

Disappearing Middle Income Earners

Introduction

Over the last quarter of a century Australia has lost full-time middle income jobs at a startling rate—falling from 2.1 to 1.9 million, at a time when the overall number of full-time wage and salary earners has increased by almost one million. Middle income employees now account for 36 per cent of all full-time wage and salary earners, compared with 50 per cent in 1975.

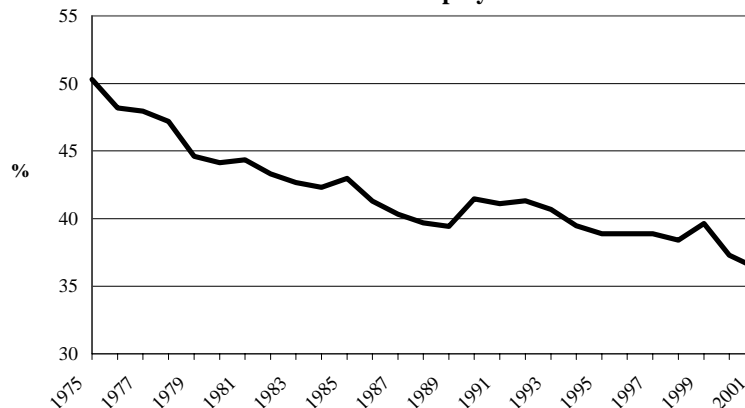
The decline in the proportion of middle income jobs is sometimes referred to as the *disappearing middle*. Occupational shifts have contributed significantly to this phenomenon and some of the factors which underlie these shifts are examined below. Also examined is the phenomenon of a *growing top* or increase in the proportion of highly skilled jobs. While certain middle paid jobs have indeed ceased to exist, other jobs have merely slipped from view in the sense of moving from a middle to lower income category. This has happened as the result of the changed distribution of jobs caused by the *growing top*.

Scope and Definitions

For the purpose of this Research Note the data only cover full-time (F/T) employees. The results are therefore unaffected by increases in the number of part-time employees, a factor which could be expected to increase the proportion of lower paid employees.

Middle income employees have been defined here as employees whose earnings from wage and salary jobs are between 80 and 120 per cent of median earnings, where the median is that level of earnings that has an equal number of employees earning above as below it. For example, if median earnings were \$1000 per week then middle

**Figure 1. F/T Employed Middle Income Earners
as % all F/T Employees**



income employees would be defined as those earning between \$800 and \$1200 per week.

Apart from middle incomes, four other income ranges have been identified. These are:

- High—above 140 per cent of median earnings
- Middle to high—between 120 and 140 per cent of median earnings
- Middle to low—between 80 and 60 per cent of median earnings
- Low—below 60 percent of median earnings.

Disappearing Middle

The proportion of all full-time wage and salary earners who are earning in the middle has fallen from half in 1975 to 36 per cent in 2001. The rate of decline was fairly rapid over the period from 1975 to 1989. It then slowed during the decade that followed but has increased somewhat in the last couple of years (Figure 1). The phenomenon of a disappearing middle is present for both male and female employees, although it is more pronounced for males.

Commensurate with the fall in middle income earners has been a very substantial rise in both the number and proportion of high income earners. Between 1975 and 2001, the number of high income earners rose by 576 000, accounting for well over half (58 per cent) the overall increase in full-time employment during this period. The result is that the share of full-time jobs held by high income earners has increased from 18 per cent in 1975 to 25 per cent in 2001. The number of middle to low income earners has also risen significantly, up by 379 000, or an increase from 13 to 18 per cent in the share of full-time jobs held by these employees. Low income earners have also increased in significance over the period, while the proportion of middle to high income earners has remained fairly stable. (Table 1.)

The trend toward a decline in the proportion of middle paid employees, while the proportion of those on high incomes and middle to low and low incomes has increased, has been associated with a general trend toward relatively higher wages for the highly skilled, and lower wages for the less skilled. The result has been an ever

Table 1. Earnings of F/T Employees

Earnings	1975		2001		Change
	('000)	%	('000)	%	1975 to 2001 ('000)
High	743.3	17.5	1319.3	25.2	576.0
Middle to high	477.2	11.3	586.7	11.2	109.4
Middle	2131.3	50.3	1902.7	36.4	-228.6
Middle to low	558.1	13.2	936.8	17.9	378.7
Low	327.8	7.7	483.7	9.2	155.9
Total	4237.7	100.0	5229.1	100.0	991.4

widening wage dispersion in Australia.

Occupational Change

Occupational shifts are central to an explanation of the disappearance of middle income employees in Australia.

Since 1986¹ a number of occupational groups have decreased in size as measured by their full-time employee numbers. These groups are tradespersons and related workers (down 35 000), advanced clerical and sales workers (down 54 000), elementary clerical, sales and service workers (down 20 000) and labourers and related workers (down 62 000). In other words, the occupational groups to have declined in number are predominantly those in which employees are middle or low paid. All other occupational groups have increased in number, especially the highly paid managers and professional groups, which have grown by more than one million persons over the period.

Borland² has identified a number of underlying economic factors that explain this shift in demand, from relatively low skilled to relatively high skilled employees. They are:

- changes in the industrial composition of product demand due, for example, to changes in the pattern of international trade, which shift relative demand towards more highly skilled types of labour that are intensive in expanding industries
- increases in the capital intensity of production where high-skill labour is a complement for

capital and low-skill labour is a substitute for capital causing an increase in the relative demand for skilled labour, and

- technological change which increases the relative productivity of and demand for high-skill employees.

'Disappearing Middle' or 'Growing Top'

The *disappearing middle* implies that certain middle paid jobs have simply ceased to exist. This would appear, however, to be in part true but also in part illusory. As discussed, the hollowing out of middle paid jobs has been accompanied by very strong growth in high paid jobs but only modest growth in middle to low paid jobs. In other words, another phenomenon strongly at work in the Australian economy is that of a *growing top*, the effect of which has been to pull up median earnings and thus change the distribution of jobs around this raised median. Many jobs that were formerly in the middle therefore, have not disappeared as such, but have simply fallen back, relative to median earnings. This would explain why middle paid jobs have decreased their job share, while middle to low paid jobs have increased.

The influence of the *growing top* on the disappearance of middle income earners can be illustrated with the example of automotive tradespersons. In 1987, the mean weekly earnings³ of a full-time employed automotive tradesperson was \$400 compared with \$461 for all full-time employees. The

average automotive tradesperson in 1987 would therefore have been defined as middle-paid since earnings were within the range of 80 to 120 per cent of the mean for all full-time employees. By 2000, however, an automotive tradesperson was earning \$630 compared with \$838 for all full-time employees, well outside the range that would have defined the average automotive tradesperson as middle-paid.

Conclusion

The trend towards a decline in the number of middle paid employees, combined with an increase in the demand for highly skilled employees, is therefore well established in Australia. These influences have resulted in increased wage dispersion, a tendency that is likely to continue if the demand for highly skilled employees continues to rise.

1. Occupational data on a consistent basis was not available for earlier years.
2. J. Borland, *Earnings Inequality in Australia: Changes, Causes and Consequences*, (Discussion Paper No. 390) ANU: Centre for Economic Policy Research, 1998.
3. Median earnings data was not available but the argument can equally be made using mean earnings data.

Tony Kryger Statistics Group Information and Research Services

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services 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. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

© Commonwealth of Australia
ISSN 1328-8016