

***Economic Analysis, Ideology & the  
Public Sphere: Insights from Australia's  
Equal Remuneration Hearings***

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by

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# This presentation

1. Describes a recent case that went before Fair Work Australia in 2010 (final decision in 2012)
2. Focuses on the mainstream economic analysis of undervaluation that was presented to the tribunal
3. Identifies mainstream economic theory and associated statistical techniques as a potential barrier to equal pay
4. Argues that debates in the public sphere can help reveal the motives, aims and social and policy implications of alternative economic analyses of undervaluation

# Wage regulation in Australia

- A federal system
  - The federal government can establish tribunals to make decisions on a range of industrial matters, including the setting of minimum wage rates for various types of work.
- Fair Work Australia (FWA) is the key institution
  - FWA can make orders to ensure that there will be equal remuneration for work of equal or comparable value.

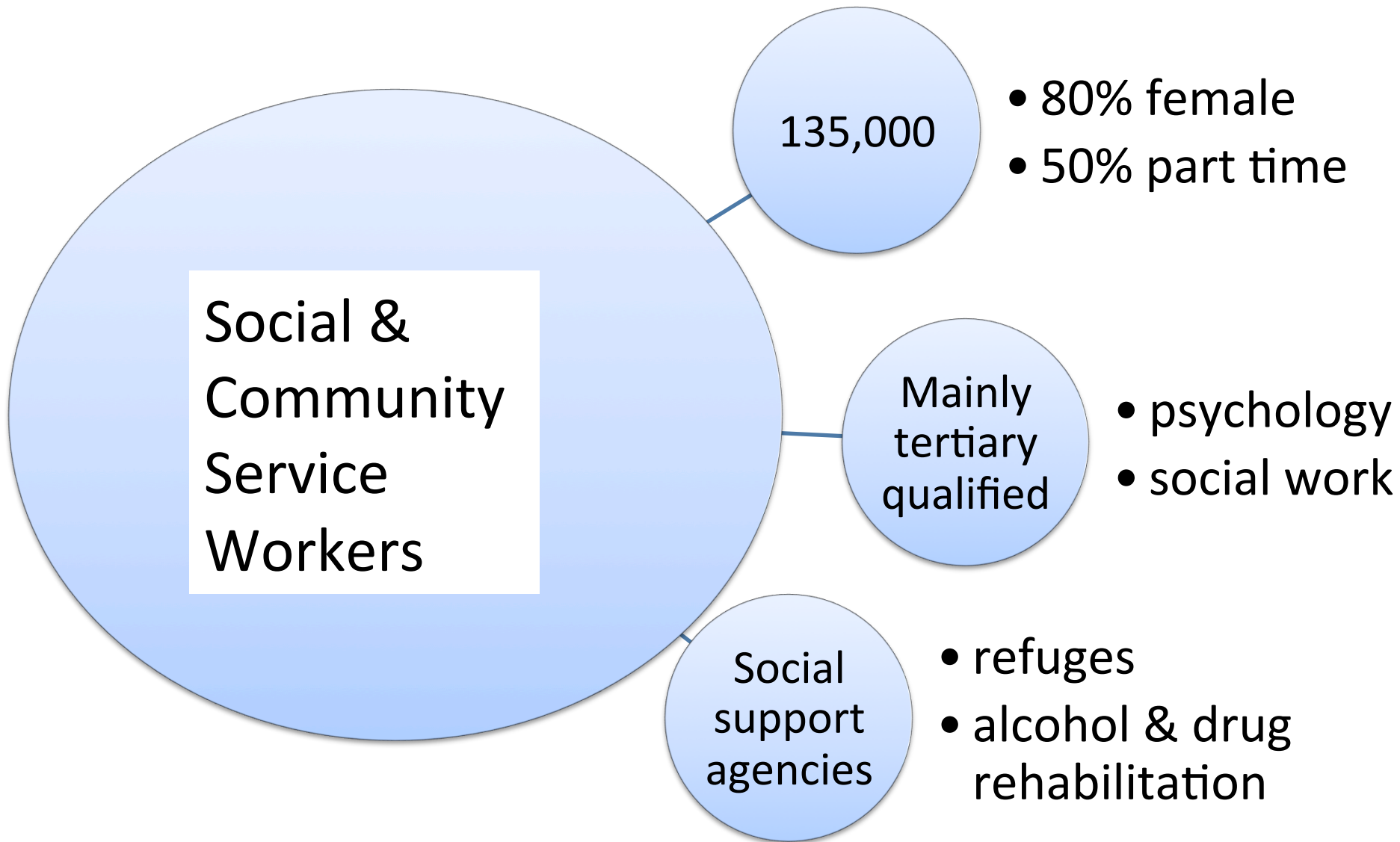
# The Australian Services Union claim for Social and Community Services (SACS) workers

In March 2010, five unions sought an equal remuneration order by FWA, arguing that a wage increase of around 30% was required to address the undervaluation of the work performed by SACS workers.

Ground 1: Workforce is feminised and undervalued with respect to skills and responsibilities

Ground 2: Historical and institutional factors contribute to ongoing undervaluation





Average full time wage....AUD30 to 36K, compared to national average of approx AUD68K

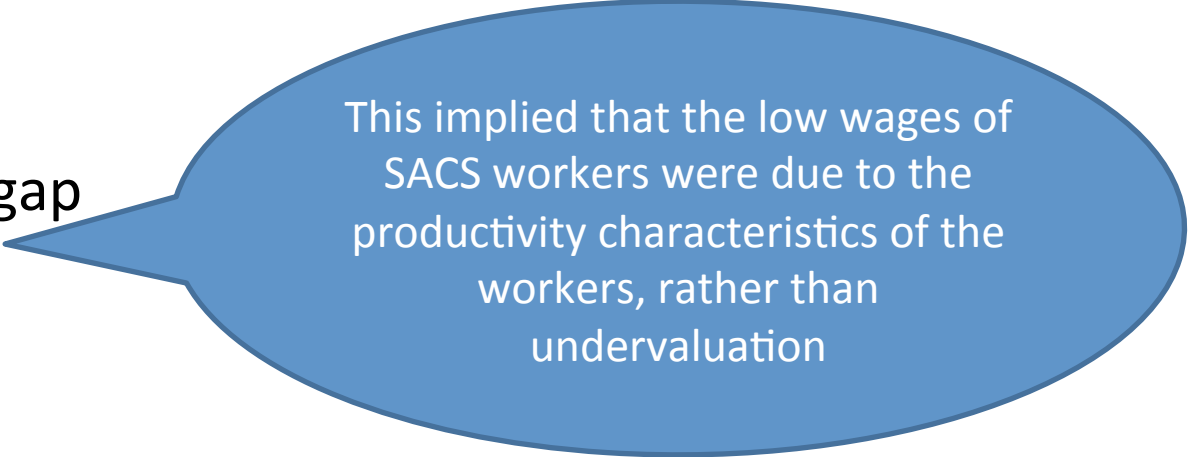
*Question to economists: Is the work undertaken by SACS workers under-remunerated and, if this is the case, is undervaluation linked with the sector's feminised workforce?*

# The mainstream economist at FWA

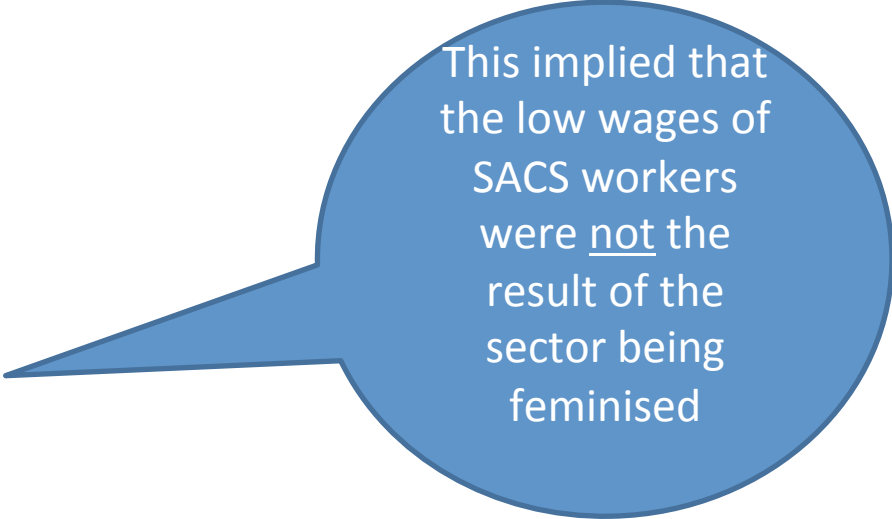
Presented two academic papers that included findings of particular importance to the case:

Decomposition of the Australian gender wage gap indicates that gender differences in wages are correlated with gender differences in characteristics.

The 'unexplained' portion of the gender pay gap *increased* when occupational controls were included in the decomposition analysis.



This implied that the low wages of SACS workers were due to the productivity characteristics of the workers, rather than undervaluation



This implied that the low wages of SACS workers were not the result of the sector being feminised

# Debate in the Public Sphere: The mainstream economist explains the theoretic

“As an economist the notion of ‘undervaluation’ has a particular meaning which requires comparison of ‘like with like’. Specifically, undervaluation (or discrimination) occurs when equally productive workers are paid differently solely on the basis of their non-productive characteristics such as gender, religion, ethnicity, race, sexual orientation, etc. ... Workers’ productivity depends not only on their own characteristics, but also on the nature of the work they do, and the value of the goods and services they provide to others. For this reason, it is difficult to make judgments about undervaluation when we cannot compare workers with the same skills (e.g. educational attainment, field of study, experience, tenure, etc.) doing the same work (i.e., hours, firm, detailed occupational characteristics).”

Note: a) only one type of economics is admitted

Note: b) undervaluation is viewed as being identical to discrimination

Note: c) the approach involves assessing wages in relation to ‘productivity’ characteristics

Note: d) a particular interpretation of productivity is used

Note: e) undervaluation is viewed as being very hard to prove



# Key issues with the mainstream approach

## 1. The concept of undervaluation

- The idea of undervaluation (of types of work being undervalued) cannot be accommodated in the conceptual framework of mainstream economics because occupations are not modelled as an object of value.
  - In the mainstream model, each person's wage reflects only *his or her individual* characteristics and circumstances, and the characteristics of *his or her particular job*.
  - That is, the individual person and the individual job are the units of analysis, not groups of individuals or groups of jobs (occupations).
  - In the mainstream model, gender based wage difference across occupations can only come about if women (as individuals) are *discriminated* against and this produces a pattern of wages across occupations that is related to occupational segregation.

Example: the mainstream economist in the FWA case was not willing to admit undervaluation unless she was able to “compare workers with the same skills (e.g., educational attainment, field of study, experience, tenure, etc.) doing the same work (e.g., hours, firm size, detailed occupation)...”

- Moreover, her testimony showed that if a gender based pattern of wages across occupations is observed, the suspicion is that ‘unobserved heterogeneity’ in either worker or job characteristics is the culprit; that the analysis is not comparing ‘like with like’.

# Key issues with the mainstream approach:

## 2: The productivity question

- The mainstream approach forces an interpretation of the influence of institutions and organisations on wage outcomes that is individualistic. Thus, for example, the influence of union membership on wages is 'explained' with reference to a presumed association between union membership and 'productivity' (the value of what is produced).
- This neglects the gendered nature of institutions and processes that may contribute to undervaluation.

# **Debate in the Public Sphere: the mainstream economist reveals the ideological dimensions of her analysis**

At the FWA hearings, the mainstream economist claimed several times that the *only* way to understand wage outcomes is in terms of the individual characteristics of workers, their jobs and what they produce.

She expressed surprise that *an economist* could view the issues in any other way – and she sought to call into question the expertise of any economist who did not subscribe to the same worldview.

- “*As an economist* the notion of ‘undervaluation’ has a particular meaning which requires comparison of ‘like with like’.... *From an economist’s perspective*, the ....is not detailed enough to draw conclusions in relation to whether undervaluation is present or whether the differences in wages are due to market conditions....*From an economist’s perspective* wages should be equal to the value of what you are producing.”

# This has all the hallmarks of what Tony Lawson (2012) labels “Ideology<sub>i</sub>”

“a relatively unchallenged set of (possibly distorted or misleading) background ideas that every society or community possesses which forms the basis of, or significantly informs, general opinion or ‘common sense’, a basis that remains somewhat invisible to most of its members, appearing as ‘neutral’, resting on preconceptions that are largely unexamined. A consequence is that viewpoints significantly out of line with these background beliefs are intuitively seen as radical, nonsensical or extreme no matter what may be the actual content of their vision.” (Lawson 2012: 3)

# The Public Sphere

- Arendt identifies the public sphere as the gathering together of citizens for the purpose of discussing and deliberating on matters of public concern.
- The sphere provides an opportunity for actors to assess the significance of their doings, their motives and intentions – and to express this as a narrative.
- The sphere is the ‘space’ where the unique identities of individuals are revealed
- To be effective, the sphere must be characterised by plurality and by speech (“men... can experience meaningfulness only because they can talk with and make sense to each other and to themselves.”)
- The ‘language’ of mathematical symbols, which can cause speech to lose its power and prevent the revelation of actors’ motives and aims, is inimical to an effective public sphere

# Conclusion

- The FWA Equal Remuneration Case was important for pay equity in Australia: In 2012, FWA awarded SACs workers a wage increase that, together with other adjustments, is expected to boost their pay by between 40 to 65 per cent over the next eight years.
- The evidence of the mainstream economic witness opposed this outcome.
- The public sphere of the tribunal hearings helped to reveal the meaning and significance of the mainstream analysis and increased the ability for others to understand and debate its findings
- Thus, we conclude that the public sphere, characterised by plurality and speech (over mathematics), can promote better economic analysis, policy and outcomes.