

Employment, Output and Real Wages

By

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Abstract

Employment in Australia over the past five years has recorded one of the strongest increases in the post-war period. This experience stands in marked contrast to that of the mid 1970s and early 1980s when demand for labour in Australia was very weak.

Recent developments provide an opportunity to look again at the relative importance of two main factors affecting the demand for labour - viz, output and real wages. This paper presents estimates of the relationship between employment, output and real wages over the past two decades. The study therefore covers three major episodes in the labour market: the contractions in employment in the mid 1970s and early 1980s and the strong growth since 1983.

The paper finds that real wages have been an important influence on employment in Australia- on average, just as important as output. The results show that a large part of the strength of employment over the past five years has been due to the fall in real wages.