federation/Chamber claimed that the outcomes demonstrated substantial job losses and lower participation rates, no long term

changes in real wages, negative impact on private consumption and investment in housing, long term fall in national income (GDP), increased prices and higher foreign debt and lower business capital. In broad, it is submitted that the best available measures for macro modelling show that the cost of moves towards narrowing pay differentials by pay equity mechanisms outweighs the benefits for the NSW community as a whole and that this evidence is not diminished because it does not take into account the Commission's ability to fine tune wage impacts, efficiency gains and a case-by-case approach. It is specifically submitted that the impact is not reduced by spreading out the impact (Ex 446 pp 127 - 129).

The Crown parties commence their submission by identifying a number of economic gains associated with the establishment of pay equity.

The Crown parties submitted that the evidence of Mr Bennett (Ex 313) and Professor Emerita Hughes (Ex 329) do not provide a basis to draw confident conclusions as it is difficult to comprehend and weigh up all the different effects on a general economic basis. It is submitted that the best way to explore possible outcomes is the use of a detailed model of the economy such as the M2R-NSW. It is submitted that Messrs Cox and Richardson considered the likely impacts on employment and output based on these models. It is submitted that Ms Izmir (Ex 411) outlines that both modelling exercises present the likely impact in the short and long run, in which, in the first few years after the introduction of pay equity measures, there are likely to be some initial reductions in employment but in the long run that the economy would adjust to the changes.

It is also submitted that all modelling results are influenced by the assumptions adopted. The two models represent two different ways of looking at the same issue using different assumptions about the way the world operates. In the same way as did the Employers' Federation/Chamber, the Crown parties submit that the models are complementary, adding to the richness of the modelling information available to the Commission.

As to the results of the modelling the Crown parties submitted:

1. Both studies identify a reduction in employment and GDP two to three years after a pay equity policy is fully adopted.
2. The criticism by Mr Richardson of the CREA model, that it made an assumption that there will be no impact on the rate of employment in the long run, is unjustified as the argument that pay equity measures would affect total employment in the long run is far from conclusive. However, both models highlight that the size of long run impacts on employment, if any, will be affected by whether pay equity measures trigger an increase in male dominated awards.
3. In interpreting the results one needs to have regard to the manner in which the pay equity adjustments would be dealt with. The Crown submits that pay inequity does exist and this needs to be dealt with on a case-by-case approach. The modelling exercises

do not in fact replicate a case-by-case approach but review on an across-the-board change basis. Thus the modelling exercise should be seen as illustrative only and interpreted upon the assumptions adopted.

4. The modelling may very well overestimate the likely impact because the models:
 - i. do not capture any improvements in economic efficiency due to the removal of discrimination (correcting for 'market failure');
 - ii. do not allow for the possibility that the Industrial Relations Commission may fine tune the introduction of pay equity measures thereby reducing the economic impacts;
 - iii. do not capture the benefits of improving equity;
 - iv. may overestimate the effectiveness of the Industrial Relations Commission in changing relative remuneration in male and female dominated occupations.
5. It must be borne in mind that the economic effects of pay increases are considered by the Commission, including the capacity to pay, the situation in the industry and the effects on unemployment.

6. There is scope for debate about the size of any negative impact but in the broad the impacts are “smallish” negative impacts. In any event any negative impacts are counterbalanced by positive welfare impacts of introducing pay equity policies.

7. Given the uncertainty of empirical estimates of the size of any detriment or gain, then the case-by-case is important in which the Commission has the power to fine tune the introduction of the application of pay equity and to deal with any adverse impacts. There are particular benefits in spreading out the adjustments over time.

ASSESSMENT OF THE MODELS

The first model which was examined was the M2R-NSW model employed by the Centre for Regional Economic Analysis at the University of Tasmania. This is the most detailed model of the NSW economy that has been developed which the NSW Treasury is aware of (Ex 277 para 42). However a considerable degree of additional relevant detail was added to the model for the purposes of examining pay equity scenarios. The model does not produce forecasts for the NSW economy but rather allows for the exploration of the consequences of “shocks” when assuming all other aspects of the economy unchanged (Ex 277 para 42). The model does allow for a range of adjustments on both the supply and demand side of the economy but does not allow for all of

the types of labour market adjustments that might occur in practice and in particular does not model labour supply decisions.

The model does not contain sufficient labour market theory to deal with the possibility of there being a sub-optimal allocation of resources in the economy as a consequence of gender work value discrimination and the model in itself can not provide any evidence regarding whether such discrimination exists. The model is not well equipped to evaluate efficiency consequences of pay equity adjustments nor does it allow for the possibility of monopsonistic labour markets (Ex 277 para 44).

The second model was presented through the evidence of Mr Richardson in his statement of evidence (Ex 338) and a document describing the model presented by him (Ex 339). This model was produced through Access Economics and was known as the AEM-Macro Model. It was claimed by Mr Richardson that this did not suffer from two limitations facing the CREA model namely that it does pick up the dynamics of change and long term outcomes (Ex 338 para 39-40).

At a broad level Mr Cox identified that the models were just a device to help understand possible impacts. They are limited by the assumptions which underpin them. On the other hand these devices are superior to more theoretical approaches as the assumptions are actually clearly and precisely stated.

Mr Richardson agreed that there was competition between modelling agencies but that it was “very good” that the Commission had evidence from both types of models because they each had different advantages and disadvantages. Mr Richardson also agreed that the AEM macro model is a “top down approach” so that the “shock” that was applied through the model was applied to the Australian economy as a whole rather than being concentrated in NSW. If one was interested in looking at the impact of particular occupations or industries then the CREA model has a comparative advantage over the AEM macro model.

For the purposes of the consideration of the economic impacts using models I shall treat the two models as both useful tools and guides both as to short term and long term impacts. In essence I will treat the models as complementary in providing predictions based upon the assumptions that they make.

ASSUMPTIONS IN ECONOMIC MODELS

There are countless assumptions contained within the respective models. I will focus upon one assumption which was applied in both modelling processes which is quite important, that being that there was to be an across the board increase.

The CREA modelling work utilised the M2R-NSW model in relation to simulations based upon the following:

- a) an across the board one percent pay rise to all employees, both male and female, in all of the 51 occupations defined as female dominated;
- b) an across-the-board pay rise to female dominated occupations sufficient to close the gender wage gap by one percentage point;
- c) specified pay rises to hairdressers and librarians (Ex 277, Annex 3, p 9).

The second of those simulations, the general pay increase, was analysed by CREA upon the basis that just over 60 percent of the total NSW female wage bill was accounted for by female dominated occupations. It was concluded that a 2.99 percent increase in the average wage rate for each female dominated occupation will result in an immediate reduction in the gender wage gap of one percentage point (p 10). As Mr Cox put it, eliminating Professor Wooden's estimated gender pay gap of 2 percent by increasing the average pay in all occupations which are 65 percent or more female would require the average pay for those occupational groups to be increased by around 6 percent and implies an increase in average wages in NSW of about 2.4 percent (Ex 277 para 49).

Thus, as Mr Cox points out, the modelling process assumed a successful direct elimination of 100 percent of the gender pay gap and that wages for a range of occupations covering around one third of NSW employees would all be increased at around the same time (para 55). In his evidence-in-

chief Mr Cox described this assumption as follows:

Q: That model has as one of its ingredients, the assumption of a single wage movement at a point in time and estimates both of the short term and long term effects of that movement in wages, within that so-called model?

A: Yes, that is essentially the way that modelling proceeds.

Mr Cox also pointed out that the way the model operated was linear so that if the size of the initial assumption was halved, then the impact would be halved in size.

The same position applies for the modelling carried out by Access Economics. In that case the model was applied to examine the impact of a 2.4 percent wage increase in NSW and a 0.8 per cent increase for Australia as a whole. The model was applied upon the basis that the whole of the wage increase (namely 2.4 percent in the case of NSW) was applied to the whole of the workforce including male and female, adult and junior. Again the impacts predicted by the model were linear so that a 50 percent reduction in the wage outcome predicted reduced the impact by 50 percent.

There was some debate about the effect of staggering increases in rates of pay. In Mr Richardson's view, there were advantages in a slow change over a faster change, but only to the extent that the impacts could be dealt with over a longer time whilst the ultimate impact would be the same. Mr Cox disagreed and considered that if the impacts were spread out over a longer period the negative impact would be dissipated. This is recognised by Mr Cox in his evidence as follows:

Q: For the present purposes, for the purposes of the next question, assume I am moving outside the model and I am not looking at a linear relationship. I want to look at it on a case by case basis, and from your view, as a professional economist, would it be true to say that where there was a case-by-case approach to these adjustments over a period of time, that any predictable adverse consequence would likely to be reduced from what might be described as the model at the present time:

A: I think that is a reasonable proposition. The one obvious reason for that is because whilst before the impacts happened at a single point in time the authorities - the Reserve Bank in particular - might be concerned about the inflationary consequences, were that change sufficiently large and there might be, as a consequence, policy adjustment, but if they are spread through time that is much less likely to be the case.

Secondly, most economists believe that there is more scope to adjust small shocks than large shocks and we tend to think that series of small shocks would be absorbed into the economy more easily than a large shock.

In my view the effect of staggering or phasing in of pay increases should be distinguished from a case-by-case approach which was proposed by the Crown parties in their final submissions. Clearly a case-by-case approach will not result in a uniform, across the board, wage increase. In any individual case, where a positive finding of undervaluation is made, any increase deemed appropriate may, depending upon the particular circumstances, consist of one payment, a series of payments, or a mixture of the two.

It is significant that all models predict a significant reduction of negative economic impacts depending upon the wage outcome which is predicted. The relationship is linear. Hence, if pay equity adjustments are approached on a case-by-case approach, and such case-by-case approach leads to differential outcomes, depending upon the particular cases considered

(including a staggered introduction over time), it is predicted by those models that any negative economic impact would be reduced accordingly. I shall discuss the impacts predicted by the models but it must be said at the outset that those predictions need to be significantly tempered in the light of the recommendations that the Commission proposes to make in this Inquiry.

However, it is important to look at the predictions because, when the Commission ultimately comes to review awards in the light of pay equity principles, it will need to be aware of the economic considerations put before the Inquiry. (I would expect in each case that the parties would present the Commission with the up to date material necessary to be taken into account.)

Table A appearing in Mr Cox's evidence sets out the macro economic effects of increasing pay for all female intensive occupations in NSW. These include a short run impact on real GSP/GDP of -0.72 percent and a long run impact of -0.36 percent. Predicted employment in NSW is -1.00 percent in the short run and -0.54 percent in the long run. CPI and real wages are increased. As Mr Cox points out the short run negative impacts inevitably tend to be greater because there is less scope for the economy to adapt to pay equity changes (Ex 277 para 51).

Mr Cox concludes that in the long run the pay equity adjustments amount effectively to a relative wage shift rather than an aggregate wage increase. Such a wage shift can actually bring about some gains for the national economy because of capital creation that is brought about in those industries

that gain. (para 52). The long run employment loss in NSW of about half a percent equates to the loss of around one quarter of one years' employment growth. (para 54)

In Mr Cox's view, while not inconsequential, these impacts in isolation do not amount to a significant dislocation (para 54) (my emphasis). He referred to Table 3 in the CREA report (Ex 277, Annex 3, p 24) as showing that the employment impacts at the level of individual occupations vary quite considerably.

The ultimate conclusion by the NSW Treasury is given as follows:

The results in Table A above show that the impacts of pay equity adjustments are likely to dissipate through time as indicated by the smaller long-run results. The outcomes will be more favourable, the greater the degree of overall wage restraint in response to pay equity adjustments. And as long as there is a reasonable level of economic growth maintained on average in NSW, the impacts should be absorbed by the economy without significant aggregate dislocation (para 58).

It was suggested by Mr Richardson and the Employers' Federation/Chamber that these assessments are not entirely consistent with the concluding remarks by the CREA. I do not agree with that statement. The CREA concluded that the effects of the pay-equity measures instituted in NSW only are to reduce the level of employment and output in NSW both in the short-run and the long-run, but that the long-run negative consequences are significantly smaller than in the short-run (Ex 277, Annex 3, p 33). As to the nation as a whole, the aggregate effects on employment and output in the short-

run are also negative but in the long-run (based on movements in other state economies) there is a small increase in the GDP nationally (p 34). Moreover, the CREA concludes, that while its present study is preliminary, it does give some support for the following:

- there are the benefits for easing short-term adjustment problems in spacing out the introduction of pay-equity measures for individual occupations;
- while pay-equity measures may not necessarily negatively affect the national economy in the long-term, the measures are likely to bring some negative short-term effects, particularly if, in introducing the measures, steps are not taken to limit the increase in the *overall* level of real wages;
- if NSW introduces pay-equity first and other states do not follow suit over the long-term, the State's population, during an adjustment period, will grow at a slightly lower rate than would otherwise be the case, although this need not necessarily mean a lower welfare of NSW residents in a consumption per capita sense (Ex 277, Annex 3, p 34).

Moreover, the authors suggest that further research might usefully consider the possibility of absorption of wage increases; the possibility that pay equity measures lead to increased labour efficiency; the possibility that the measures lead to comparative-wage-justice pay rises in other occupations in particular industries; and the effects of other states simultaneously introducing

pay equity measures (p 35).

The predictions by Mr Richardson are more substantially negative. In summary these are: private consumption is initially positive and then negative; business investment is initially positive and later negative; total GDP rises in the first two years but the effect is later negative given falls in consumer and investment spending and that prices are pushed up. Employment is little affected in year one, is marginally ahead in year two, but substantial losses occur in the third year with an estimated 31,000 job losses in the sixth year (Ex 338 p 10).

I consider that the NSW Treasury has presented a conservative and well researched assessment of the possible economic impacts of the introduction of the assumed general increase in wages. The predictions by Access Economics represent a more severe prediction which may be seen to be in a range of possible outcomes as between the CREA and Access models. However the NSW Treasury conclusions do seem reasonably available on the evidence. More importantly if one takes into account the effect of phasing in or staggering as was suggested by the CREA analysis, then the more modest and more conservative assessment would seem appropriate.

Nevertheless, both the assessments by the NSW Treasury and the modelling outcomes by CREA and Access demonstrate that caution needs to be exercised in considering the impact of any wage increases flowing from pay equity adjustments. Naturally the Commission will balance these considerations

and also take into account the fact that the models are based upon general wage movements. I would propose to illustrate that point once again for emphasis by referring to the assessment of individual occupations undertaken by CREA. I set out the below their estimates for hairdressers and librarians:

Pay equity measures for specific occupations naturally have a much smaller impact on macroeconomic aggregates than the across-the-board measures. For instance, the long run employment effect of NSW unilateral pay-equity measures for Hairdressers and Librarians would be the transfer of over 150 jobs and around 70 jobs to RoA, respectively. This and the other projected macroeconomic effects shown in Table 6 are very small in percentage change terms. This reflects the fact that both occupations combined make up only one percent of the female wage bill in NSW. Pay equity measures to larger female dominated occupations would have correspondingly larger effects.

The only industry to be noticeably affected by a Hairdressers pay equity measure is Personal services. This industry accounts for 97 percent of Hairdressers employment. The Hairdressers occupation makes up a third of Personal services labour costs. Personal services is projected to experience an output contraction of almost 0.6 percent in NSW and a quarter of a percent nationally. All other industries are virtually unaffected by the 5 percent pay rise increase to Hairdressers.

Turning to the long run occupational effects of the two occupation-specific pay-equity measures, it is found that non-trivial effects are virtually confined to the two occupations themselves. Hairdressers are projected to suffer an employment contraction of just over 2 per cent in NSW and just under 0.9 per cent Australia wide. The corresponding figures for Librarians are -0.39 per cent and -0.13 per cent (Ex 277, Annex 3, pp 30-31).

Two further points should be noted about this conclusion by CREA.

The first one is that these estimations are based upon a much larger wage adjustment estimation than was taken as an assumption for a general wage increase under the model. Secondly, it shows relatively small impacts for those occupations (and in the case of librarians it is essentially a positive impact).

I do not agree with the submission of the Employers' Federation/Chamber to the effect that if the degree of inequity in male and female rates is considered to be of such magnitude that regulatory intervention is required, this intervention should take the form of wage restraint in male dominated occupations (Ex 446 p 131). In my view the proposal does not represent a reasonable balance between equity considerations and the economic considerations which are said to support the contention. Moreover, the proposal is entirely inconsistent with the industrial principles and wage fixing principles established by this Commission over a long period of time.

GENERAL ECONOMIC OUTLOOK

The Commission is not required to make an assessment of the State of the NSW economy *per se*. Thus, the submissions by the Employers' Federation/Chamber dealing with this matter largely go to the background in relation to which pay equity measures may be considered.

Mr Bennett gave evidence on this matter in his statement of evidence in Exhibit 331. In broad terms he concluded:

- i. The Australian economy in 1998 may be in its best short term situation for some period of time but unfortunately we are almost certainly seeing the nadir [sic] of a growth period.

- ii. Employment has grown by 2.0 percent in the twelve months to 30 April 1998 (but only 0.5 percent of this in the last quarter).
- iii. GDP increased at about 3.6 percent in the twelve months to 1 January 1998.
- iv. There was low inflation and real interest rates were also very low at about 3 to 4 percent (p 15).

Mr Bennett describes all of this as “good news” and certainly giving rise to “some cause for optimism in the job market”. However, he considers the 1997 collapse of many key Asian economies and unresolved problems in the economy as representing possible adverse prospects for the rest of the remainder of 1998 and the following two years.

As to NSW he considers that there is still not achieved a sufficiently entrenched period of economic improvement after a difficult 1996 and the first half of 1997 (Ex 331 p 15).

In Appendix A he described for NSW the period May 1998 to 2000. He states that whilst the NSW economy is performing better than one year ago, all the signs are that the period of growth has ended. Growth increased by 3.3 percent (trend estimate expenditure based) in 1997, retail sales increased by 2.0 percent, the wholesale sector showed limited signs of recovering from difficult trading conditions and unemployment was 7.3 percent in

January 1998. Investment however continued to be too low - with the last quarter of 1997 making 8 consecutive quarters of low growth each successive quarter (p 27). As to unemployment in Australia and NSW, he suggests that growth will not be high enough to significantly reduce employment below 7 per cent and it could well rise again (p 32).

In contrast, in the Australian Treasury estimates in Budget Strategy and Outlook 1998-99 in Budget Paper No. 1 for 1998/99, the following projection is given for the Australian economy:

“...the overall outlook for the Australian economy remains favourable, with ongoing solid growth, low inflation and further reductions in unemployment, continuing the economic growth that commenced after the recession in the early 1990s. (Ex 363 p 1-7)

Mr Bennett was asked about this projection and did not agree with it. It was also put to Mr Bennett that the Budget Papers, whilst recognising the effect of the Asian downturn as significant, had suggested that the effect might be substantially offset by other factors in terms of the structure and development of the Australian economy. He acknowledged that that was the effect in the Budget Papers but disputed some of the propositions contained in them. However, he did consider there were mitigating factors and hoped that the full impact of the crisis might not be felt in Australia.

I refer to some other projections in Budget Paper No. 1 (Ex 363).

These are as follows:

- i. The Australian economy experienced strong growth in private sector demand over the course of 1997 supported by low interest rates, low inflation, high corporate profits, a strengthening in the labour market and a pick-up in housing (p 1-7).
- ii. The pace of economic growth will slow in 1998-1999 as compared with 1997-1998 but solid economic growth is expected as continued strength in domestic demand cushions the Asian effect (p 2-18). Australia is still expected to be one of the fastest growing OECD economies (p 1-8). GDP is forecast to grow at 3 percent for 1998-1999.
- iii. A further reduction in the unemployment rate is expected for 1998-1999 (p 2-3). It is forecast to fall to 7.75 percent in the June quarter 1999, the lowest level since December quarter 1990.
- iv. As at March quarter 1997-1998, NSW has one of the lowest unemployment rates of all of the States of Australia as well as compared to the national unemployment rate.
- v. Inflation rates continue to be low. The long term nominal interest rates in Australia are close to those of the US indicating that financial markets believe that inflation will remain low to medium. The underlying inflation rate rose in 1998-1999 but will remain in the target range set by the Reserve Bank (2 - 3 percent). The rise

in the underlying rate did not reflect wage and price pressure so that the low inflation rate is sustainable despite strong domestic demand (p 1-8).

- vi. Dwelling investment is expected to grow rapidly in the first part of 1998-1999 but ease in the second half. The strength of the housing sector reflects high levels of housing affordability (p 2-20).
- vii. Business investment excluding asset sales is expected to ease from double digit rates of growth (with the deceleration occurring by the June quarter 1999) (p 2-21). Despite the Asian difficulties the initial investment intentions for 1998-1999 remain firm.
- viii. The Asian downturn may dampen demand for Australia's exports but will be offset to a substantial degree by the following factors:
 - a) there has not been a close relationship between economic growth in specific markets and Australia's overall export performance;
 - b) the volume of Australia's commodity exports, which account for the bulk of total exports, is mainly determined by the amount produced;
 - c) changes in overseas market conditions predominantly affect

commodity prices. However, the main influence is world industrial production rather than conditions in industrial markets. Thus the strong growth in the USA and Europe is important;

- d) there has been a diversification of Australian exports away from east Asia in to the fast growing markets of India, New Zealand, Middle East and South Africa;
- e) exchange rate movements (including the depreciation of the Australian dollar) cushion the effects of lower world prices for Australian exports on domestic incomes and improve the competitiveness of Australia's exports and import competing industries (p 1-7);
- f) increased competition in product and financial markets, combined with labour market reforms, enhance competitiveness and the capacity to respond to rapid changes in demand and supply; and
- g) Australia benefited from the reallocation of world capital flows which has contributed to higher equity prices and lower bond yields in the long established markets (p 2-3).

Mr Bennett's evidence is also to be contrasted to the economic

outlook given by the OECD June 1998 Report (Ex 445). In this Report it is suggested that the OECD area GDP grew by just over 3 percent in 1997, its best performance since 1988, in spite of the Asian financial crisis. Growth is projected to average around 2.5 percent in the 1998/99 period, though prospects may differ between the regions. As a result the unemployment rate is likely to fall only very slowly through 1999 to around 7 percent. (Ex 445, editorial). The OECD reports that over the 1990's , structural unemployment has declined in just six countries one of which includes Australia. The OECD gives an employment growth projection for Australia of 1.7 percent in 1998 and 1.8 percent in 1999 (p 4).

Mr Cox was cross examined as to economic growth in NSW and the effect of the Asian crisis and indicated that the average growth forecast for the NSW Treasury is 3 percent a year. He estimated that the effect of the Asian economic crisis was that economic growth would be a little lower in the current year as a consequence of those impacts, but basically the growth would be maintained at 3 percent instead of 4 percent. The NSW Treasury takes the view that the underlying growth in the economy remains reasonably robust in spite of some reduction which is a consequence of the Asian developments.

Professor Green considers that Mr Bennett's analysis of the NSW economy does not represent an understanding of the developments in that economy. He considers that the analysis contains numerous fundamental conceptual errors and provides few sources for the commentary (Ex 271 para 106).

Professor Green considers that the NSW economy is performing reasonably well. Growth, following the recession in the early 1990s, has been steady and, although unemployment remains high nationally, business investment and consumer spending remain buoyant. Generally the NSW economy has followed the performance of the Australian economy. Profits in both absolute and relative terms have grown strongly over recent years. Labour productivity has also risen steadily in recent years. The business climate in Australia and NSW remains a positive one. Moreover, Professor Green considers that the task of accurately projecting the impact on NSW economy of the increase in women's wages is a virtually impossible one. What can be said though is that the macro economic conditions are generally favourable at present (Ex 106 paras 112-120). Professor Green considers that the economic impact may be expected to be small whilst the equity impact would be enormous. There is no economic justification to resist removing any pay inequity (para 124).

ECONOMIC GAINS AND COUNTERVAILING CONSIDERATIONS

Efficiency and Sub-Allocation of Resources

The Crown parties argued that if there is a component of discrimination in wages for some female dominated occupations, then the resources in the economy are not being allocated in an optimal manner. Conventional economic theory suggests that if this discrimination can be removed through pay equity measures, then the overall impact will be to

increase community well-being. It is further contended that, in economic terms, community well-being improves if market failure can be corrected. This requires, for its effectiveness, to isolate pure discrimination in pay inequity in the gender earnings gap. (See - Sharp A., Register, C., and Grimes, P., in "Economics of Social Issues" (Chapter 7) (Ex 361)).

By reference to the paper provided by Associate Professor Borland, Mr Cox states that gender discrimination represents a sub-optimal allocation of resources. He states further that if this is the case then the removal of that discrimination holds the prospect of producing aggregate net economic gains (Ex 277 para 30):

Whether or not pay equity adjustments do achieve such outcomes will depend *inter alia* on the effectiveness with which they address only the pure discrimination present, and do not introduce their own distortions. Therefore, an assessment of occupations on a case by case basis that focuses on the identification and quantification of gender related work value discrimination would seem to be crucial for ensuring that the economic benefits of pay equity adjustments are maximised.

He points out that economic welfare changes brought about by pay equity adjustments are not captured by the economic modelling process and that it is quite possible for economic welfare to increase even if GDP falls. Economic welfare improves or increases because there is a better allocation of resources in the economy which is likely to lead to higher levels of productivity (para 61).

In his evidence-in-chief Mr Cox contends that gender discrimination means that if the wages being paid to women do not reflect the marginal

productivity of labour (assuming that can ever be measured), it therefore represents a potential source of inefficiency. An adjustment of wages to remove the discrimination will reflect the productivity of that labour. In this sense there can be gains for the NSW economy although he indicates that if there is not discrimination then any adjustment made would have a negative effect on the economy.

The Employers' Federation/Chamber appear in their submission to accept that real undervaluation in the pay gap represents "real efficiency losses" (Ex 446 p 123). The real point of distinction in the Employers' Federation/Chamber submission is to note that the gain in efficiency depends on there first being some discrimination element (p 126). But Mr Bennett was examined as to this very consideration. He considered that in a firm, or perhaps between firms, the payment of different wages to employees having the same marginal product on the basis of their being male or female was definitely an inefficient allocation of resources "and should be rectified, of course". He distinguished the position if a comparison was made between industries. In this case he said that it would not necessarily lead to a distortion because of what was productive work and value added.

The Crown parties in their submission (Ex 440) made a number of other propositions as to positive impacts of pay equity adjustments which I consider are appropriate considerations and will summarise below:

1. Pay equity increases would improve opportunities and choices for

women who obtain them. Economic independence and social subordination are interrelated (p 152).

2. Pay equity increases could reduce the need to rely on state support (welfare, income support etc) for some women. There is also a potential for increased cost to government where employment is reduced (p 152).
3. Pay equity increases resulting in a closer relationship of pay and productivity could contribute to more efficient allocation of resources in the economy generally (p 154).
4. Measurement of marginal productivity of labour is difficult. Both industrial relation institutions and markets operating outside them can incorporate discrimination and undervaluation of productivity in female dominated occupations. Pay equity measures can contribute to more transparent reward structures in organisations and so enhance organisations' productivity. Increased clarity in the specification of objectives, indicators and rewards can also contribute to more effective recruitment and development and a better quality workforce (p 155). More explicit criteria of organisation objectives and goals and more valid ways of measuring contributions to them are likely to enhance organisations' capacities for achieving their goals. There has been an increasing focus on the importance of relating rewards, job

performance and organisation objectives for organisational efficiency and productivity. Professor Green says in his statement that the success of high performance workplaces is based on a high skill and a high productivity approach to product markets which also include a fair wage structure in the organisation's internal labour market and not one based on low wage competition (p 155-156).

5. Pay equity may contribute to reducing occupational segregation and so lead to increased flexibility in the operation of the labour market although the effect on occupational segregation is likely to be small (p 156).
6. Pay equity increases may lead to increased workforce participation for women by improving incentives (p 157).
7. Pay incentives may provide extra incentives and capacity to pay for further training. Pay equity increases may lead to increased workforce participation of women by providing an incentive for increased labour supply. There is an additional possibility of reducing high turnover rates in female dominated industries (see evidence of Ms Bennett Ex 233 p 17) (p 158).
8. Low rates of pay and employer costs cutting can impose substantial externalities on the community. Examples of this

include increased rates of occupational injury and illness, the need for State subsidies for families of the working poor and the impoverishment of single mothers. An example of this is found in the paper produced by Dr Mayhew and Professor Quinlan on earnings, hours and injuries for clothing workers entitled "The Effects of Outsourcing Upon Occupational Health and Safety" (Ex 303). This study found that there was a significantly high level of injury for outworkers as a result of being employed under an incentive system which entails pay rates far below the award and stress in meeting deadlines (p 159).

MONOPSONISTIC LABOUR MARKETS

This leads me to a consideration of monopsonistic labour markets. Its main implication is that wage adjustments for certain classes of workers may not give rise to adverse economic impacts particularly increases in unemployment.

I note in introducing this topic that there has been some scepticism in economic circles about this concept but there has been some recent studies raising the prospect that it represents a more significant consideration. Associate Professor Borland in his paper suggests that in monopsonistic labour markets it is possible that an increase in labour costs can actually increase employment. He suggests that where an monopsonistic firm has been able to set the wage below the 'competitive market equilibrium' wage then the level of

employment will be determined on the 'supply side' of the market. Since labour supply in the monopsonistic market is increasing in wages, an increase in wages due to a pay equity policy will increase labour supply and hence employment. However where the initial wage level is set above the 'competitive market equilibrium' then employment at the firm is determined on the 'demand side'. In this case any further increase in wages will have the effect of reducing the level of employment (Ex 277, Annex 2, para 57).

In his statement of evidence Mr Cox noted what Associate Professor Borland had said. Mr Cox agreed that it is possible, in some circumstances for higher wages to lead to higher levels of employment because of the supply side response in monopsonistic labour markets. However, he says that the quantitative significance of this in the current context has not been explored (Ex 277 para 35). He describes monopsony in his evidence as follows:

Monopsony is, from the buyer side of the market, equivalent to monopoly. A monopoly is a situation where there is a single purchaser and a monopsony situation appertains when there is a single buyer in the market.

Now in a competitive market and in the perfect competition model it is assumed that there is a lot of buyers in the market, a lot of purchasers of labour and therefore each individual purchaser has no market power. They have to purchase labour at a price which is set in the market. They are price takers.

In the extreme of a monopsony, the supply curve - the supply relationship for the market is the supply relationship for the individual firm because, by definition, they are one and the same thing and therefore, in principle, they have a choice as to where they want to trade off the relationship between wage and quantity

...

He makes clear that there are degrees of monopsony and the extreme example of a company town is not necessary to consider the effect.

I have some reservation about the general application of monopsony theories in the present case notwithstanding the fact that current research would indicate the need to give much closer attention to labour markets developing on this basis. However, there is at least one significant reason why it would be considered in this current Inquiry and that is the position concerning outworkers. This is explained in the following evidence of Mr Cox:

Q: One area that will be considered in this case is the position of outworkers where the position, among other things, might be that there is an absence of alternative labour markets or labour positions for those workers and where the rates fixed in the market tend to be below award rates for a variety of reasons, which are unimportant for the present discussion. It is theoretically possible that a market so described, that monopsony conditions can in fact exist?

A: Yes it's possible that that might be the case. I have not studied that material so I am not in a position to offer an informed view on that, but it is a possibility.

Mr Richardson agreed that two essential features for the theoretical monopsony model was firstly a limit to labour mobility so there is not the usual option for labour adjusting itself for the market and secondly that super profits are found in the employer in the particular case.

Mr Bennett agreed in relation to outworkers that the employers in that industry are obtaining, "unfortunately, unfortunately", what in economic terms is described as a "super profit".

Professor Emerita Hughes agreed that one of the potential features of monopsonistic conditions was low mobility of labour. The monopsonist test has to have some regional or other hold on workers. She also considered that there may be a monopsony for outworkers which is mandated by a lack of legal implementation, saying "it seems to be inconceivable that we should tolerate that". It is therefore not a natural monopsonistic condition but a monopsony created by bad law implementation and bad social postures.

Whether or not the outworkers meet the precise economic definition of monopsony or as Mr Cox puts it they represent one of the degrees of monopsony, I am prepared to conclude that monopsonistic labour market conditions or conditions similar to those apply in the case of outworkers. In those circumstances an adjustment of wages for outworkers which is consistent with a conclusion that there is a pay inequity or gender discrimination (and provided the wage adjustments were limited to an adjustment in those terms) the provision of such wage increases to outworkers would not have an adverse economic impact and would be unlikely to cause any rise in unemployment or reduction in employment growth in that area.

INTERSTATE RATES OF PAY

Term 5 also requires that in taking into account the public interest I have regard to inter-State comparative rates. These were very few submissions received on this matter. I will summarise those that I have received.

The Labor Council submits that the inter-state rates do not comprehend relative costs of living, relative industry comparisons, the wage history for those rates and other factors contingent upon the setting of remuneration (Ex 455 para 323). It submits that such comparisons should not be a fundamental consideration in relation to equal remuneration. NPEC submits that comparative inter-state rates should be considered as part of any case-by-case assessment, where relevant, at which time a whole range of factors may be taken into account such as training arrangements, licencing provisions, product markets and other considerations of that kind (Ex 452 p 29).

The Crown submits that an increase in the remuneration of workers in female dominated occupations in NSW will initially increase the cost of labour in the targeted female dominated occupations relative to all other labour in NSW and in other States and territories, and relative to capital (Ex 459 p 107).

The Commission received very little evidence from the parties as to inter-state rates. Evidence of interstate rates was received for childcare workers (Ex 415), librarians (Ex 370) and hairdressers (Ex 371).

The particular significance which may be attached to interstate rates of pay is unclear. Certainly from the viewpoint of industrial jurisprudence I would not be prepared to make any assessments as to the comparability of rates on the limited evidence available. The undertaking of such comparisons would be extremely complex and time consuming and not realistic for this Inquiry. More

importantly I have some reservations that such comparisons will ultimately be useful in considering pay equity issues, particularly in the absence of extensive comparisons between the industries, occupations, work performed and the industrial systems. As to economic and employment impacts I do not accept that alteration in the rates of pay for the selected occupations will have a significant substitution effect for those areas by their nature and having regard to the economic evidence.

CONCLUSIONS AND FINDINGS

1. Term 5 of the Terms of Reference of this Inquiry requires the Commission to take into account, in formulating any recommendations, the public interest and for that purpose it must have regard to, inter alia, the likely effect of its decision on the NSW economy, and in particular the need to protect the employment base of the State and any adverse impact on employment opportunities for women. The Commission must also have regard to interstate comparative rates.
2. Broadly speaking, the evidence produced by most, but not all, of the submissions of the parties approached these considerations upon the assumption that the Commission would recommend an across the board increase in salaries for persons engaged in female dominated industries and occupations. This assumption is incorrect and the Commission has not recommended such an

approach in this report. Moreover, it is unlikely that the Commission would contemplate such a course under the present wage fixing system.

3. It follows that much of the expert evidence called before the Inquiry which predicted adverse economic impacts arising from pay equity measures being adopted lacks foundation because it was formulated upon the basis of this false premise. The evidence inevitably overstated the impact for this reason.
4. The Crown parties suggested that the Commission should examine female dominated occupations and industries on a case-by-case approach having regard to any pay equity or equal remuneration criteria or principles established by the Commission for such a review. In my view this approach is correct. The Commission should proceed to look at the merits of each case and in doing so weigh up or balance in a practical way pay equity considerations against the likely economic and employment impact of any application and its conformity with appropriate wage fixing and industrial principles (however amended to accommodate pay equity principles).
5. The Commission should examine and deal with pay equity issues on an evolutionary basis by factoring into award making and review, dispute resolution and agreement approving processes

active criteria designed to guard against pay inequity. In doing so, the Commission should be vigilant to ensure that the process is one which eliminates or minimises adverse economic impacts particularly upon the employment of women and thereby strikes a sensible balance between equity and economic considerations. This is an approach which is entirely consistent with both the objects of and the scheme of the *Industrial Relations Act* (1996) (NSW), and, it must be stated, with the long established wage fixing processes of this Commission.

6. Nonetheless the Commission has made a number of findings in this section as to potential economic impacts based upon the evidence called and submissions given by the parties to this Inquiry. Due to the assumptions of the parties these conclusions are often made in relation to broad based wage movements for female workers (and to that extent not on point). However, it appears to me that such a general discussion may be useful for future reviews of awards in female dominated industries and occupations and for the implementation of any pay equity principle. The following section of these conclusions is a summary of my findings.

7. Gregory and Duncan (1981) found that the equal pay decisions in 1969 and 1972 led to a large change in relative wages and were associated with a large increase in employment of females relative to males and, as a result, brought about a large change in income

distribution towards females (p 424). The changes in the relative wages of male and female employees did reduce the growth rate of female employment relative to male employment by 1.5 percent per annum over the six years during which the equal pay policy was introduced. Most of this effect was due to a reduction in employment in female dominated industries rather than a decrease in the share of females employed within industry groups (Ex 277, Annex 2, para 81).

8. The authors found that the female unemployment rate from 1964 showed a downward trend and was less cyclically sensitive than male unemployment. However, there did appear to be a slight increase in female unemployment relative to male unemployment during 1973 and 1974 at a time when the largest change in relative wages occurred.
9. In all, the authors found the female unemployment appears to have been “remarkably unresponsive to the equal pay decisions” (p 425). The substitutional response to relative wage changes appears to have been very small as a result of the equal pay decisions.
10. The conclusions of Gregory and Duncan have been generally accepted by labour economists (although with some minor differences as to the extent of any adverse impact). I accept the conclusions of Gregory and Duncan as to the impact of the 1970s

decisions.

11. The findings by Gregory and Duncan (1981) as to the impact of wage movements resulting from the equal pay decisions cannot be quarantined to the period of the 1970s. Whilst significant changes in economic circumstances have, no doubt, occurred since the 1970s, particularly in relation to the level of unemployment, there remain today many of the factors existing in the 1970s (perhaps diminished to some extent) which insulated female dominated occupations from the full impact of movements in relative wages. Significantly, female employment and labour participation has continued to rise throughout the period from the 1970s to date. There was some reduction in the rate of female employment growth in the 1990s but projections continue to indicate the likelihood of a substantial increase in female employment and participation relative to male employment (both in full-time and part-time employment). There is no clear indication of any substitution of female employment for male employment.
12. Moreover, the evidence of Professor Wooden suggests that some positive economic impacts derive from equal remuneration adjustments as such adjustments may result in the growth in female employment (as opposed to male employment) and the growth in female labour force participation. Such an outcome is consistent with the employment changes after the equal pay

adjustments of the 1970s.

13. Further, any adverse economic impacts are unlikely to be uniform in or across industries and occupations. There will be sectoral impacts which may be divergent even between classes of female workers. For example Freebairn (1998) finds that for married women, the elasticity of labour supply (representing both participation and hours of work decisions) is significantly positive (p 16).
14. I do not accept the proposition that intervention to redistribute wages according to institutionalised pay equity principles is unlikely to produce a permanent realignment with respect to a female dominated occupation. The evidence does not support a proposition that market forces align the rates over time.
15. Putting aside economic modelling processes and having regard to the general economic theory put before the Inquiry I consider that it is generally unhelpful to make broad assertions about the impact of wage movements on employment. The consequences for the economy deriving from wage movements depends upon judgments made about the assumptions for the economy and labour markets where an adjustment is contemplated. Those judgments are to be guided by theoretical and empirical evidence and the possible impacts are likely to be complex. The consequences are likely to

differ considerably between different occupational groups. For example, there was some discussion about the Hicks-Marshall rules of derived demand which suggest that the occupations in which negative employment impacts for women are likely to be greatest are those where there occurs competition for products and more scope for substituting with other occupational groups and where the occupation accounts for a large share of total costs and the demand for complementary factors of production is more price sensitive.

16. Some of the main, general theoretical propositions as to the relationship between movements in award wages across-the-board in female dominated industries and employment of female workers are:
 - i. a key determinant of the employment consequences arising from changes to award wages in female dominated occupations will be the nature of the wage adjustments and changes to the cost of labour which may occur. In this respect the size of the adjustment to award wages in female dominated occupations is critical. There is also the possibility that wage adjustments may be offset by employers.
 - ii. to the extent that equal labour market treatment of male and

females is part of an equity objective - and existing wage differences reflect unequal treatment of male and female employees - implementation of pay equity policies should improve equity outcomes.

- iii. it is likely that the introduction of some form of pay equity policy will have the effect of redistributing income in the economy which is likely to involve consequences for equity objectives.
- iv. changes in the composition of employment due to the implementation of a pay equity policy (where gender wage differences are due to females receiving lower returns for their skills than male employees and thus involving price signals to the labour market which are distorted) is likely to represent an improvement in efficiency in resource allocation.
- v. increases in award wages in specific occupational groups which cause changes in labour costs will initiate an adjustment process which is liable to involve some changes in employment. This may also have impacts for the aggregate level of employment and composition of employment. There may also be changes to labour supply. The joint effect of changes in employment and labour supply

may mean the rate of unemployment is also affected.

- vi. the magnitude of employment effects will be determined by a complex variety of factors which include the size of changes to the award wages; the nature of the ultimate effect of adjustments in wages on labour costs; firms' objectives; the nature of the labour markets in which the firms operate; the nature of consumer demand for products which the firms produce and the firms production technology.

- vii. In relation to a minimum wage or the establishment of a statutory minimum wage both the opponents and proponents of minimum wage theories have tended to overstate their respective cases. If minimum wages are set carefully they can improve the material well-being of some low wage workers, have some positive impact on wage incentives and limit the extent of earnings inequality. There may be some positive and negative employment responses and there may be a degree of non linearity in employment responses. In the broad, youth and women are the groups most likely to be in minimum wage jobs. Recent studies have demonstrated that the establishment of a minimum wage does not automatically lead to adverse employment consequences for these groups. Significant in these studies is the study of monopsonistic labour markets.

17. The Commission received the evidence as to economic modelling carried out by the NSW Treasury using an economic model known as M2R-NSW and Access Economics employing a model known as AEM/Macro. There were differences between the two models but it was generally agreed that both models were useful tools and guides as to both short term and long term economic impacts based upon certain assumptions. The models were complementary in providing predictions based on the assumptions made for the purposes of the economic simulations. In this respect they are superior to theoretical approaches because they give more precise predictions and the assumptions are clearly and precisely stated.

18. However, the actual assumptions are important in ascertaining the validity and accuracy of any predictions made as a result of the use of these models. Hence, it is important to observe that both models proceeded upon the basis of across-the-board wage increases. The CREA model simulated the impact of an across-the-board 1 percent pay rise to all employees, both male and female in all fifty-one occupations defined as female dominated (for the model) and an across-the-board pay rise for female dominated occupations sufficient to close the gender wage gap by one percentage point. Essentially the same approach was applied to the modelling carried out by Access Economics. In that case the model was applied to

examine the impact of a 2.4 percent wage increase in NSW and a 0.8 percent increase for Australia as a whole. The model was applied on the basis that the whole of the wage increase was applied to the whole of the workforce including male and female, adult and junior workers.

19. There is some debate as to whether any adverse economic impacts deriving from these general wage increases would be reduced if the wage increases were staggered over time. I consider that there must be some reduction of the impact arising from such a staggering process.

20. However, a phasing-in approach is to be distinguished from a case-by-case approach. A case-by-case approach necessarily proceeds upon the basis that there is no general across-the-board wage increase and that wage adjustments may vary or be non-existent depending upon the case. All economic models predicted a reduction in any predicted economic impact where the amount of the assumed general increase is decreased. Indeed the prediction is linear so that if the proposed general wage increase is halved then the adverse impact is halved. By its nature then a case-by-case approach must substantially reduce or dampen any general negative economic impact. This was further demonstrated in the CREA model which looked at the particular example of movements in hairdressers and librarians (albeit at a 5 percent wage increase

level) in terms of a general economic impact, and found relatively minor overall economic consequences.

21. As to the actual economic consequences demonstrated by the models, I accept the conclusions proffered by the NSW Treasury. Based upon the simulations proposed as to general across-the-board wage increases Mr Cox expressed the view that while not inconsequential, the impacts in isolation do not amount to a significant dislocation. (Ex 277 para 54) The NSW Treasury ultimately concludes that the economic modelling demonstrates that the impacts of pay equity adjustments are likely to dissipate through time. The greater the degree of overall wage restraint in response to pay equity adjustments, the more favourable would be the outcomes. As long as there is a reasonable level of economic growth obtained on average in NSW, the impacts should be absorbed by the economy without significant aggregate dislocation (Ex 277 para 58).
22. However, I acknowledge that Mr Richardson, the economist giving evidence about the Access model gave contrary predictions and suggested more significant adverse consequences may result from general wage movements. In view of that evidence I consider that the Commission should exercise caution in weighing up the impact of wage increases flowing from pay equity adjustments, both generally and in relation to particular industries. However, I would

not propose that the Commission carry out that function any differently than would occur in the ordinary exercise of its wage fixing powers.

23. The state of the Australian/NSW economy was looked at as a background consideration against which assessments of pay equity adjustments may be made. I have relied largely on projections made in the Budget Strategy and Outlook papers for 1998-1999 (and in particular Budget paper No. 1). The NSW economy has followed the performance of the Australian economy, which at a macro economic level, is performing reasonably well. The growth following the recession in the early 1990s has been steady and although unemployment has remained high, business investment and consumer spending remain buoyant. Profits in both absolute and relative terms have grown strongly over recent years. Labour productivity has risen steadily in recent years. The Australian budget papers project that the overall outlook for the Australian economy remains favourable with ongoing solid growth, low inflation and further reductions in unemployment continuing the economic growth that commenced after the recession in the early 1990s. There is no doubt that the Asian decline will have an impact but as I have set out in detail in this report there are a number of offsetting conditions which should reduce its effect on Australia.

24. There are some positive countervailing economic considerations associated with pay equity measures. Conventional economic theory suggests that if discrimination can be removed through pay equity measures then the overall impact would be to increase community wellbeing. In economic terms, community wellbeing improves if market failure can be corrected. Gender discrimination represents a sub-optimal allocation of resources such that the removal of that discrimination holds the prospect of producing aggregate economic gains. These positive effects are best produced on a case-by-case basis so as to prevent distortions in the market. It is quite possible for economic welfare to increase by the better allocation of resources in the economy.
25. There are a number of other positive impacts that may result from the introduction of appropriate pay equity principles. These are as follows:
- i. pay equity increases may improve opportunities and choices for women by providing economic independence;
 - ii. adjustments in appropriate cases may reduce the need to rely upon State support such as welfare or income support;
 - iii. pay equity measures can contribute to more transparent award structures and organisations and enhance

organisational productivity accordingly. Increased clarity in the specification of objectives, indicators and awards can also contribute to more effective recruitment in organisations as well as a better quality workforce;

- iv. pay equity principles may contribute to reducing occupational segregation so that will lead to increased flexibility in the operation of the labour market;
- v. pay equity principles may provide extra incentives and capacity to pay for further training;
- vi. low rates of pay and employer cost cutting can impose substantial externalities on the community. Examples of this include increased rates of occupational injury and illness and the need for State subsidies for families of the working poor and impoverishment of single mothers.
- vii. pay equity principles might give increased incentives to develop high performance workplaces based on a higher skill and higher productivity approach to product markets which also include a fair wage structure in organisations' internal labour markets (not based on gender).

26. I consider that there is a real possibility that a degree of

monopsony exists in relation to outworkers. It may not be a perfect monopsony but rather one of the degrees of monopsony discussed by Mr Cox in his evidence. In those circumstances an adjustment of wages for outworkers which removes the pay inequity (and is restricted to that purpose) will not have a negative economic impact upon that section of the industry such as would cause any rise in unemployment or reduction in employment for outworkers.
