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Higher pay 'doesn't always mean higher skill'

By JAMES WEIR - The Dominion Post Last updated 07:04 22/07/2009

Workers at big firms are paid up to 30 per cent more than staff at small firms and it is not because the people at the former are smarter or more skilled, according to an academic study.

But consumers may not be paying more for goods and services from big firms because they pay higher wages - those companies may just be more productive, the study says.

Waikato University professor John Gibson and Steve Stillman, of research group Motu, looked at the wage, skill and educational levels of more than 12,000 workers in nine countries.

The study included 1700 workers in New Zealand and showed a pay gap of between 16 per cent and 31 per cent on average between small firms and big firms. The gap applied across the board from secretaries to chief executives and was similar to the gap in other countries such as Britain, the United States and Ireland.

The pay gap between big and small firms is bigger than the 12 per cent gap between pay for men and women.

A study by Professor Gibson last year also showed government workers' pay is up to 20 per cent higher on average than private sector workers.

One theory is that big firms hire better workers, so pay more.

But Professor Gibson said they tested for that using a new measure of worker skills, based on their scores on literacy tests in the International Adult Literacy Survey. That found no evidence that big companies paid more because their workers were more skilled. "It may be workers in larger firms have better amounts of capital [plant machinery and technology] to work with and those in smaller firms don't," he said.

A large part of the high household debt in New Zealand is money borrowed by small businesses, secured against their owners' homes. That suggests the cost of capital for small firms may be high so they cannot afford to pay staff as much, Professor Gibson said.

But the higher wages paid to workers at big firms do not necessarily mean consumers are paying more for goods from those companies - their staff may be more productive than people at small firms.

"If wages are reflecting productivity, then it is a better product at the same price or a cheaper product [from a bigger firm]."

That suggests paying too much attention to small and medium-sized firms might be counter-productive nationally.

It may be better for workers to move into bigger, more productive firms rather than stay in small and medium-sized firms.

It may not be worth preventing mergers and acquisitions if that leads to bigger and more productive firms, though the research has not been done on that.

There might be a concern for consumer prices if there was no ready alternative to buying from a large monopoly company paying higher wages to staff.

If higher wages reflected market power and less competition for bigger firms, there may be a tradeoff between higher prices charged to consumers and the higher wages earned by workers, the report says.