# Australia needs a pay rise

Expenses are on the rise & Australians are 'feeling the heat' as real wages are going backwards.

Authorised by S. McManus, ACTU, 365 Queen St, Melbourne 3000. ACTU D No. 189/2018

Change THE RULES

ACTU

## Australia needs a pay rise

The cost of essential goods and services that families require for survival have been increasing rapidly. But wages for the vast majority of workers have stagnated. Consequently, living standards have declined and workers are being forced to take on multiple insecure jobs to make ends meet.

Meanwhile company profits, the price of shares, executive salaries and bonuses paid to senior executives in the financial and corporate world have soared. The richest people in our society have acquired a massive increase in their wealth while many low paid workers cannot afford to provide suitable shelter, energy, food and clothing for their families.

Income inequality in Australia is heading towards the levels reached in the United States. The ACTU firmly believes that hard work and increased productivity should be reflected in pay scales. But when disparities in wealth are excessive they act as a disincentive for constructive engagement in the workplace and society. People are discouraged and realise that no matter how hard, or how long, they work they will not get ahead. Australia is increasingly becoming a country in which it is "who you know and not what you know" that determines your income and standard of living. This is why people have decided the current system is unfair and there is no ladder to climb regardless of what conservative politicians claim.

Scott Morrison can say "if you have a go, you will get a go" but no one is buying his slogans and sound bites. The truth is that working people have been "having a go" for decades and building the wealth of our nation. But they have not shared in the rewards that stem from this increased productivity. For the last 30 years these rewards have been monopolised by a small elite of wealthy and powerful people.

In addition to being denied the pay increases they deserve most workers have endured a deterioration in the conditions under which they work.[1] Job security has been undermined, loopholes have been exploited to trap working people in insecure, outsourced, casualised work. Power has been shifted to the multi-national corporation and the executives making it harder and harder to achieve real wage increases. All while the Liberal/National Coalition government cuts penalty rates, turns a blind eye to worker exploitation and does nothing to improve the bargaining power of working people.

---

[1] 'Australia's insecure work crisis: Fixing it for the future', ACTU Economic Working Paper, May 2018 https://www.actu.org.au/media/1033868/insecure-work_final-18052018-final.pdf

We need to Change the Rules so that working people can come together and collectively negotiate a better deal, fairer pay and more secure work. Australia needs a pay rise that compensates workers for the true cost of living they face and the productivity improvements they have delivered over the last few decades.

## The cost of living for working families is skyrocketing and this is not fully reflected in broad indicators of inflation

The Australian Bureau of Statistics (ABS) compiles data on prices and changes in the cost of living. The most commonly used data for this purpose is the Consumer Price Index (CPI) which provides very valuable information on how prices have changed for a large "basket" of goods and services that the average family living in one of Australia's larger cities consumes.[2] The goods and services in this basket are weighted to try and reflect the spending patterns of an average household in an Australian city. This methodology provides a very good general indicator of inflation. Of course, the "average household" includes a mix of the very high income, the very low income and all those in between these two extremes. As one would expect the expenditure of a rich family will normally contain more luxury items, while a low income or working family will only have sufficient income to buy more basic goods and services.

The proponents of globalisation always argue that increased trade and longer international supply chains would reduce prices and provide consumers with a wider range of goods to purchase. It is certainly true that very wealthy Australians are more able to afford German made cars and appliances, Italian designer clothing and watches from Switzerland than was the case 30 years ago. Unfortunately, regardless of how far globalisation is pushed low paid workers are unlikely to be driving the latest Mercedes-Benz S65, carrying a Louis Vuitton handbag or wearing a gold plated Rolex watch. Yet because there are some Australians who can, and do, regularly buy such products it is right that changes in the prices of luxury items are reflected in broad measures of inflation.

Which is why broad measures of inflation may not be the only, or even the most appropriate, indicator when trying to assess if wages are adequate for the low paid. In trying to understand if wages have increased sufficiently to enable a working family to purchase the same basic goods

[2] The CPI basket covers goods and services drawn from the following 11 groups: food and non-alcoholic beverages; alcohol and tobacco; clothing and footwear; housing; furnishings, household equipment and services; health; transport; communication; recreation and culture; education; and, insurance and financial services.

and services that they bought last year or the year before, it makes sense to examine how some of the key components of the CPI have moved over time and then compare this with what has happened to wages over the same period. Adopting this approach helps to highlight the real cost of living crisis confronting working families.

One of the most commonly used indicators of wage trends is the Wage Price Index (WPI), which is also compiled by the ABS. If we compare changes in the WPI with changes in the prices of the most essential groups of items in the CPI, it becomes very apparent that the cost of these very basic goods and services has dramatically outpaced wage increases. In fact, over the last year:

- Electricity prices increased 395 % faster than wages (as measured by the WPI);
- Gas prices increased 238 % faster than wages;
- Childcare costs increased 186 % faster than wages;
- Utilities costs increased 81 % faster than wages;
- Health care costs increased 62 % faster than wages;
- Housing costs increased 47 % faster than wages;
- Education costs increased 29 % faster than wages; and,
- Transport costs increased 148 % faster than wages.

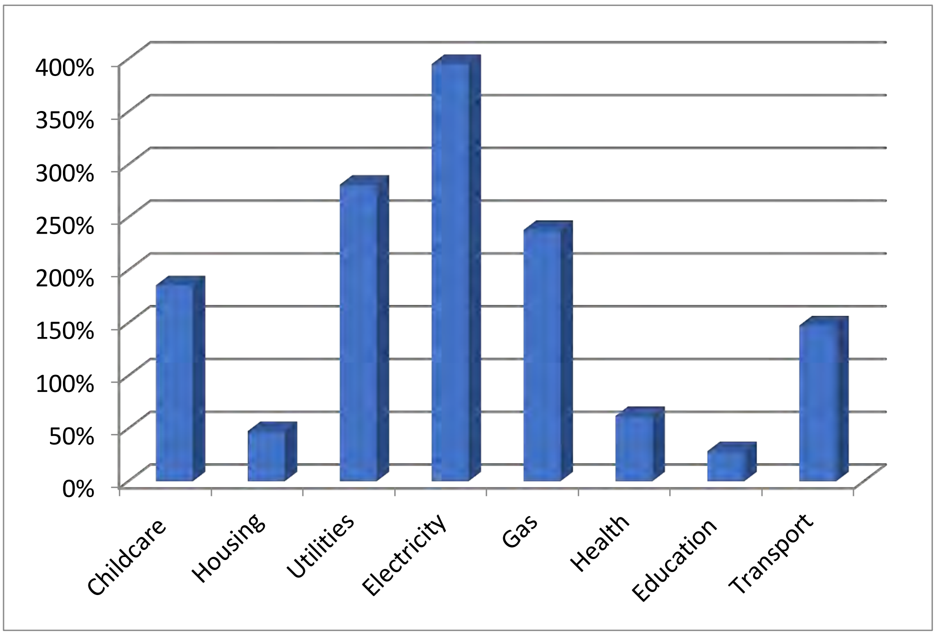
Table 1 below provides additional details on these cost and wage comparisons and Figure 1 provides similar information in graphical form.

**Table 1: The cost of essential items are increasing much faster than wages growth**

| Various essential items that are components of the CPI | Nominal price increase in essential consumption items in the year to June 2018 | Difference between the price increase for essential consumption items and the increase in the WPI in the year to June 2018 |
|---|---|---|
| Childcare | 6.00% | 185.71% |
| Housing | 3.10% | 47.62% |
| Utilities | 8.00% | 280.95% |
| Electricity | 10.40% | 395.24% |
| Gas | 7.10% | 238.10% |
| Health | 3.40% | 61.90% |
| Education | 2.70% | 28.57% |
| Transport | 5.20% | 147.62% |
| Total CPI | 2.10% | |

Source ABS and ACTU calculations

## Figure 1 : Price increases of selected basic essential items relative to increases in the Wage Price Index (year to June 2018)




Source ABS and ACTU calculations

It is evident that the cost of living for these essential items has sky rocketed. These essential goods and services make up a very large proportion of the weekly household budgets of working people. Consequently although broad measures of inflation, like the CPI, might suggest that price increases have been moderate in recent times, the real increase in costs facing working families far exceeds what the official inflation rate suggests. In fact as can be seen from Table 1 the total CPI increase over the year to June 2018 was just over 2% yet the prices of many of these essential items went up, 2, 4 or even 5 times faster than this broad measure of inflation.

This point is evident from Table 2 below which shows the "weighting" applied in the CPI to the list of basic goods and services. Take for example childcare. The weighting applied to this item in the overall measure of inflation (as measured by the CPI) is just 1.56%. It is inconceivable that a working family with two small children would be devoting less than 2% of their weekly budget to childcare. The same applies to electricity. The weighting assigned to this item in the CPI is 2.43%, but most working families are being forced to devote much more than this out of the weekly or monthly pay packets to electricity then this. Also, from Table 2 below it can be seen that the total weight applied to the combined eight consumption items we have described as "essentials" is 54.91%. If this was an accurate reflection of the typical working family consumption pattern it would imply that they would have more than 40% of their weekly or monthly pay packets left over to save or buy other luxury items after purchasing the eight essential items. Unfortunately, this is definitely not the situation for working families.

Table 2: Contribution to Total CPI to Selected Necessities

| Consumption item | Weighting applied to consumption item in the CPI |
|---|---|
| Health | 6.26 |
| Childcare | 1.56 |
| Electricity | 2.43 |
| Gas | 0.98 |
| Transport | 12.09 |
| Other utilities | 1.16 |
| Education | 4.88 |
| Housing | 25.55 |
| **Total** | **54.91** |

Source ABS and ACTU calculations

It is important to underline that the ACTU is not suggesting that the CPI is a bad, or inappropriate, measure of general inflation. The CPI remains a very important statistical tool for general economic policy. The point we are making is that the CPI was never designed to provide an indicator of price changes in the basket of goods and services that a low-income family needs for a reasonable standard of living. Components of the CPI could be used for this purpose, but they would need to be re-weighted to correspond more closely with the actual consumption patterns of low income earners.

This is why the ACTU is campaigning for a Living Wage to replace the minimum wage. A Living Wage needs to provide sufficient income for a family to cover the costs of basic necessities such as those listed in the tables and graphs above. The Living Wage then needs to be adjusted over time to reflect changes in the prices of these "basic necessities" rather than changes in the more general CPI. This would help ensure that no one working full time lives in poverty.[3]

## Working families are really struggling to make ends meet

There are a number of surveys that try to assess how families are managing given the rapid price increases noted above. One such survey is the ME Bank Household Financial Comfort Report.[4] It

3 ACTU, 2018, "Living up to the promise of Harvestor: Time for a Living wage"

4 https://www.mebank.com.au/getmedia/ce8faccb-4301-4cf7-afd7-871f9c45305e/13th-ME-Household-Financial-Comfort-Report_Feb-2018-FINAL.pdf

is important to underline that this is a survey undertaken by a bank not a trade union or NGO representing the disadvantaged. The results of the survey are therefore all the more shocking.

The Household Financial Comfort Index quantifies how Australian households feel about their current financial situation, expectations and confidence. Respondents provide answers to 11 questions on a scale of 0 to 10, with higher marks indicting a higher level of "comfort". One of the questions ask people to rate their "comfort with the overall current financial situation of the household". The average response rate to this question is reflected in the dark green line in Figure 2 below. It is evident that since late 2014 there has been a significant decline in perceptions about the family financial situation. The average response rate to this question declined to a record low of 5.93 out of 10 during the six months to June 2018.

Figure 2 shows average responses to all 11 questions and the broad trend it towards lower levels of financial "comfort". This is most clearly evident in answers to questions concerning the: 'anticipated standing of living in retirement'; 'confidence in handing a financial emergency'; and 'comfort with cash saving'. In terms of the 11 components that make up the Household Financial Comfort Index, all but one component either declined or remained static.

**Figure 2: Trends in the Household Financial Comfort Index and its components**

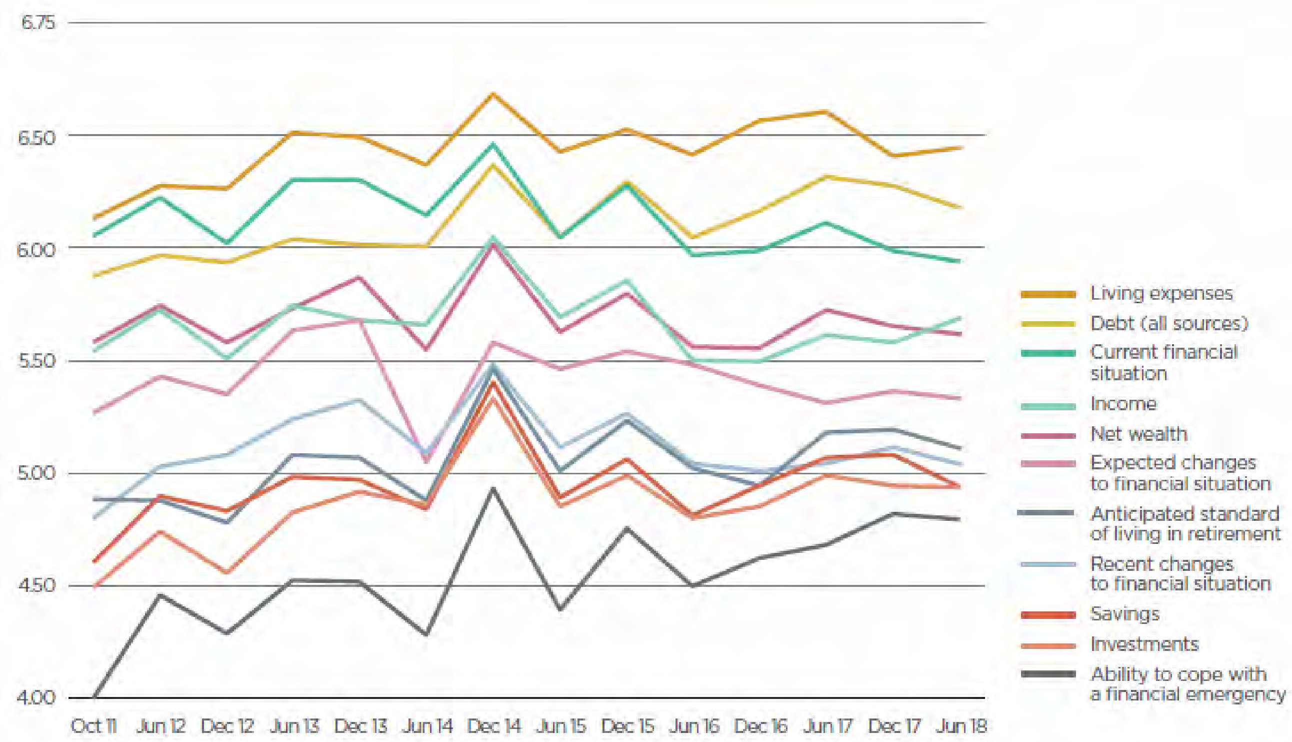



Figure 2 – The 11 components that make up the index, showing changing levels of comfort over time. Scores out of 10

Source: ME Bank Household Financial Comfort report, 2018

The impact of stagnant wages and rapidly rising prices for critical goods and services is also reflected in data related to financial stress. The bank survey attempts to assess the financial ability of families to cope with an emergency. A staggeringly high 63% of households reported they ‘could not easily raise $3,000 for an emergency’.

A recent report from the Fair Work Commission found that among low paid employees:[5]

- 19.4% could not pay their electricity, gas or telephone bills on time; and,
- 11.9% sought help from friends or family to pay their bill.

Consequently, more and more families are going into debt. At present household debt in Australia is over 120% 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 around 200%. In addition, household savings are at a 10 and a half year low. This is because stagnant wages, and rising costs, many households have had to use up their savings, or go into debt, just to pay the rent and cover their day-to-day bills.

This is a terrible situation for the working families concerned. But from a broader perspective it makes the whole economy very fragile.

Stagnant wages and increasing income inequality have negative consequences for growth and jobs. Private consumption expenditure is by far the largest single component of gross domestic product and thus a key factor determining economic growth, profit levels, private investment and employment outcomes. In the recent past private consumption has been maintained at reasonable levels, despite stagnant wages, because families have run down their savings or gone increasingly into debt. But there are limits to this process: savings are being wiped out and the banks are finally being asked to take a more responsible attitude to private debt levels. Consequently, without suitable wage increases Australian companies will soon find it much more difficult to sell their goods and services. This is why conservative institutions, like the Reserve Bank of Australia, are also concerned about the current wage crisis.

[5] Fair Work Commission, Statistical Report ‘Annual Wage Review 2016-17’ 1 June 2017

## Rising income inequality has reached critical levels

There are a variety of ways to measure the inequality of income and wealth in a country. Previous economic briefing notes from the ACTU have presented data concerning trends in wage differentials between high and low income earners and other common measures of inequality such as the so-called Gini coefficient[6]. No one disputes the veracity of these measures and the fact that income and wealth inequality is much greater today then was the case in previous decades. However, some conservative politicians and commentators have suggested that recently income inequality has stabilised at these high levels.

Unfortunately, this seems not to be the case. The Household Financial Comfort Index Reports, prepared by a bank, provides insights about income changes over the last year for families in different income brackets, age groups, housing tenures and regions. For example, 51% of households with incomes over $100,000 reported 'income increases' in the last year, while only 12% of households in this income bracket reported 'income falls' in the same period. In contrast, only 19% of households with annual incomes less than $40,000 reported 'income gains', while 38% reported 'income falls'. This survey confirmed other evidence suggesting stagnating wages and incomes for low and middle-income earners. In fact, a massive 43% among household with incomes less than $40,000 a year reported that their nominal incomes had not increased despite the rapid price increases noted previously in this briefing note.

**Figure 3: Changes in household income for families in different income brackets (changes over the last year)**


Source: ME Bank Household Financial Comfort Report, 2018

[6] 'Rising Inequality: An Australian Reality', ACTU Economic Working Paper, 2017. Please see; https://www.actu.org.au/media/1033439/actu-ineqaulity-report-2017.pdf

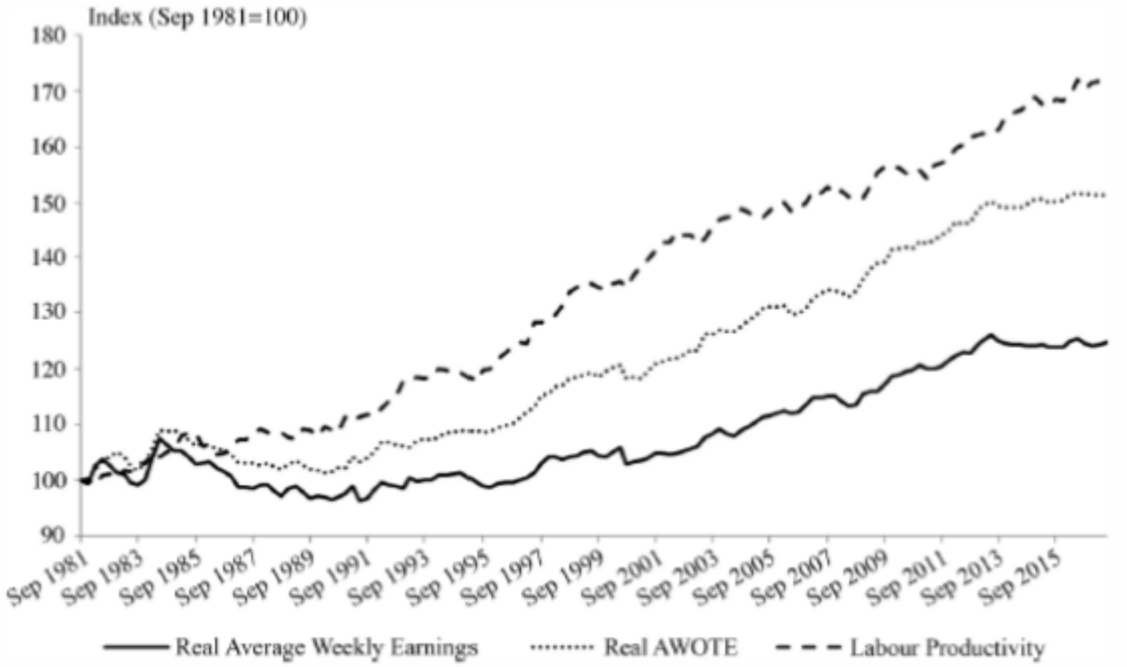
This recent bank survey merely reinforces the message derived from more official economic data sources and suggests that the deterioration in income inequality that has been evident in recent decades continues. In fact data from the Australian Taxation Office (ATO), the Australian Bureau of Statistics (ABS) and the OECD all confirm that income and wealth inequality in Australia has reached critical levels.[7] For example, data from the ATO for 1996, when the Howard government was first elected, until 2016, which is the latest available taxation statistics, indicates that total incomes for the top 10% of the income earners have grown far more rapidly than the incomes of those at any other point in the income distribution.[8] In fact over this twenty year period the incomes of the top 10% increased so rapidly that they were the only group of people who enjoyed an increased share of total income.[9] For the remaining 90% of Australians their share of our national income declined between 1996 and 2016.[10]

## Australian workers have not received their fair share of national income for the last 30 years and the wage crises has intensified recently

A gap between national productivity growth and the growth in real average weekly earnings began to emerge in the late 1980s and this gap has expanded continuously over the last 30 years. In fact between the late 1980s and early 2000s real average weekly earnings remained almost flat. This meant that all the gains from productivity growth were accruing to profits. Thereafter the global commodity boom, which generated rapid investment in our resources sector, disguised for a time the fundamental changes in power relationships between capital and labour. For the next decade rapid wage hikes in remote mining towns meant that real average weekly earnings did increase moderately. But even in this period, average real earnings growth failed to match national productivity growth (please see Figure 4 below).

[7] Grundoff, Matt, 'Gini out of the Bottle', The Australia Institute, June 201
[8] Ibid
[9] Ibid
[10] Ibid

## Figure 4: Wages lagging behind labour productivity




Source: ABS[11]

Around 2012 the Chinese authorities realised that their economic growth model, which had relied on extremely rapid infrastructure and housing construction, was politically and economically unsustainable. They moderated their growth ambitions and opted for a more balanced combination of consumption and investment. The global price of iron ore and other resources we sell went into free fall and investment in the mining sector declined. Without a rapid wage push from the mining and construction sectors the growth in real average weekly earnings stalled. Average real wages have remained on a flat trajectory over the subsequent six years.

The global commodity boom was an exceptional period and is unlikely to be repeated. It helped mask the underlying weakness in wages that began in the late 1980s and which can be traced to the combination of global economic reforms and domestic policy choices.

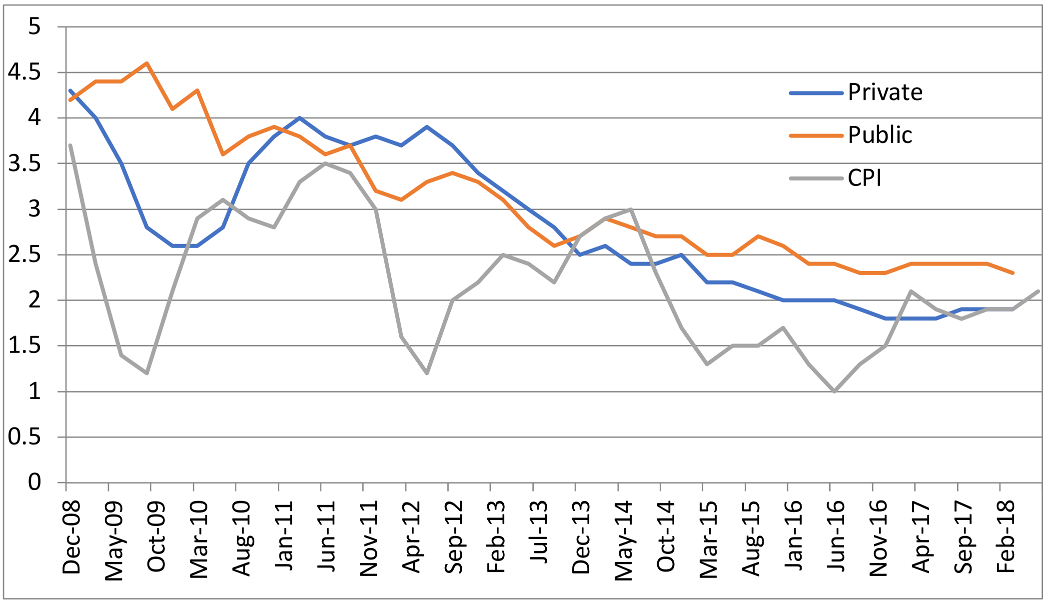
A closer look at the most recent data confirms that the wage crisis continues to intensify. Figure 5 presents ABS data on wage growth in both the public and private sectors of the economy over the last decade, as well as trends in inflation (CPI) over the same period. The long-term decline in

---

[11] Reproduced from, Isaac, Joe, 'Why Are Australian Wages Lagging and What Can Be Done About It? ', the Australian Economic Review, 2018

nominal wages in both the public and private sectors is clearly evident. Since mid-2016 the rate of nominal wage growth in both sectors has stabilized at very low levels, in fact below 2.5% annual growth in the public sector and around 2% in the private sector. However, inflation has picked up since mid- 2016 and recently the inflation rate has surpassed average nominal wage growth in the private sector. Overall private sector wages are currently growing at less than the rate of inflation. This means that for most Australians their real wages, and thus their living standards, are now going backwards.

**Figure 5: Private and public sector wages growth and inflation 2008-2018**




Source ABS

While most Australians are experiencing declining or stagnating real wages, chief executives are doing better than ever. The latest survey by the Australian Council of Superannuation Investors revealed that financial year 2017 was a hugely lucrative one for chief executives. Median annual pay for Chief Executives rose to $4.36 million and their bonuses increased by 18% in a year.[12] The top ASX 200 earners in the 2017 financial year included Dominos Pizza enterprises chief executive Don Meij on $36.8 million, Peter and Steven Lowry of Westfield at $25.9 million, Macquarie Group chief executive Nicholas Moore at $25.2 million with Qantas CEO Alan Joyce at $11.2 million[13].

[12] Australian Council of Superannuation Investors, CEO Pay in ASC 200 Companies, July 2018. Please see; https://www.theguardian.com/australia-news/2018/jul/17/ceos-12-pay-rise-routine-bonuses-tone-deaf-investorgroup-says

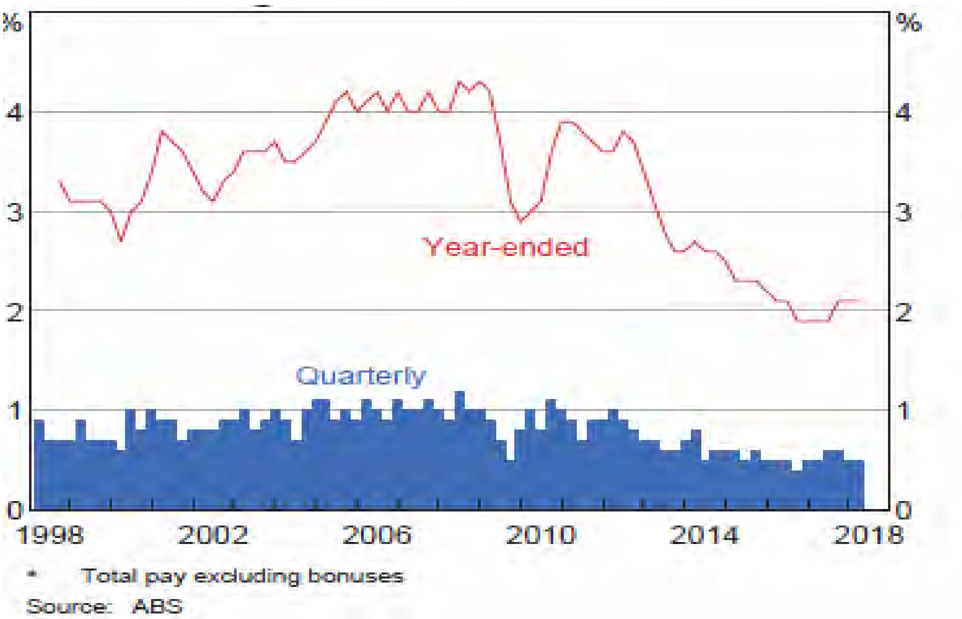
[13] Australian Council of Superannuation Investors, CEO Pay in ASC 200 Companies, July 2018

The pay gaps between the boss and the average worker in Australian companies is now obscene. Average CEO pay (excluding bonuses) is now around 22 times that of average full time adult earnings.[14] Yet our Government has decided these same executives deserve to become even more wealthy and powerful through personal income tax cuts that are targeted towards the very richest in our society.

## A closer look at various indicators of wage growth paints a bleak picture

There are a variety of statistical indicators that can be used to monitor wage trends. The most commonly cited indicator in the media tends to be the Wage Price Index produced by the ABS. Trends for this indicator are presented in Figure 6. The data suggests recent nominal wage growth is at, or very close to, the lowest level since the ABS began publishing this indicator.

**Figure 6: Trends in the (annual and quarterly) growth of the Wage Price Index**




Source: Reserve Bank of Australia

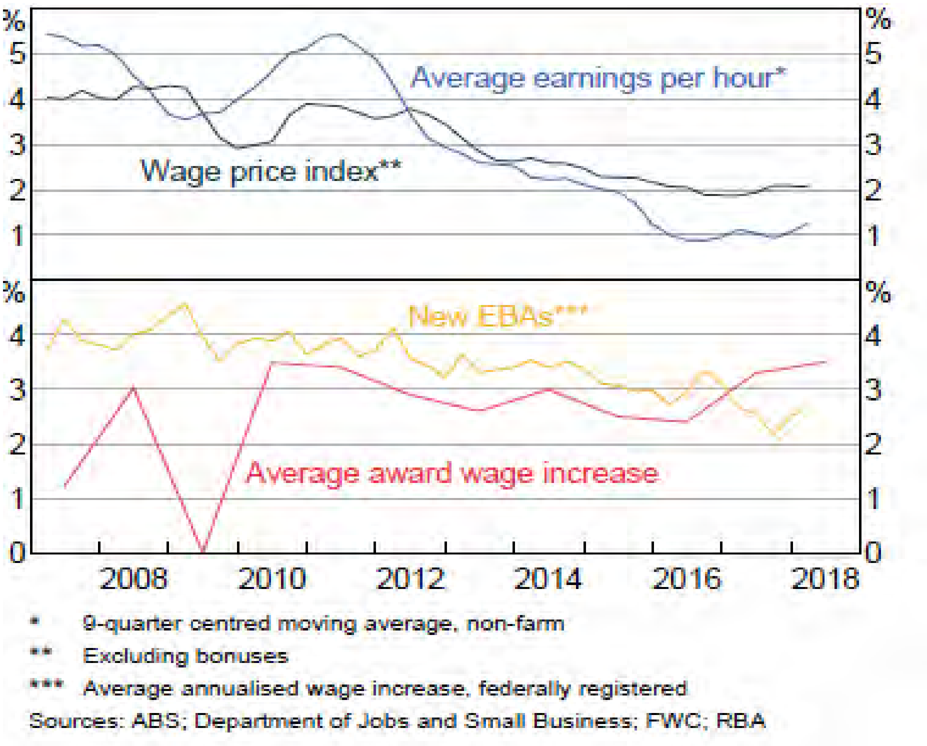
However, it is important to look beyond nominal wage growth to capture an accurate picture of household financial affairs. The Reserve Bank of Australia has recently drawn attention to an alternative ABS generated measure of wages and salaries. This is the Average Earnings per hour

[14] Australian Council of Superannuation Investors, CEO Pay in ASC 200 Companies, July 2018. Please see; https://www.theguardian.com/australia-news/2018/jul/17/ceos-12-pay-rise-routine-bonuses-tone-deaf-investorgroup-says

indicator produced as part of the National Accounts (AENA). This measure captures a wider range of payments than the WPI, because in addition to basic wages it includes allowances, superannuation and redundancy payments. Moreover, this indicator takes into account changes in the composition of employment. This is important because changes in who has a job can produce misleading impressions about what is happening to wages. For example, in a recession many low paid workers may get sacked and as a result the average wage of these remaining in jobs increases.

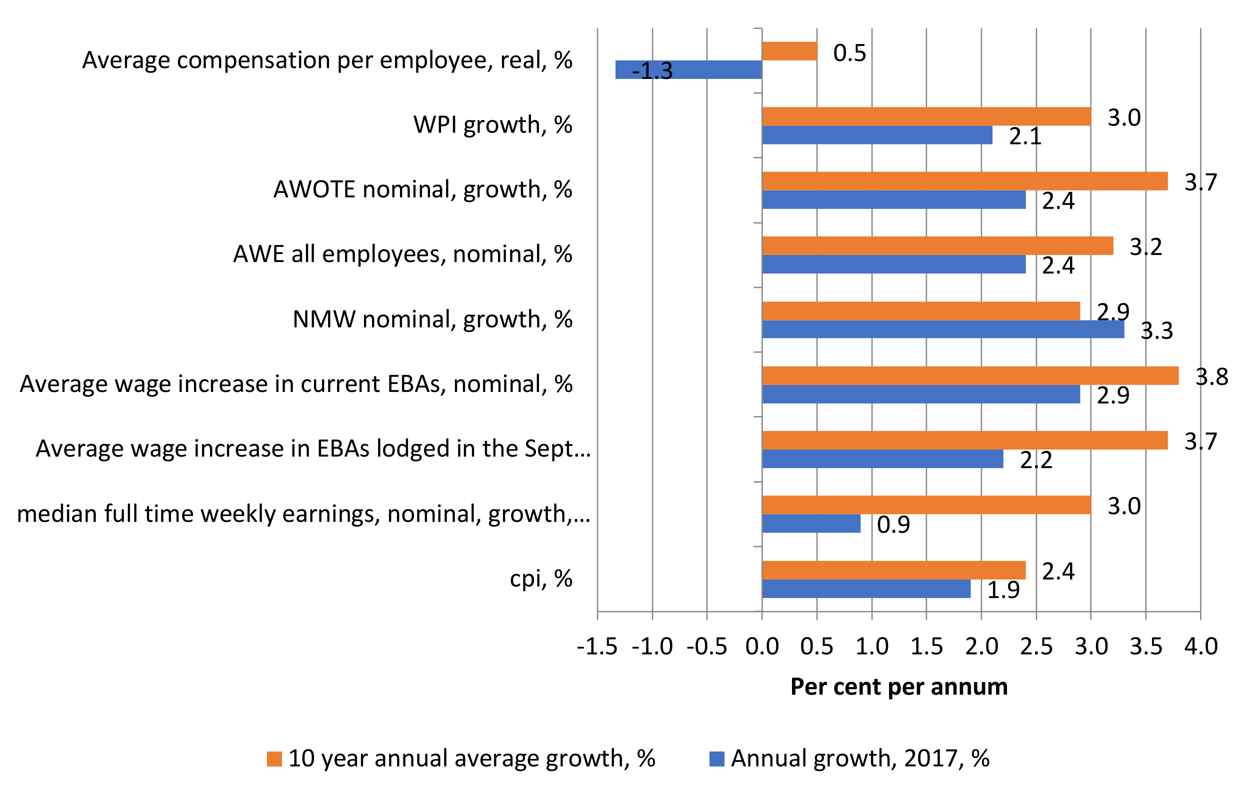
Figures 7 and 8 depict trends in various wage indicators. From Figure 7 it can be seen that growth in AENA per hour has been lower than growth in the WPI since roughly 2011. Using the more comprehensive National Accounts based measure of average earnings per hour it is evident that nominal wage growth has been around 1% per annum for the last 3 years. Thus the financial constraints facing workers is almost certainly worse than what the media and most commentators have reported when merely focusing on trends in the WPI. Figure 8 presents recent and long run trends for a more comprehensive range of wage indicators. These measures reinforce the message about anaemic nature of recent wage growth. So when the Australian newspaper recently reported that wages were nothing to worry about, we know that they are out of touch with ordinary workers and have failed to examine the data carefully.

Figure 7: Wages growth trends using different indicators




Source: Reserve Bank of Australia

Figure 8: Various measures of nominal and real wages growth and inflation




Source: ACTU submission to AWR 2018. Average compensation per employee is from ABS 5206, quarterly, and 6401. Wage Price Index from ABS 6345. AWOTE and AWE from ABS 6302. Median earnings from 6310, 6333. Minimum wage from past FWC/AFPC/AIRC decisions and Bray (2013). Average annualised wage increases in federal enterprise agreements ('EBAs') from the Department of Employment Trends in Federal Enterprise Bargaining. Rates of change are ACTU calculations.

## Workers on enterprise agreements have seen low wage growth and there has been a dramatic increase in workers on awards

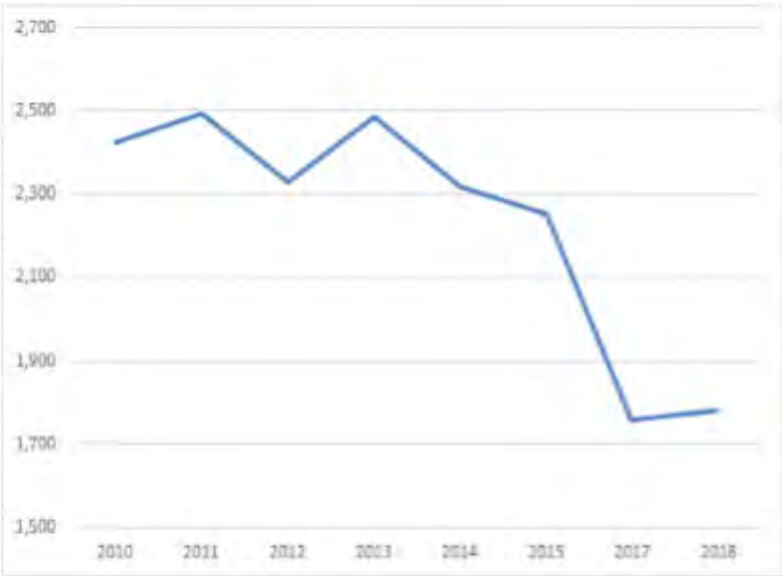
Figure 9 presents data concerning nominal wage growth in enterprise agreements. The Figure shows wage growth for all enterprise agreements in force and a separate trend line for recently signed agreements. Both sets of data confirm the sharp downward trend in wage growth since 2012, with a slight rebound in wage growth among new agreements during the last year. However, this was nothing more than a "dead-cat bounce" as wage growth in new agreements had reached rock bottom.

Figure 9: Wage growth in collective agreements


Source Reserve Bank of Australia

One factor contributing to the wage crisis has been a collapse in the proportion of workers covered by collective agreements, especially in the private sector. Enterprise bargaining peaked in the period 2011-2012 in both the number of collective agreements and the number of employees covered. From Figure 10 it is evident that since 2013 there has been a sharp drop in the number of employees covered by a collective agreement. In fact there are now nearly 700,000 fewer workers covered by a collective agreement then was the case five years ago. And over that period total employment has expanded so the proportion of workers that had the protection of a collective agreement declined even more sharply. On the flip side this means that the proportion of workers depending on awards, which merely provide a basic safety net of protections, has increased significantly. The demise of enterprise bargaining over the last half decade coincides with the sharp decline in wages that is evident in the various wage indicators referred to in this report.

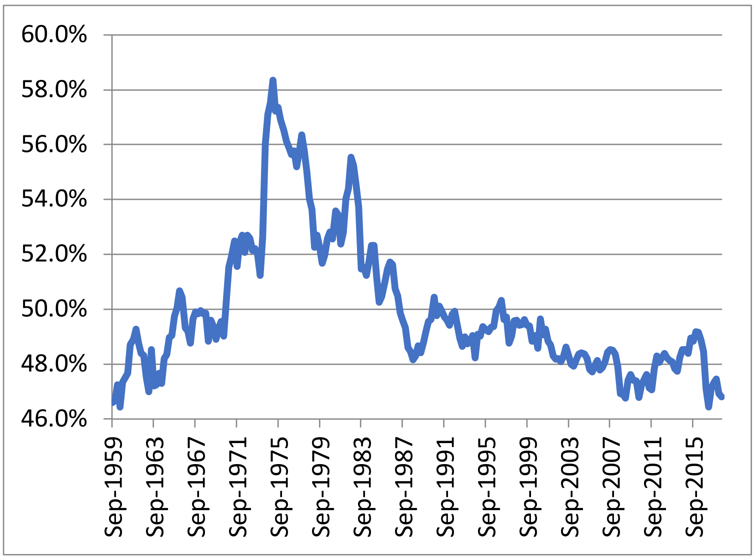
## Figure 10: Number of employees covered (000) by an agreement, all sectors, selected quarters




Source: Trends in Federal Enterprise Bargaining, March 2018

The recent slow growth in wages, and the increasing number of workers depending on awards rather than collective agreements, has contributed to an alarming decline in the share of national income going to labour. In fact, the share of national income that goes to labour is close to its lowest level in over 50 years (see Figure 11 for details).

## Figure 11: Share of national income going to labour




Source ABS and ACTU calculations

Meanwhile, the share of national income going into profits has increased dramatically since 1990. The latest National Accounts show that company profits are now growing at a rate that is five times faster than the rate at which wages and salaries are increasing.[15] Even that ratio does not reveal the true extend of the gap between the super-rich and rest in our society because the measurement of total wages in the National Accounts is inflated by the salaries and bonuses of the bankers, high-flying executives and other bosses.

Unfortunately, Australia is no longer a country that provides a fair go for all. Today we have a small elite with massive wealth and conspicuous consumption on luxury items. And their best mates in our current Government want to make this group even more wealthy through tax cuts. Meanwhile for the vast majority of Australians their standards of living have been static or declining.[16]

## Reforms required to restore fair wage levels

In July 2018 the OECD released their flagship publication the "Employment Outlook".[17] A key chapter of this new publication reports on the results of a comprehensive study examining how different collective bargaining systems impact on the economy. Based on new economic evidence the OECD has abandoned its previous support for enterprise level collective bargaining and individual contacts. Instead the OECD is now strongly supporting coordinated industry and multi-employer collective bargaining and measures to ensure the maximum number of workers are covered by a collective agreement that is negotiated with a trade union.

The OECD concluded that widening income inequality is a serious economic and political challenge. They have advanced a number of policy recommendations to boost wages and prevent further increases in inequality. Industry level collective bargaining and stronger trade unions are among their key recommendations.

The OECD has examined the impact of collective bargaining systems in 35 advanced economies over the period 1980 to 2015. They find that industry level bargaining systems, that allow trade unions and employers to coordinate outcomes across a sector, significantly out-perform

[15] ACTU calculations and ABS Catalogue 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Jun 2018
[16] Real household disposable income is at the same level it was in 2011
[17] OECD, Employment Outlook, 2018.

countries with either enterprise only level bargaining or no collective bargaining. According to the OECD countries with these types of bargaining arrangements:

*"… are shown to be associated with higher employment, lower unemployment, a better integration of vulnerable groups and less wage inequality then fully decentralized systems."*

Countries that had industry level and coordinated bargaining systems in 2015 include: Austria, Denmark, Germany, the Netherlands, Norway, Sweden, Belgium and Finland.

Countries that are classified as having "fully decentralised collective bargaining systems" include the USA, United Kingdom and New Zealand. Countries in this category performed worse than the three categories of countries that had variations of industry level bargaining in terms of the employment rate; unemployment rate; youth unemployment; gender equality in the labour market; the integration of low skilled workers into jobs; and, in respect of wage inequality.

Australia was grouped in the category that had the second worst economic performance (described by the OECD as "largely decentralised collective bargaining systems"). The group that contains Australia performs significantly worse in terms of employment and unemployment than the three groups of countries that use variations of industry level bargaining. The group containing Australia also performs worse than all three industry level bargaining groups when it comes to integrating youth, women and low skilled workers into employment. Wage inequality in the group containing Australia is greater than in the groups of countries that have access to industry level collective bargaining. The OECD did not include Australia in the same category as the USA and the UK largely because of the existence of the system of Modern Awards in Australia.

Based on the OECD research it is evident that Australia needs to capitalise on the potential that the Modern Awards system provides and allow collective bargaining beyond the enterprise level. In fact to realise the potential for economic improvements that coordinated bargaining systems can provide will require the abolition of Australian laws that currently inhibit and prevent industry or multi-employer bargaining. It will also require restoring various powers that the industrial umpire had prior to the 1996.

Another key finding of the Employment Outlook 2018 is that despite rising employment rates, advanced economies are facing "unprecedented wage stagnation". OECD research suggests that with unemployment falling to current levels, wage growth should be roughly double what is being experienced. Wage stagnation is primarily affecting low-paid workers, part-time workers and those in other forms of precarious work. The OECD has voiced strong concerns about the implications of wage stagnation for economic, social and political stability. These concerns are particularly relevant in Australia where wage stagnation is now presenting an unprecedented challenge.

The OECD strongly supported enterprise level collective bargaining in the 1990s. In the past, its recommendations were often cited by conservative Australian Governments who wanted to abolish trade unions, introduce individual contracts and weaken the industrial umpire. Now the OECD has thoroughly reviewed the economic evidence and acknowledged that the attack on collective bargaining and labour market institutions was misconceived.

It is time to revise our labour laws and strengthen our institutions to support industry level bargaining and stronger trade unions. The OECD has argued that this makes economic sense. It is also the sound social and political strategy at this time.

## The message from the OECD has been echoed by the most experienced and highly regarded labour economists in Australia.

Emeritus Professor Joe Isaac recently argued, in the Australian Economic Review, for the introduction of multiemployer collective bargaining. He made a convincing case for comprehensive industrial relations reform. Reforms that in his opinion will raise wages, productivity and economic growth. He argued that:

> *"Compared to enterprise bargaining, multi-employer bargaining (MEB) establishes greater fairness and uniformity in pay, in that employees doing the same work are likely to be paid the same/similar wages by all employers covered by the agreement. MEB establishes a common standard for all employers involved—the profitable and the less profitable. It takes wages out of competition and forces the less efficient firms, rather than being subsidised by lower wages, to operate at greater efficiency in order to survive, thus raising productivity"*[18]

Professor Isaac also argued that an important reason explaining widening income inequality was:

---

[18] Isaac, Joe, 'Why Are Australian Wages Lagging and What Can Be Done About It?, the Australian Economic Review, 2018

*".....to be found in the change in the balance of industrial power in the labour market in favour of employers and against workers and unions. The institutional mechanism that in the past provided the necessary pressure for wages to take up its share of productivity growth has lost much of its power. This has resulted in good part from the progressive changes in our industrial relations laws. To improve the balance of power in favour of workers, some of these earlier laws need to be restored.* [19]*"*

In contrast to these far reaching proposals for policy reforms several conservative commentators have suggested that there is no reason for alarm about low wage growth. They argue for patience and suggest that over time economic growth will produce a tighter labour market and an automatic rebound in wage growth. This advice is not convincing. Any given rate of unemployment is now associated with a weaker pace of wage growth by virtue of the erosion of trade union power and other labour market institutions that previous helped provided an even playing field for wage negotiations.

The key point is this: a tighter labour market is a necessary but not sufficient condition to boost wages growth. We need to have a proactive approach to getting wage growth on track again. A laissez-faire, sit-back-and-see approach simply will not work. The Australian Government needs to be proactive and provide the labour laws and institutional arrangements to ensure that real wages grow in line with national productivity improvements.

Reforms are urgently required to:

1. Restore coordinated multi-employer bargaining;
2. Institute a living wage;
3. Raise public sector pay; and,
4. Ensure industrial laws decrease the number of insecure jobs.

When highly conservative economic institutions like the OECD and the most respected labour economists in the country are supporting these types of reforms it should be evident to all that they make economic sense. A government that was in touch with the realities of Australian life and reading the latest economic literature would be supporting this reform agenda.

---

[19] Ibid

**address**

ACTU

Level 4 / 365 Queen Street

Melbourne VIC 3000

**For more information please contact**

Damian Kyloh

Associate Director of Economic and Social Policy

**phone**

1300 486 466

**web**

actu.org.au

australianunions.org.au