

## What's Been Happening to Real Wages?

### MAJOR FINDINGS

1. Real wages in Australia rose during the period from 1982 to 1985, fell during the second half of the 1980s and then rose again in the 1990s.
2. Real wages are 6.2 per cent higher now (1996) than in 1982.
3. Real wages *after tax* for a single male with no dependents is 4.8 per cent higher now than in 1982.
4. Real *after tax* income (i.e. wages plus various family payments) for a family with a non-income earning wife and two dependent children is 4.5 per cent higher now than in 1982.

### Introduction

There has recently been some debate over what has happened to real (after adjustment for inflation) wages in Australia during the past decade and a half. This note attempts to clarify this situation by looking specifically at the change in real ordinary time (i.e. excluding overtime) earnings of a full-time employed adult male from 1982, the first year this data series became available.

The reason for looking specifically at the ordinary time earnings of a full-time employed adult male is to avoid changes in average earnings figures that could be the result of compositional changes in overtime hours worked or in the proportions of full-time and part-time employees, males and females or adults and juniors. This method however, does not take into account compositional changes in the occupational or industry distribution of workers. In Australia, average skill levels have been rising (mainly through the elimination of lower grade jobs) with the result that average earnings are higher now than they would have been had skill levels remained constant.

The note looks at three situations:

- the change in real gross earnings;
- the change in real net (after tax) earnings of a single male with no dependent children; and
- the change in real disposable income (i.e. net earnings plus

basic family payment plus parenting allowance) of a family with a non-income earning wife and 2 dependent children.

### Average Tax Rates

Since taxation affects the amount of pay that a worker actually receives in his hand, an analysis of the change in real average earnings needs to take account of changing taxation rates. The table below shows that the average taxation rate for a person on ordinary time earnings is higher now than it was at the beginning of the 1980s but lower than it was at the end of the 1980s. The effect of increasing (or decreasing) tax rates is to make real average earnings lower (or higher) than it would have been had tax rates not changed.

	Average taxation rate (%)
1981-82	23.7
1982-83	23.3
1983-84	23.5
1984-85	24.2
1985-86	25.0
1986-87	25.5
1987-88	25.5
1988-89	26.6
1989-90	24.6
1990-91	24.8
1991-92	24.5
1992-93	24.6
1993-94	24.2
1994-95	24.2
1995-96	24.7

### Results

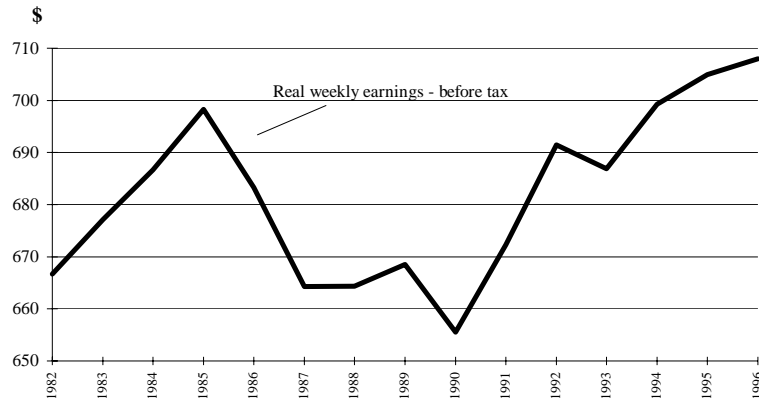
- Average weekly ordinary time earnings (AWOTE) of a full-time employed adult male rose steadily from \$310 in 1982 to \$708 in 1996. In real terms however (i.e. expressing all earnings figures

in 1996 dollars), the picture is quite different. Real AWOTE rose from \$667 in 1982 to \$698 in 1985, falling to \$656 in 1990 and rising again to \$708 in 1996. (See table 1.)

- After rising during the first half of the 1980s, real earnings after tax for a single male with no dependent children fell from \$530 in 1985 to \$491 in 1989, rising to \$533 in 1996. (See table 2.)
- In discussing the real earnings situation of a family with children, allowance has to be made for income received in the form of family payments and parenting allowance. Consider, for example, a family that consists of a full-time employed husband and a non-income earning wife with 2 dependent children. For this type of family, real after tax income rose from \$561 in 1982 to \$586 in 1985, falling to \$532 in 1989 and rising to \$587 in 1996. (See table 3.)
- Comparing real AWOTE between 1982 and 1996 we find that gross earnings have risen 6.2 per cent, after tax earnings for a single person with no dependents have risen 4.8 per cent and after tax earnings for a family (i.e. including various family payments) have risen 4.5 per cent. (Note however, these increases are overstated due to the fact that no adjustment has been made for the rising average skill level of Australian workers.)

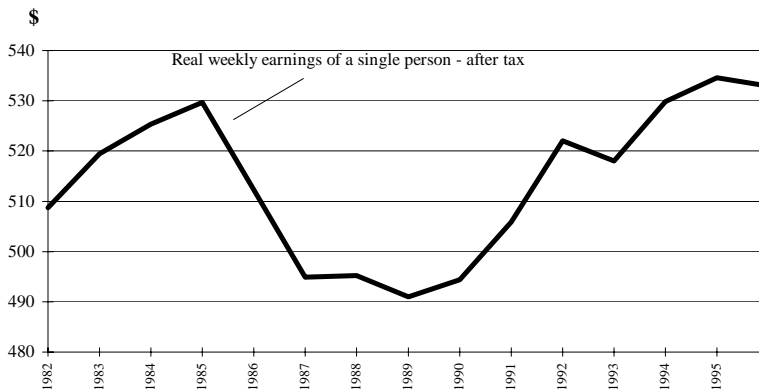
**1. AVERAGE WEEKLY ORDINARY TIME EARNINGS -  
FULL-TIME EMPLOYED ADULT MALE**

March	Average earnings:	
	Nominal \$	Real; March 1996 prices* \$
1982	309.8	666.7
1983	350.5	677.1
1984	376.2	686.6
1985	399.6	698.3
1986	427.2	683.3
1987	454.4	664.3
1988	485.7	664.3
1989	521.9	668.5
1990	555.8	655.5
1991	597.7	672.3
1992	625.2	691.4
1993	628.6	686.9
1994	648.7	699.2
1995	679.5	705.0
1996	708.0	708.0



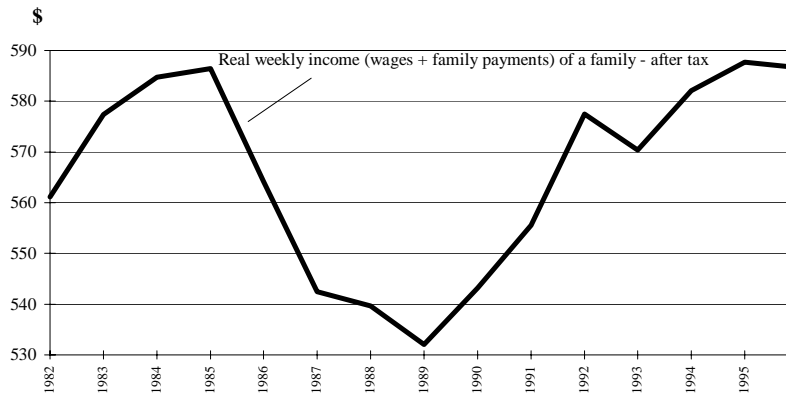
**2. AVERAGE WEEKLY ORDINARY TIME EARNINGS LESS TAX -  
FULL-TIME EMPLOYED ADULT MALE, NOT MARRIED AND WITH NO DEPENDENT CHILDREN**

March	Average earnings:	
	Nominal \$	Real; March 1996 prices* \$
1982	236.4	508.7
1983	268.9	519.5
1984	287.9	525.4
1985	303.1	529.7
1986	320.3	512.3
1987	338.5	494.9
1988	362.1	495.2
1989	383.3	491.0
1990	419.2	494.4
1991	449.8	505.9
1992	472.0	522.0
1993	474.1	518.0
1994	491.6	529.9
1995	515.3	534.6
1996	533.0	533.0



**3. AVERAGE WEEKLY ORDINARY TIME EARNINGS LESS TAX PLUS FAMILY PAYMENT AND PARENTING ALLOWANCE-  
FULL-TIME EMPLOYED ADULT MALE WITH A NON INCOME EARNING SPOUSE AND 2 DEPENDENT CHILDREN**

March	Average earnings:	
	Nominal \$	Real; March 1996 prices* \$
1982	260.8	561.2
1983	298.9	577.4
1984	320.4	584.7
1985	335.6	586.4
1986	352.8	564.2
1987	371.0	542.4
1988	394.5	539.7
1989	415.4	532.1
1990	460.5	543.2
1991	493.9	555.6
1992	522.1	577.5
1993	521.9	570.3
1994	540.0	582.1
1995	566.5	587.7
1996	586.6	586.6



\* Adjusted by the Consumer Price Index.

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*Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Parliamentary Research Service and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues.*

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