



THE  
WAGES  
CRISIS  
IN  
AUSTRALIA

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What it is  
and  
what to do  
about It

Edited by  
Andrew Stewart  
Jim Stanford  
Tess Hardy



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# THE WAGES CRISIS IN AUSTRALIA

What it is and what to do about it

Edited by Andrew Stewart, Jim Stanford and Tess Hardy

The persistence of weak wages growth in Australia, at a time when the state of the economy might suggest much better outcomes for workers, has baffled policy-makers.

Andrew Stewart, Jim Stanford and Tess Hardy have drawn together expert analysts from business, universities, think-tanks, community organisations and trade unions to answer four pressing questions: What is the wages crisis? Why is it happening? Why does it matter? And what should we do about it?

Written in non-technical terms for a general audience, the essays in this book offer many insights into one of Australia's most pressing economic and social issues. They highlight the key point that wage stagnation is a problem with multiple causes and dimensions. It will not fix itself, but will need decisive policy action. In their conclusion, the editors set out their own views of what that might be.

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Andrew Stewart

Jim Stanford

Tess Hardy

*November 2018*



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# PART I

## THE PROBLEM



# 1

## AUSTRALIA, WE HAVE A PROBLEM

Jim Stanford, Tess Hardy and Andrew Stewart

### Spiking the punch bowl

Central bankers are supposed to be a rather dour lot. They are charged, after all, with maintaining the monetary and financial integrity of the whole economy. They cultivate a public reputation as prudent, cautious guardians of price stability — an independent, reliable force, ready to pounce at the first signs of economic overheating and inflationary pressure. They are the ones who come in to take away the punch bowl, just when the economic party is getting started.

This deliberately joyless public image made it all the more surprising to see Australia's central banker — Dr Philip Lowe, Governor of the Reserve Bank of Australia (RBA) — take up the cause of higher wages for Australian workers. In several interventions in 2017 and 2018, in the wake of five years of unprecedented deceleration in Australian wage growth, Dr Lowe highlighted the macroeconomic dangers of the 'crisis... in real wage growth',<sup>1</sup> and explicitly advocated bigger wage increases. It's as if, instead of taking the punch bowl away, the central banker was now pouring in extra spirits.

'Some pick-up in wages growth would be a welcome development', Dr Lowe suggested — certainly an unusual sentiment to be expressed by a central banker.<sup>2</sup> The RBA acknowledged that its own wage forecasts (along with those published by other major agencies, like Commonwealth budget projections) have erred

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repeatedly since 2011. They have consistently overestimated wage growth, and falsely predicted an always-imminent rebound in pay (rising back toward traditional annual increases of 4%), even as realised wage gains slid lower and lower.<sup>3</sup>

Wage growth bottomed out at under 2% per year for private sector workers after 2015, and slightly higher for public sector workers, as described in detail in Chapter 2 of this volume. There is no sign yet of any significant rebound. But with wages growing so slowly, it is very difficult to maintain the RBA's inflation target of 2.5% per year, Dr Lowe conceded. 'A lift in wage growth is likely to be necessary for inflation to average around the midpoint of the 2-3% medium-term inflation target.'<sup>4</sup> In fact, given normal productivity growth (of 1% or more per year), wage growth would have to reach 3.5% per year or more to be consistent with the inflation target.<sup>5</sup> Dr Lowe encouraged workers to be more aggressive with their wage demands. He hypothesised that they have been unduly deterred from demanding higher pay by fears about their job security from forces like globalisation and automation (fears which he himself believes are mostly unfounded).<sup>6</sup>

Lest any observers fear that Dr Lowe had suddenly taken on new responsibilities as a union organiser, he was quick to clarify that his interest in higher wages is mainly driven by his goal of meeting the RBA's inflation target. His admittedly 'controversial' observations were designed to lift expectations about future wage gains, preventing currently low wage expectations from becoming 'locked in' to future wage trends.<sup>7</sup> In that regard his comments are in fact consistent with the RBA's mandate. His overarching priority, after all, is to keep inflation at a stable, supposedly optimal level — and he can't do that if nominal wages and unit labour costs are growing too slowly. (Ironically, his advice was not heeded in the RBA's salary negotiations with its own workforce. They were granted annual salary increases averaging just 2% in a new three-year enterprise agreement signed in 2017.<sup>8</sup>) But even when seen through the lens of his monetary policy goals, the RBA Governor's blunt and surprising comments serve as a potent confirmation that the context for wage determination in Australia has been dramatically altered.

Dr Lowe has not been alone in highlighting the remarkable slowdown in Australian wage growth in the last several years. Other economic experts, including some from unexpected constituencies, have also noted the unusually slow pace of wages, and have warned of the significant economic and social consequences of wage stagnation. Even some business leaders, conceding that slow wage growth is holding back consumer demand, have supported higher wages. The then CEO of the Commonwealth Bank, for example, made a surprising call for new government policies to reignite wage growth.<sup>9</sup> The same bank's chief economist went so far as to propose a new 'accord' between government, business and labour to boost wages.<sup>10</sup>



## AUSTRALIA, WE HAVE A PROBLEM

Community, union and anti-poverty advocates have also voiced similar concerns about the impact of weak wage growth on family financial stability and inequality.<sup>11</sup> Even then Treasurer (and now Prime Minister) Scott Morrison acknowledged that record low wage growth was holding back household incomes, and jeopardising his own budget targets.<sup>12</sup> Mr Morrison's concern was shared by bond-rating agencies, which highlighted sub-par wage growth as a significant downside risk to the government's budget projections.<sup>13</sup>

For years, Australian economic discourse took it for granted that if wages were a problem, it was because they were too high. This mindset underpinned a long series of structural changes intended to reduce the 'wage overhang', including major changes in labour markets, social policy, industrial relations and competition policy. The Commonwealth Department of Industry recently reviewed the evolution of Australian economic policy making since the 1970s, and highlighted the influence of concerns over wage growth on the broad direction of policy from the 1980s forward:

Australian wage growth ran ahead of GDP per capita growth throughout the 1950s and 1960s which was a major source of underlying inflation. The gap opened wider in the 1970s and 1980s. This further drove up domestic inflation ... During the operation of the Prices and Incomes Accord, real wages and GDP per capita were gradually brought into alignment and alleviated inflationary pressures in the economy ... As market based approaches became more widespread, wages growth aligned more closely with growth in changes in GDP per capita.<sup>14</sup>

In fact, wages growth has lagged far *behind* per capita GDP growth in recent decades, as described in Chapters 2 and 3 of this book. So this 'alignment' with broader macroeconomic trends has not actually been attained. However, the implicit assumption that wages are generally 'too high' leads to the conclusion that this slower wage growth has somehow been economically healthy.<sup>15</sup> That cognitive framework is hard to shake off, even as evidence accumulates that wages are unusually weak. For example, in early 2014 — with statistical evidence regarding the deceleration of wages already accumulating — then Commonwealth Employment Minister Eric Abetz warned sternly of the continuing risk of a 'wages break-out':

We risk seeing something akin to the wages explosion of the pre-accord era when unsustainable wage growth simply pushed thousands of Australians out of work.<sup>16</sup>

The background concern of excess wages was then invoked to justify several measures taken by Mr Abetz's government to restrict wage growth — ranging from

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strict limits on wage increases for Commonwealth employees (discussed further in Chapter 8 of this book) to policies aimed at reducing unions' wage-setting power in the private sector.

Suddenly, this traditional concern with reducing wage pressures has been replaced with a seeming consensus that wages are too low, not too high. While this concern cuts across many economic constituencies (including business, government, unions and community organisations), there is not yet an equivalent consensus regarding the causes of the wage slowdown, nor its most promising remedies.

Since 2013, nominal wages have been growing at around 2% per year — half the rate of the 2000s, and the slowest of any sustained period since World War II. During this time nominal wages have barely kept up with consumer prices. This implies stagnation in average real earnings — and for the many workers whose pay gains have lagged behind that 2% average, real earnings have declined. Real pay has thus become delinked from labour productivity growth (which has continued during this period at typical rates), and the share of national income going to workers has consequently reduced. All this undermines household financial stability, consumer spending, further productivity growth (if there is no payoff to workers from productivity gains, the impetus for further efficiency improvements is dissipated) and government revenues.

The slowdown in nominal wage growth is not a uniquely Australian problem. Many other industrial economies, including the United States and the United Kingdom, have also experienced a visible deceleration of wage growth in the years since the Global Financial Crisis (GFC) of 2008-09. But the wage slowdown has not been universal. Several countries (including Germany and Japan) have experienced faster wage growth in this period, not slower. And the deceleration of Australian wages has been among the more severe experienced in the OECD.<sup>17</sup> So Australia can certainly learn from the experience of slower wage growth in other countries over the past decade — and from the policy responses which have been proposed or implemented elsewhere. But there is clearly also a specific Australian dimension to this problem — given both the relatively severe manifestation of wage deceleration in Australia, and the unique historical and institutional context for the slowdown.

### **Waiting for supply and demand**

Many observers have suggested that the dramatic deceleration in wage growth in recent years constitutes an economic 'mystery'. Australia's economy, after all, seemed relatively healthy even as wage growth was slowing down. To be sure, there

was a short economic downturn associated with the 2008-09 GFC, during which wage growth dipped temporarily. But Australia was the only OECD country to weather the GFC without an outright recession, thanks in part to a fast and effective stimulus programme implemented here. Overall economic activity and nominal wage growth then quickly recovered, reaching pre-GFC norms by 2011.

It was only after 2012 that a more sustained and puzzling dip in wage growth became visible. However, Australia's macroeconomy has recorded decent (if not stellar) performance throughout that period — including as measured by labour market aggregates other than wage growth. For example, the national unemployment rate hovered between 5 and 6% through most of this period. That is not much higher than the 5% threshold which is understood by many observers as equivalent to 'full employment'.<sup>18</sup> On the surface, it seems hard to reconcile the dramatic deceleration of nominal wage growth with relatively tight labour market conditions. Hence the wage slowdown does not seem attributable to normal supply and demand factors.

Conventional neoclassical economic theory holds that market-clearing pressures in labour markets are the primary force determining wages. Moreover, those competitive pressures should (in an ideal, non-distorted market setting) ensure that all participants are paid according to the marginal productivity of their output. For this school of thought, the coincidence of wage deceleration with decent labour market conditions may indeed seem puzzling. Two major responses to this seeming conundrum have been advanced:

1. The labour market is not actually as 'tight' as official unemployment statistics make it seem. In particular, historically high levels of part-time work and underemployment recorded in Australia in recent years attest to a larger pool of underutilised labour than suggested by the unemployment rate alone.<sup>19</sup> Competition between employed workers for more hours of work could be suppressing wage growth, even if the overall level of unemployment is relatively low. If and when labour market conditions tighten more robustly (absorbing underemployed workers, and other pools of 'hidden' unemployment), *then* wages will start to grow again.
2. Supply and demand forces will continue to determine wage growth in line with conventional economic theory, but that effect will only be felt with time. Australians must therefore be patient, waiting for labour market forces to perform this autonomous, efficient job.

The first of these hypotheses has some empirical support: underemployment and other forms of underutilisation are indeed relatively high.<sup>20</sup> Yet the extent of

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that underutilisation still seems modest relative to the structural break in wage trajectories visible over the past five years. It is hard to believe, for example, that a cushion of underemployed workers (concentrated particularly among young workers in service sector jobs) could have such a large negative impact on wage determination across the entire economy — larger, even, than full-fledged recessions and sustained mass unemployment during previous macroeconomic downturns.

The second hypothesis is more far-fetched. The post-2012 ‘weakness’ in labour markets that allegedly explains the deceleration of wage growth was hard to detect in the first place and is certainly not supported by current labour market data. Simply waiting for labour markets to naturally strengthen and restore conditions for robust wage growth is not an especially convincing response, when it is not at all clear that aggregate labour markets are ‘weak’ at all.

Importantly, adherents of both these ‘supply and demand’ hypotheses remain confident that market forces will eventually restore normal wage growth. Hence neither hypothesis sees a particular need for policy intervention, other than normal macroeconomic and related measures to keep the economy growing. In other words, there is nothing ‘broken’ in Australia’s labour market, and hence nothing that needs to be fixed.

This is certainly the view of the current Commonwealth government. Wage growth is thought to have slowed in response to supply and demand imbalances, and will pick up again when the labour market regains a more appropriate equilibrium (guided, as needed, by monetary policy interventions). ‘As the labour market tightens, that’s obviously going to lead over time to a boost in wages’, said Scott Morrison.<sup>21</sup> ‘The laws of supply and demand ... have not been abolished’, he added in a separate comment.<sup>22</sup> Mr Morrison’s predecessor, former Prime Minister Malcolm Turnbull, also predicted that market forces would inevitably restore wage growth: ‘It’s supply and demand’.<sup>23</sup> The Secretary to the Treasury, John Fraser, endorsed the government’s continuing faith in market forces, so long as we give them adequate time to work their magic:

Just as wages slowed in response to the period of slower growth and slack in the labour market in recent years, we expect that a period of stronger growth and falling unemployment will lift wages in the next few years. This process will take some time.<sup>24</sup>

The RBA’s Dr Lowe has also counselled patience, expressing faith in the eventual impact of labour demand on wage growth:

This, of course, does not mean that the normal forces of supply and demand have been abandoned. Tighter labour markets should still push up wages and prices, even if it takes a little longer than we are used to.<sup>25</sup>

## AUSTRALIA, WE HAVE A PROBLEM

Is this confidence in the inevitability and efficiency of market forces justified? There is no doubt that wage growth is at least somewhat sensitive to labour market supply and demand conditions. Both the exuberant pace of wage growth during the booming 2000s, and the sharp but temporary slump that occurred during the trough of the GFC, attest to the influence of macroeconomic conditions on wage deals. However, many labour economists also admit the relevance of other structural, institutional and even political factors in explaining wage patterns. It is necessary to consider the structural and institutional context for wage determination in order to explain frequent divergences between wages and their supposed underlying fundamental determinants — such as supply and demand conditions in labour markets, productivity growth (which bears only an intermittent relationship to real wage growth) or other causal factors. The absence of an obvious supply and demand explanation for the post-2012 wage slowdown, and the seeming structural break in wage determination that has occurred since then, suggest that a broader and more complete analysis is required — one that goes well beyond the traditional supply and demand frame.

### **Alternative theories:**

We are not the first to notice that persistent low wage growth is a pressing problem in this country. In addition to those just mentioned, a number of academics, commentators and think tanks have made similar observations. A plethora of suggestions about the root causes of the wages slowdown, and potential solutions, have also been proposed. At the risk of being too selective, this section surveys some of the more interesting recent contributions.

One of the most consistent themes to emerge is the notion that the system of enterprise bargaining established under Australia's main labour statute, the *Fair Work Act 2009* ('the Fair Work Act'), is 'broken'.<sup>26</sup> Historically, Australia relied on a highly distinctive system of compulsory conciliation and arbitration to resolve industrial disputes and (through legally enforceable 'awards') to prescribe minimum conditions for most employees. But that approach gave way in the 1990s to a preference for setting wages through collective negotiations at the workplace level, rather than by a centralised tribunal. This was widely considered (including at the time by key trade union leaders) to be a better way of enhancing productivity and increasing wages.

Today, however, support for that approach has significantly weakened. Declining union membership and the exploitation of what are considered by some to be 'loopholes' in the Fair Work Act have contributed to a growing imbalance of power in favour of employers. Some commentators, such as labour economist

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(and former tribunal member) Joe Isaac, believe that the changes to industrial laws over the course of the past two decades have precipitated this changing power dynamic. In his view, the way to restore the institutional mechanism for wage growth is to return to a system which mimics many of the features of the former system.<sup>27</sup> Amongst other proposals, Isaac advocates for what is now the Fair Work Commission to play a greater role, including to intervene in disputes, to conciliate, and ultimately to arbitrate. He also argues for an expansion in union rights and privileges, including enhanced rights of entry to workplaces for union officials and reinstatement of union preference clauses.

While such arguments are broadly in line with the position adopted by the Australian Council of Trade Unions (ACTU) as part of its Change the Rules campaign,<sup>28</sup> others have dismissed the role played by falling unionisation rates and reduced bargaining strength.<sup>29</sup> Previous research by Jeff Borland has suggested that industrial relations reforms have had little discernible impact on wages growth.<sup>30</sup> Bell and Keating have similarly argued that the workplace relations framework in Australia is ‘not in need of major repair’.<sup>31</sup> Rather, in their view, to address productivity and inequality concerns, the focus should be on enhancing Australia’s skill base and improving the quality of Australian management. A recent editorial in *The Age* argued that focusing on economy-wide solidarity is not only outmoded, but would potentially alienate great slabs of the non-unionised workforce. A more ‘rational’ basis for higher wages would be one founded on collaboration and mutual interest.<sup>32</sup> Or in the words of James Pearson, the CEO of the Australian Chamber of Commerce and Industry: ‘We need conversations, not confrontations’.<sup>33</sup>

Apart from weaker collective voice and reduced worker power, a host of other forces are variously invoked to explain the current wages crisis. These include technological change, automation, the emergence of big data and increased competition arising from globalisation. At the same time, there has been a growing degree of financialisation and concentration on the demand side of the labour market.<sup>34</sup> These factors are manifested in the rise of so-called superstar firms.<sup>35</sup> This term has been used to describe the way that an elite set of companies are simultaneously embracing new technologies and benefiting from global economies of scope and scale to increase their share of product or labour markets.<sup>36</sup> The productivity and profitability advantages enjoyed by these firms, such as Amazon, have been substantial.

Many of these rewards have been passed onto consumers in the form of lower prices, reinvested in the company to expand market share or returned to shareholders by way of higher dividends. However, very little tends to land in the pockets of workers.<sup>37</sup> Further, the uneven take-up of new technology produces



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productivity ‘laggards’: firms which struggle to maintain market share in the face of increasing competitive pressure, with little capacity to raise their own wages.<sup>38</sup> The adverse effects of industry concentration are magnified where unionisation rates are low.<sup>39</sup>

There may be several reasons for this emerging pattern of distribution. A number of commentators have observed that where a single company exercises monopsonistic power in a labour market, it is frequently in a position to keep wages below the level that would be set in a competitive market — a base assumption of most orthodox economic models. David Weil has further posited that businesses in concentrated markets have the power not just to hold down wages, but also to transform the structure of pay entirely through shedding direct employment responsibilities. The so-called fissuring of work has been one obvious response to intense pressure to enhance financial performance of the firm for the benefit of investors.<sup>40</sup> Fissured work has obvious consequences for enterprise bargaining and employment standards compliance. But it also has flow-on effects for wage setting, since it offers firms a legal mechanism to reduce labour costs by implementing wage discrimination. As Weil explains:

By shifting employment to subordinate organisations external to the enterprise that operate in competitive markets, the lead firm creates a mechanism whereby workers will receive a wage close to the additional value that they create. At the same time, this avoids the problem of having workers with very different wages operating under the one roof.<sup>41</sup>

Many companies in the current environment see that containing wages and benefits, and thus maximising profits and shareholder value, is an essential feature of good corporate strategy.<sup>42</sup> This is especially true if private equity is involved.<sup>43</sup> In the US, Bower and Paine have recently argued that maximising shareholder value is a form of ‘pernicious nonsense’ which is ‘flawed in its assumptions, confused as a matter of law and damaging in practice’.<sup>44</sup> This has been echoed by Michael Keating, who argues that ‘higher profits will not drive higher wages’.<sup>45</sup> Any additional profits arising from a company tax cut will not trickle down to workers, but will largely flow directly to shareholders.<sup>46</sup>

Others have argued that low wage growth may be attributable to the low level of voluntary job turnover.<sup>47</sup> In other words, workers are staying put, rather than switching to better-paying jobs. Reductions in the flow of workers between jobs may reflect increased job insecurity and a reduction in bargaining strength.<sup>48</sup> In the UK, Anthony Haldane, the Chief Economist of the Bank of England, has observed that a growth in self-employment and precarious forms of work has reduced union density and contributed to a pattern of ‘divisible’ work. Haldane explains:

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There is power in numbers. A workforce that is more easily divided than in the past may find itself more easily conquered. In other words, a world of divisible work may reduce workers' wage-bargaining power.<sup>49</sup>

Whether this sentiment applies with equal force in Australia is debatable. A number of commentators, such as Bell and Keating, have pointed to evidence suggesting that job security has not deteriorated in recent years and have downplayed this factor in explaining increases in inequality in Australia. Instead, they argue that changes to the industrial and occupational structure of jobs — including the impacts of technological change — have hollowed out middle-income jobs, leading to greater income polarisation.<sup>50</sup> To address the adverse impacts associated with these shifts in job structure, and lift the wage premium, they suggest it is critical to improve workers' education and training.

An alternative explanation for underwhelming wage growth lies in changing patterns in business behaviour. For example, some businesses are using non-wage incentives to retain staff, including offers of shares, subsidised gym memberships or additional annual leave.<sup>51</sup> Other businesses have determined that rather than raise wages across the board, strong performers should be rewarded on a more individualised basis — that is, by handing out discretionary bonuses to key staff. Indeed, the average pay flowing to ASX100 CEOs has ballooned in the past year, rising by 9%. As the current Shadow Assistant Treasurer, Andrew Leigh, has observed, that is four times faster than average wage growth over this period. Moreover, the average pay for an ASX100 CEO is now 75 times the average pay of a full-time worker.<sup>52</sup> A glaring example of this trend was the 2018 pay packet of the CEO of Domino's Pizza, Don Meij, who took home A\$37 million last financial year.<sup>53</sup> This staggering amount was paid out a mere 12 months after the Fair Work Ombudsman (FWO) identified multiple compliance failings in the franchise network Meij oversees.<sup>54</sup> The Australian Labor Party has put forward a proposal to enhance pay transparency, by requiring large listed companies to report the pay ratio between the CEO and the median employee. This policy position — which reflects similar moves in the US and the UK — purports to encourage companies 'to think about how they are serving all their workers, and society as a whole'.<sup>55</sup>

Keating and Bell have similarly argued that the fascination by employers with lowering the cost of wages (or at least those paid to non-executives) is inconsistent with both the needs of the economy and Australian cultural traditions in favour of egalitarianism and a fair go.<sup>56</sup>

Systemic underpayment and wholesale avoidance of employment laws through sham independent contracting is another potential contributor to wage stagnation.<sup>57</sup> James Pawluk of the McKell Institute has argued that many firms

are prospering at the expense of their own employees — either through deploying wage suppression strategies or via deliberate evasion of employment standards regulation. He points out that the adverse consequences of such practices go beyond the workers directly affected and serve to undermine the competitiveness of other firms paying higher wages.<sup>58</sup> Louise Thornthwaite has also highlighted that widespread wage underpayment is stripping workers of a ‘living wage’, and in doing so, undermining the very foundations of Australia’s industrial relations system. To bridge the enforcement gap, Thornthwaite, amongst others, believes that the labour inspectorate at the Fair Work Ombudsman must be beefed up — through increased resourcing, stronger enforcement powers and more biting sanctions, including possible criminalisation of so-called wage theft. Further, and more ambitiously, Thornthwaite argues for greater community and policy dialogue on the development of a new wage safety net for workers that allows people to afford the basics of a dignified life.<sup>59</sup>

If nothing more, this summary shows that while there is limited consensus on the reasons behind the wages slowdown, there is even less agreement on what should be done to address it. A common view shared by most commentators, however, is that we cannot afford to rely on market forces alone to fix the problem of faltering wage growth.

### **Finding some answers**

During 2017, like many others with a scholarly or professional interest in workplace relations, we found ourselves pondering the nature and causes of wage stagnation in this country. For the reasons already explained, we became convinced that something was going on that transcended the cyclical nature of the labour market or the broader economy. Australia was becoming locked into a pattern of static or even declining real wages for most of its workforce. We feared — and still do — that this would have serious social and economic consequences. But we were also convinced that there were many potential causes for what we were privately starting to call the wages crisis. Some of the suggestions canvassed above seemed to have merit. But none, we felt, were capable on their own of addressing what we saw as a problem with many different facets or dimensions.

Our response was to gather a group of expert researchers, commentators and stakeholders together to consider the issue. With the kind support of the institutions for which we each work, we convened an invitational workshop in Adelaide in February 2018. During the course of a very productive day, there was animated discussion about various aspects of the wages problem. The debates continued over dinner, at which we proposed the idea of having the contributors

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prepare papers for an edited collection. This would both explore particular aspects of the wages crisis in more detail, and offer possible solutions — all in terms that would be accessible to a non-specialist audience.

And so this book was born. Most of the workshop participants were willing to write up their ideas, although a few (especially those from government agencies) were not able to take that step. In subsequent discussions, we identified other possible contributors, who kindly agreed to come on board despite not having been at the workshop.

The book is divided into five parts. **Part I** is broadly concerned with identifying the scope and causes of the problem. Besides this introduction, two of the chapters have their origins in a discussion paper originally distributed prior to the workshop. In Chapter 2, Jim Stanford provides statistical evidence for the slowdown in wages growth in Australia, while in Chapter 4, Tess Hardy and Andrew Stewart discuss a range of possible causes that have their roots in Australia's complex and highly distinctive system of labour regulation. (For the benefit of readers not already familiar with that system, an explanatory overview is provided in the Appendix.) Chapter 3, written by Stephen Kinsella and John Howe, provides a global context. It compares what has happened in Australia to the situation in other countries and discusses various hypotheses for the stagnation in wages growth.

**Part II** is concerned with wage-setting mechanisms and institutions. In Chapter 5, Tim Lyons critically reviews the history of centralised wage fixing in Australia, which was transformed in the 1990s by the Keating Government's shift towards enterprise-based bargaining. Since then, the minimum wage rates set by the Fair Work Commission and its predecessors have established a 'safety net' for low-paid employees that has fallen in value relative to average earnings. Among other things, Lyons highlights the need for attention to the pay gap between male and female earnings. This is the subject of a more detailed treatment in Chapter 6 by Sara Charlesworth and Meg Smith, who explain the dimensions and causes of the persistent lack of pay equity for Australian women. They highlight the failure of processes such as award modernisation or enterprise bargaining to benefit female workers, as well as the shortcomings that have been exposed in the 'equal remuneration' provisions in the Fair Work Act. Chapter 7 sees David Peetz explore the impact of declining worker power on wages growth, with a focus on the factors both directly and indirectly limiting the achievement of pay increases through collective bargaining.

In Chapter 8, Troy Henderson traces the effect of austerity policies on wage levels both within and beyond the public sector. Besides the caps that many governments have placed on pay increases for their own employees, he highlights

the impact of measures that involve the privatisation or marketisation of public services. That theme is taken up by Fiona Macdonald and Michael Pegg in Chapter 9. They explore the difficulties created for the social and community services sector by government contracting and funding models. These have stifled wage growth in the sector, at a time when it needs not just to retain good staff but to attract new workers. Chapter 10 concludes Part II with a discussion by Kym Sheehan of some of the practices in publicly listed companies that help explain why executive remuneration has followed an entirely different trajectory to the pay outcomes for most other workers. She also examines how the remuneration packages of many managers create incentives to hold down the pay of other workers within these companies.

**Part III** shifts the focus onto some of the business structures and employment practices that have created disadvantage and precarity for Australian workers, to the detriment of their prospects of improving their pay — or indeed sometimes of receiving what they are lawfully due. In Chapter 11 Josh Bornstein discusses various examples of the ‘fissuring’ strategies mentioned earlier in this introduction. These involve firms or other organisations cutting costs by finding ways *not* to employ the labour they need. Instead, they may engage workers as so-called independent contractors or freelancers rather than as employees. They may rely on intermediaries, such as labour hire agencies, or digital platforms operating in the ‘gig economy’, to supply the workers they need. Or they may use other business models, such as franchises or supply chains, that place a legal distance between their operations and the performance of the work needed to sustain their businesses. Even where these models involve the employment of workers, it is often by franchisees, subcontractors or agencies that are under pressure to compete or subsist by holding down wages. And that frequently means underpaying employees, in breach of the Fair Work Act. The prevalence of wage theft is taken up by Keelia Fitzpatrick in Chapter 12. She provides examples of how young workers, in particular, are vulnerable to exploitation, and charts the recent exposure of such practices, as well as potential responses to the public outcry that these revelations have provoked.

A separate but related form of vulnerability is explored in Chapters 13 and 14, which are concerned with the position of foreign workers on temporary visas. Iain Campbell returns to the theme of ‘predatory’ business models, explaining how they are used to exploit many of the million-plus temporary migrants in Australia at any one time, including students or working holiday makers. That exploitation often involves the underpayment of these workers, especially in industries such as food services, horticulture, construction, personal services and cleaning. For her part, Joanna Howe exposes what she calls an ‘untold’ wages crisis facing skilled

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migrants brought to Australia on the Temporary Skill Shortage (TSS) visa, formerly called the 457 visa. This stems from the Commonwealth's decision since 2013 to freeze the Temporary Skilled Migration Income Threshold that is meant to set a salary floor for such workers.

**Part IV** of the book offers a range of stakeholder perspectives on possible causes, consequences and solutions in relation to wage stagnation in Australia. Economist Saul Eslake points out in Chapter 15 that while in the short term a larger share of national income has gone to corporate profits, 'the pie itself has been growing at a much slower rate'. With lower increases in wages has come weaker growth in household consumption spending, lower aggregate economic growth and in turn lower aggregate profits, with the prospect of worse to come. That, he notes, should be of concern to the business community — as should the contribution of lower wage growth to a 'fractious political climate' less amenable to reforms of the kind typically favoured by business. It is indeed a climate which has prompted a vocal campaign from the trade union movement for major reforms to our system of workplace relations. In Chapter 16, Damian Kyloh from the ACTU outlines the economic case — as documented by bodies such as the OECD — for more coordinated, industry-level bargaining. He also advocates a raft of other changes that would 'level the playing field' for workers and unions, and increase the wages set both through bargaining and (as a minimum standard) by the state.

The former chief executive of the St Vincent de Paul Society, John Falzon, draws in Chapter 17 on his long experience in the charity sector to discuss the social consequences of both wage stagnation and what he sees as the systematic dismantling of the welfare state. These twin pressures have forced low-paid and unemployed workers to rely on informal assistance, including from charities. He sees the revitalisation of wage growth, and a concomitant reconfiguration of social supports, as essential to the community sector's efforts to reduce poverty and human suffering. Chapter 18 likewise offers a broader take on the issue of low wages, seeing it as just one of many challenges that young people now face as they seek to transition into secure full-time work and build financial independence. The overall picture painted by Annette Cairnduff, Kelly Fawcett and Nina Roxburgh from the Foundation for Young Australians is a bleak one indeed for a generation who may be the first to be worse off in social and economic terms than their parents.

Chapter 19 returns to a business perspective, but more specifically that of investors. Craig Shepherd and Penny Heard of the advisory firm JCP Investment Partners highlight the potential impacts on listed companies of weak wages growth and revelations of wage theft. Informed by principles of responsible investment,



they explain the nuts and bolts of how decisions can be made to factor in the short-term risks associated with the current downturn. Over the longer term, they express confidence that wages growth will return and wage theft diminish, simply because the status quo is not politically sustainable.

In **Part V** we conclude by reiterating why we think wage stagnation is indeed a problem that requires a set of active policy responses, and what those might be. Chapter 20 collects and summarises some of the more notable prescriptions put forward by our contributors, before going on to outline our own suggested agenda for reform. We look not just at regulatory adjustments, but at what governments at all levels could do almost immediately to end policies of wage suppression that affect not only their own workers, but many others outside the public sector.

### **The debate continues**

As evidenced by the diversity of perspectives included in this collection, the problem of wage stagnation in Australia is as complex as it is important. Some chapters in the book explore the causes and consequences of wage stagnation, by reference to macroeconomic, structural, regulatory and gender factors. Other contributions describe how wage stagnation is being experienced throughout Australian society, including within the youth, business, union and community constituencies. Despite the diversity of their analyses, our contributors all agree that the wages crisis poses a major threat to Australia's future economic and social wellbeing — and that simply waiting for market forces to fix the problem is unlikely to be successful.

Clearly there is no single 'magic bullet' for solving the wages crisis. Policy responses will need to be thoughtful, nuanced and evidence-based. But equally clearly, the complexity of the problem cannot become an excuse for inaction. In our judgment, the wellbeing of millions of Australian households, and the future of Australia's once-vaunted reputation as a fair and inclusive society, depend on ensuring that working Australians have meaningful prospects of sharing in ongoing economic progress. This requires supporting wage growth over time as an explicit goal of economic policy, and thus restoring a better distributional balance in society.

We hope this collection will make a useful contribution to a public and policy debate that should be at the top of Australia's national agenda. We thank all the participating authors for their contributions, and welcome feedback and further dialogue.

### Endnotes

1. Greber 2017a; Bagshaw 2017.
2. Cited in Hutchens 2018b.
3. See Bishop and Cassidy 2017.
4. Cited in Hutchens 2018a.
5. Standing Committee on Economics 2018.
6. Greber 2017; Hutchens 2017.
7. Karp 2018.
8. RBA 2017: 103.
9. Yeates 2017.
10. Turner 2017.
11. See ACOSS 2018; McManus 2018.
12. Heath 2017.
13. For example, rating agencies S&P and Moody's both cautioned that slow wage growth and resulting weakness in consumer spending could undermine both demand conditions and government revenues. Moody's stated that 'sustained softness in the outlook for wages growth' was a key reason revenue growth would fall below government projections. See Greber 2017b; Uren 2017.
14. Office of the Chief Economist, Department of Industry 2018: 9.
15. Quiggin 2018 has noted the asymmetry of the Department of Industry's views on wages.
16. Quoted in Woodley 2014.
17. International comparisons of wage stagnation are discussed further in Chapters 2 and 3 of this volume.
18. Economists with government, the RBA and international organisations have estimated 5% as Australia's non-accelerating inflation rate of unemployment (NAIRU): see, e.g., Cusbert 2017. NAIRU theory suggests that if unemployment falls below the NAIRU level (which is determined by various long-run structural and institutional features of the labour market), inflation will accelerate continuously.
19. Underemployment refers to a situation in which an employee works fewer hours than they would prefer to work.
20. Stanford 2016 suggests that total underutilisation, including underemployment, discouraged participation and marginally attached workers, is closer to 15% of the adjusted labour force.
21. Quoted in Coorey 2017.

22. Quoted in Murphy 2018.
23. Quoted in *New Daily* 2017.
24. Fraser 2017.
25. Lowe 2017c: 9.
26. See, e.g., Bornstein 2018.
27. Isaacs 2018.
28. See, e.g., ACTU 2018c.
29. See, e.g., Weir 2018.
30. Borland 2012.
31. Bell and Keating 2018: 177.
32. *The Age* 2018.
33. Chalmers 2018.
34. Azar, Marinescu and Steinbaum 2017; Diez, Leigh and Tambunlertchai 2018.
35. Autor et al 2017. See also Marin-Guzman 2018.
36. Irvine 2018.
37. Irvine 2018.
38. Weir 2018.
39. Benmelech, Bergman and Kim 2018.
40. Weil 2018.
41. Weil 2018.
42. Denning 2018.
43. Schneiders 2018.
44. Bower and Paine 2017.
45. Keating 2018.
46. Clarke 2018.
47. Debelle 2018. This builds on a strand of literature in labour economics which considers how flows in and out of work affect wage demands. See, e.g., Moscarini and Postel-Vinay 2018.
48. Haldane 2018.
49. Haldane 2017.
50. Bell and Keating 2018.
51. Debelle 2018.
52. Leigh 2018; ACSI 2018.
53. Durkin 2018.
54. Ferguson 2017b.
55. Leigh 2018; and see further Schofield-Georgeson 2018.
56. Bell and Keating 2018: 158.

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57. Thornthwaite 2017; Pawluk 2018.
58. Pawluk 2018: 22.
59. Thornthwaite 2017.