



Economic Note:
Australia's Cost of Living
and Wage Crisis



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Australians are paying more to see a doctor, paying more for childcare and paying more for energy. There are millions of our fellow Australians who simply feel like they're stuck on a treadmill. New analysis by the ACTU shows the extent of the cost of living crisis that Australians are facing. A breakdown of official (ABS) data (released today) show the following increases over the last year compared to the rate of inflation;

The price of electricity has increased 553% faster than the CPI;

- Gas increased 311% faster
- Childcare increased 184% faster
- Utilities increased 384% faster
- Health increased 111% faster
- Housing increased 79% faster
- Education increased 68% faster
- Transport increased 74% faster
- Car fuel increased 484% faster

When we compare these price increases to Wage Growth (WPI) we find similarly high increase

Table One: Price Increases relative Wage Growth (WPI)

Necessity	Price increases relative to Wage growth (faster)
Childcare	170.0%
Housing	70.0%
Utilities	360.0%
Electricity	520.0%
Gas	290.0%
Health	100.00%
Education	60.0%
Transport	65.00%
Car Fuel	455.00%

This is bad news for workers but it is also bad for the general economy. The latest retail spending figures at the end of last year show Australian consumers are buying less because they cannot afford basic necessities. Retail sales suffered the biggest two-month decline in the last 7 years. The impact of stagnant wages and rapidly rising prices for critical goods and services is also reflected in data related to financial stress.

A recent survey found that among low paid employees¹:

- 19.4% could not pay their electricity, gas or telephone bills on time;
- 11.9% sought help from friends or family: and
- 18.5% were unable to raise \$2,000 dollars in a week for something important.

Consequently more and more families are going into debt. At present household debt in Australia is over 120 per cent of GDP, which makes it among the highest rates in the world. The ratio of household debt to income has nearly quintupled since the 1980s, reaching an all-time high of 194 per cent.

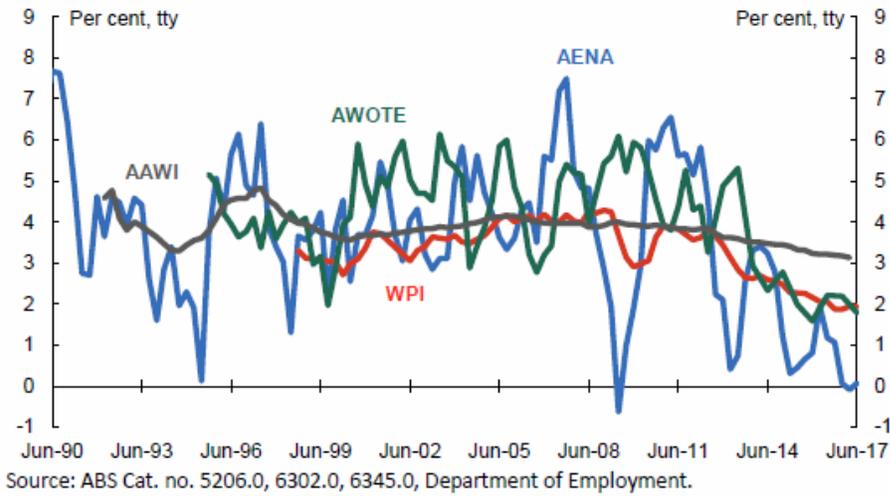
But Australians do not need the recent national accounts or CPI figures to realize their part of the economy had gone into reverse gear. Real wages have stagnated for several years. Workers have not been receiving their fair share of productivity improvements for a long time while profits have soared. Headline figures about unemployment levels provide a misleading guide when trying to judge the strength of the labour market. In recent years much of the job growth has been casual or part-time with no security and no benefits. Making ends meet has been an uphill struggle for working class families for some time. As housing costs and other expenses continue to rise most working families now feel they are being asked to climb a mountain just to survive. Australia has forfeited its reputation for a fair go as income inequality has increased and life has become harder for working Australians.

Australia's Wage crisis

On a range of different statistical measures Australia is facing record low wage growth. The Wage Price Index (WPI) grew by 2.0 per cent through the year to the September quarter 2017 which is the lowest through-the-year and is close to the lowest growth since records began. Growth in Average Earnings in the National Accounts (AENA) is at desperately low levels. AENA increased by 0.1 per cent through the year to the June quarter 2017.

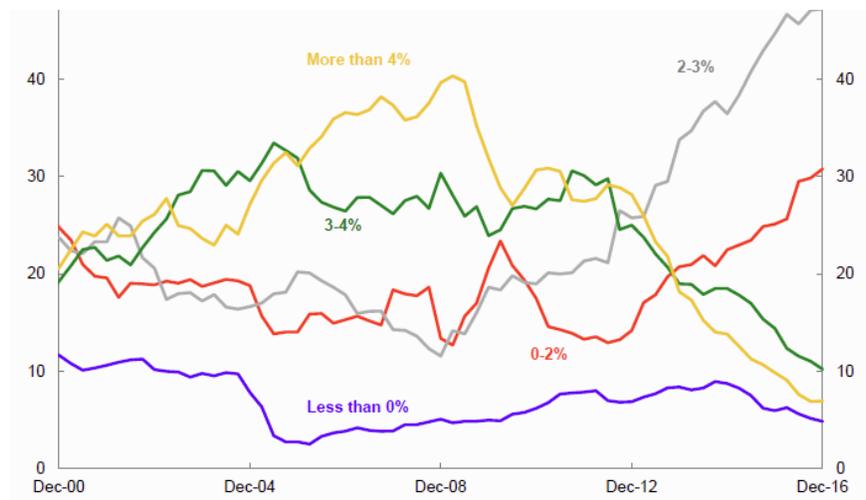
¹ Statistical Report 'Annual Wage Review 2016-17', Fair Work Commission, 1 June 2017 p 59

Graph: Wage growth is near record lows on a range of measures



We can see below that smaller wage increases are now far more common than in the past. The proportion of workers receiving an annual wage increase of between zero and 3 percent has increased dramatically over the last 5 years (see gray and red lines in graph below). Meanwhile the proportion of workers getting wage hikes of 4 per cent or more a year has diminished from around 40 per cent of the workforce to well below 10 per cent.

Graph: Smaller wage increases are now more common than in the past



Australia needs a Living Wage

No Australian working full time should have to raise a family in poverty. Every family should be able to tuck in their children at night, know they are fed and clothed and safe from harm.

But the truth is Australia's minimum wage has been forced down to dangerously low levels when compared to average wages -- stifling economic security for workers and further entrenching inequality which is now at a 70-year high. According to the OECD, the benchmark for an effective minimum wage is 60 percent of average wages. The ACTU recommends moving closer to this target.

The notion of a "fair go" is under attack from the wealthy and powerful. We are now a country full of stressed people worried about our jobs and wondering why things have not turned out as we thought they should in Australia

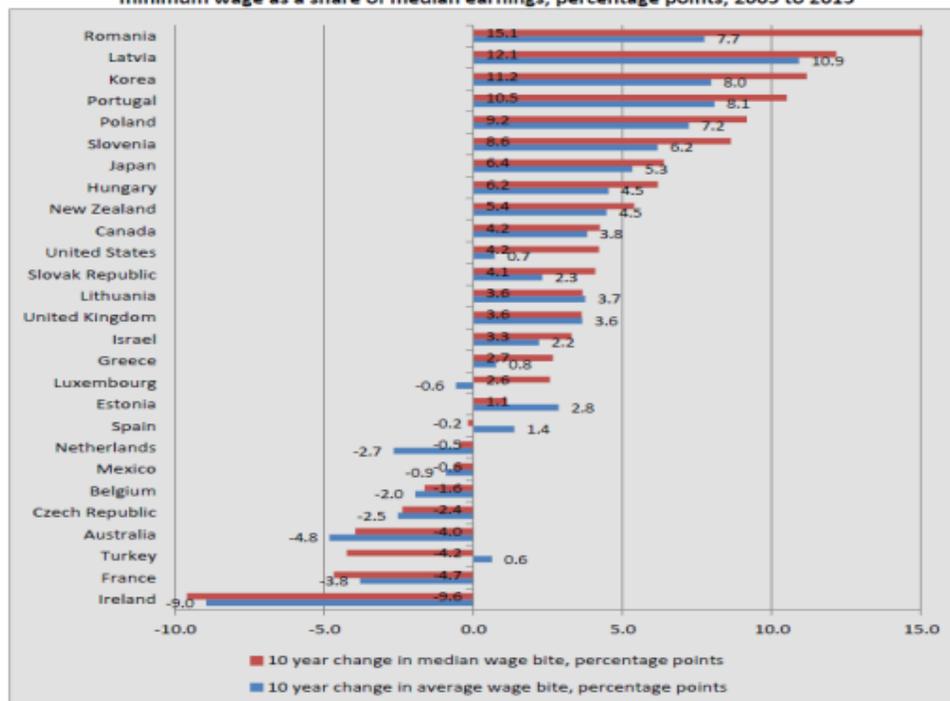
Our minimum wage once led the world. Now it does not, it has been slipping rapidly down the rankings. It has barely moved in real terms while bills have soared.

Australia's Minimum Wage is going backwards

Australia's minimum wage is going backwards and will continue to do so unless we change direction

While the importance of minimum wages in Australia has been diminishing many of the most successful economies and cohesive societies have been moving in the opposite direction. The graph below shows changes over the last 10 years in the minimum wage as a proportion of full time average earnings across OECD countries. In the literature on the economics of the minimum wage this ratio is often referred to as the "minimum wage bite": the higher the ratio the greater the impact or "bite" of minimum wages. Australia has gone from being a global pace setter with very significant minimum wage bite to being in the middle of the pack among OECD countries. Over the past decade Australia experienced the largest fall in the minimum wage bite of any OECD country. But this trend has been evident for much longer, with the ratio in Australia falling steadily for the past twenty years. If this trend continues Australia can expect to have a wage bite similar to the USA in the next two decades. Importantly, the minimum wage has fallen relative to average wages even in the industries in which low-paid workers are concentrated: retail, hospitality, health care and social assistance, as well as administrative and support services.

Figure 66 Total change over 10 years in minimum wage as a share of full time mean earnings, change in minimum wage as a share of median earnings, percentage points, 2005 to 2015



Source: OECD stats <https://stats.oecd.org/Index.aspx?DataSetCode=RMW> and ACTU calculations

The Minimum Wage has undergone a dramatic and sustained decline relative to important benchmarks

In order to take account of relative living standards and the needs of the low paid it makes sense to consider the minimum wage in relation to poverty lines and other relevant benchmarks. One such well recognized guide is 60 per cent of the median wage. The median wage being that received by the person in the middle of the income distribution which tends to be substantially lower than the average wage which is pushed up by those in the top 10 per cent of income earners. Consequently 60 per cent of the median wage turns out to be a relatively modest sum and a very reasonable benchmark when setting the minimum wage.

This is an indicator that is used by the OECD and other international organisations to provide a guide to relative poverty. Those workers earning below this threshold are deemed to be in “working poverty”. This indicator has also been used extensively by the UK Low Pay Commission in setting their minimum wage. Comparing trends in the level of the minimum wage over time with an indicator such as this enables an assessment to be made about how well the minimum wage is addressing poverty.

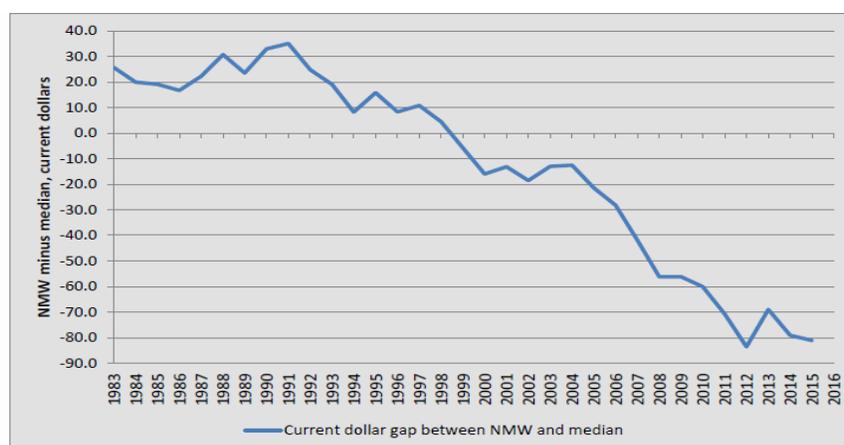
The graph below examines trends in the minimum wage relative to the median wage since the early 1980s. Historically, thanks to the wisdom of those politicians and policy makers that forged our nation, and decisions like the Harvester Judgement, Australia developed a highly centralized wage fixing system. At one time a large majority of workers were covered by award wages and for long periods all federal award wages were adjusted regularly and simultaneously.

Similar process were followed at the State level. This provided a high degree of protection for the majority of workers.

The impact of this approach can be seen in the graph below. In the 1980s and 1990s the effective minimum wage set by the Australian Conciliation and Arbitration Commission (the fore runner to the FWC) was above 60 per cent of the median wage. In fact in the early 1990s the effective minimum wage was roughly 35 per cent above this threshold. But due to far reaching reforms to the national wage fixing system this ratio fell dramatically during the 1990s. In 1999 the minimum wage fell below the median wage and for much of the last two decades the rate of decline has continued at an extremely rapid pace with a few short periods of relief.

While the minimum wage continues to be extremely important for low paid workers its role in fighting poverty has diminished dramatically in the last 30 years. It is time to arrest this trend and restore a sense of balance to our wage fixing machinery.

Trends in the minimum wage relative to the median wage over time



Sources: FWC and Bray (2013), ABS Cats 6302, 6310, 6333, 6401, and ACTU calculations

Let's not go down the American Road

If we keep heading down this road Australia will become like America. American workers have not had an increase in their national minimum wage for seven years.

The United States has the weakest labour laws and the most rapid increase in income inequality in the OECD. Income inequality in the US is roughly one-third higher than say that of Sweden.

There are many great things about the United States but there are not many people saying this is a great time to be an American worker. In fact the great American dream of an expanding and prosperous middle class has turned into a nightmare for the vast majority of workers. Over the last 30 years American employers have managed to almost wipe out trade unions, eliminate

collective bargaining and avoid any responsibility for paying overtime, penalty rates and other benefits.

The number of jobs in America has been expanding recently. But these are mainly dead end jobs, characterised by long working hours, no holidays, zero security and poverty pay levels. After decades of bad treatment American workers are desperate. Make no mistake America is threatened by corporate greed and worker exploitation. This low road to social and economic disparity is not one we want to travel. Unfortunately this is the direction that the policies advocated the Liberal Party will lead us.