Australia's upside-down labour market... and what to do about it

By Dr Jim Stanford
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There is a growing frustration bubbling up in communities around the country. It reflects the growing gap between Australians' hopes for a decent, middle-class life, and the gritty reality faced by most households – who find it harder and harder to pay their bills, and who worry that their children will never have the same opportunities we once took for granted. That frustration is well-founded.

For decades Australians have been promised that if we tightened our belts and focused on "fundamentals" (like low inflation, low taxes, and balanced budgets), we would be rewarded with strong investment, strong growth, more jobs, and ample benefits "trickling down" from above. To be sure, profits are at record levels, deficits are shrinking fast, and inflation is low (too low, in fact, according to economists). But real business capital investment has been falling, not growing, despite the lure of bigger profits. In other words, business is doing less, but getting more.

Workers, in contrast, demonstrate improved productivity every year – but their real wages are stagnant, and their share of total Gross Domestic Product (GDP) has never been lower. They are doing more, but getting less.

Other signs of an "upside-down" economy abound. For example, we are told constantly of the revolutionary potential of new technology and automation – so much so, that we fear our jobs will be taken by robots. Yet investment in innovation and technology by Australian business is falling, not rising. And the dog-eat-dog labour market continues to produce millions of menial, badly-paid, relatively unproductive jobs each year: from performing manicures and teaching yoga for below-minimum-wage, to precarious jobs in retail and hospitality.

Wage growth has been so weak that even Australia's top banker, Dr. Philip Lowe (Governor of the Reserve Bank of Australia), has been pleading for them to grow faster. Coming from the person who usually loses sleep over inflation being too *high*, this is surely a sign that economics as we know it have been turned upside down.

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Dual diagnosis

How do we make sense of these seemingly contradictory outcomes for Australian workers? The labour market suffers from two core problems: a quantity problem, and a quality problem. There isn't enough work to productively employ all those who want and need to work. And those jobs that do exist, are not of sufficient quality for most workers to earn a decent, stable income.

Regarding the *quantity* problem, the official unemployment statistics seem to indicate that we have little to complain about. The unemployment rate is slightly above five per cent: certainly not the worst in history, and better than many (but not all) other industrial countries.

However, official unemployment is no longer an accurate guide to the true strength of the job market. After all, to be counted as unemployed by the Australian Bureau of Statistics (ABS), an individual cannot have worked at all during the week they were surveyed (not even a single hour), and they must be "actively" seeking work (putting in several applications per week, not just passively scanning help-wanted ads).

Given depressed job conditions in many regions, many individuals have given up looking for adequate work; conveniently for the politicians, that means they disappear from the official jobless data.

The official numbers hide many hidden pools of unemployment and underemployment. Firstly, over one million workers say they want and need *more hours* of work: they may work a few hours here and there, when called in by their boss, but not enough to provide a steady income.

That underemployment affects over a million workers at any time. Depressed labour force participation (compared to where it should be, given our demographic profile) reduces the workforce by another 400,000 or more.

Finally, the ABS also reports another million or more Australians defined as "marginally attached": meaning they indicate they would like to work, but don't believe there are any appropriate jobs available.

Put it all together and over three million Australians are underutilised – or around 15 per cent of the potential total labour force. This constant reserve pool of unemployment, often hidden, suppresses wages and keeps workers desperate.

Even when a job is available, the *quality* of much work in Australia's labour market has deteriorated markedly. Instead of maintaining long-term, relatively stable employment relationships, employers today prefer to hire their workers on a "just-in-time" basis. They will pay for work exactly when and where it is needed – and otherwise seek to shed any cost, obligation or risk associated with the normal ups and downs of consumer demand and economic conditions.

This desire to shift the cost and risk of economic fluctuations to workers has resulted in the rapid spread of insecure or precarious work arrangements, which take many forms. Of course, we are already familiar with the common use of "casual" labour: workers hired on an indeterminate basis, denied normal paid leave (like holidays and sick pay) and severance rights. Casual work has grown significantly in recent years, and now accounts for one in four waged jobs. In theory casual workers receive a 25 per cent wage loading to compensate for their lack of paid leave and reduced job security; in practice that is not always the case, due to ubiquitous wage theft by employers, or artificial reductions in the base rate against which the 25 per cent is calculated. Hence many casual workers make less per hour, even with their 25 per cent casual loading, than comparable permanent workers.

But casualisation is just one dimension of the bigger problem of insecure work. Other forms of "just-in-time" employment include the rapid rise of part-time work (which now accounts for almost one in three jobs in Australia, one of the highest part-time rates anywhere); growth of independent contractors and small-scale self-employment (often resulting from the contracting-out of functions once performed in-house by major employers); and new gig jobs in the digital economy. Even in public services (like education and healthcare), insecure work has been on the rise.

In all of these forms, work no longer provides the security and income that workers and their families need to support themselves, build healthy lives, and make major economic decisions (like home ownership). Shockingly, research from the Centre for Future Work recently confirmed that less than half of employed Australians now hold a permanent full-time paid job with regular entitlements (like paid holidays and superannuation)[1]. In short, insecure work is now the new normal.

The wages crisis

Facing these twin problems of inadequate quantity and deteriorating quality of work, it is no surprise that wage increases paid out in Australia's economy have been plumbing historic lows. Traditionally, average wages increased by around four per cent per year – a bit faster in good years (such as the resource boom of the mid-2000s), a bit slower in bad (such as during the recession of the 1990s). Since 2015, however, annual wage growth has fallen to just two per cent per year: the slowest sustained rate since the 1930s (see Figure 1).

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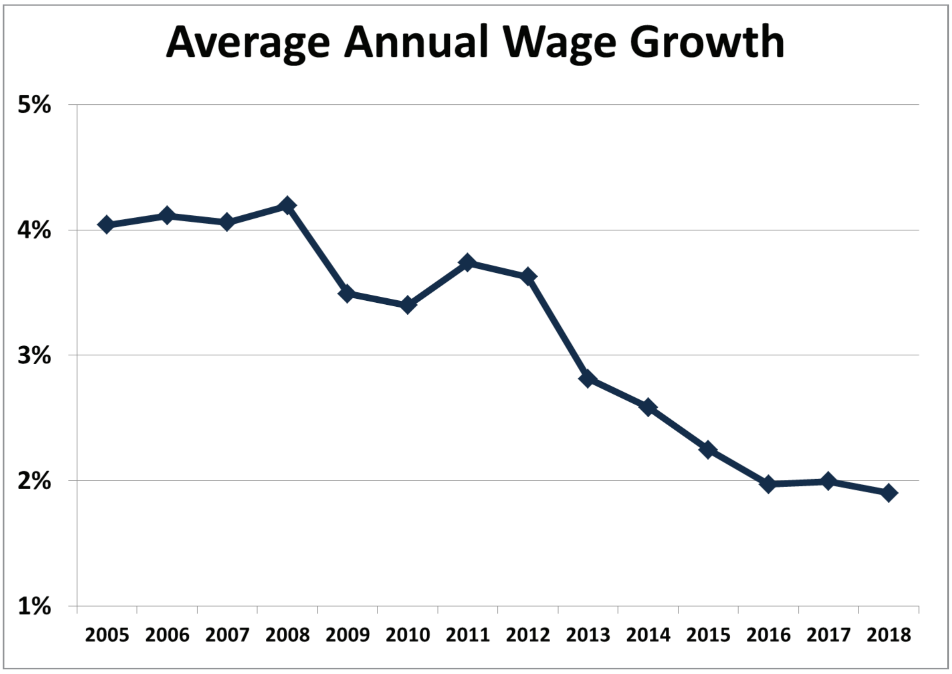

Figure 1. Source: Centre for Future Work from ABS Catalogue 6401.0.

1. See "The Dimensions of Insecure Work: A Factbook," by Tanya Carney and Jim Stanford, May 2018, available at https://www.futurework.org.au/the_dimensions_of_insecure_work.

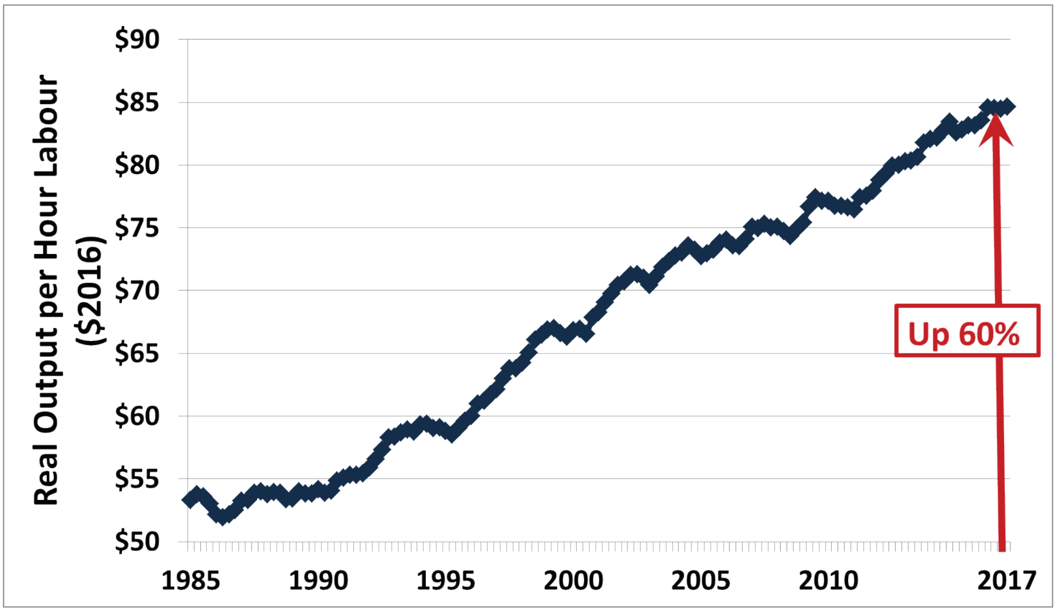

Figure 2. Source: Centre for Future Work from RBA, ABS data.

Household financial stability is damaged by stagnant wages: Australian consumers are more deeply indebted (currently around 200 per cent of disposable income) than any others in the world, and the lack of wage growth makes their debt all the more overwhelming.

Government revenue growth is slower when workers don't get wage increases and hence don't pay more taxes. And wage stagnation has also fostered growing inequality in Australia society. With less of the economic pie being paid out in wages, more is captured by businesses and investors – redistributing even more income to the richest one or two per cent of society, who have already done so well over the past generation.

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That means wages are barely keeping up with average consumer prices – which have also been growing at around two per cent per year. Prices of some essentials (like energy, food, and housing) have been growing much faster than that. So millions of Australians have seen the real purchasing power of their incomes fall.

This has occurred despite the fact that Australian GDP has been expanding steadily (in fact, there has not been an outright recession since the 1990s), and the unemployment rate is not high (although, as noted, hidden unemployment means the quantity problem is worse than it looks). Moreover, the stagnation of wages stands in stark contrast to continued improvements in labour productivity and efficiency.

As shown in Figure 2, average real value-added per hour of work in Australia has grown by nearly 60 per cent since 1985, and continues to advance by one per cent or more each year.

In theory, the labour market is supposed to reward workers for improved efficiency and productivity. In practice, real wages have fallen far behind productivity – and since 2015 have not been growing at all.

This means that workers' collective share of the total economic pie has been shrinking. In 2017, the share of Australian GDP paid out to workers (in wages, salaries, and superannuation contributions) fell to just 47 per cent, the lowest since the 1950s, and down by 11 percentage points since the mid-1970s[2]. So far in 2018 it has fallen even further.

Stagnant real wages and the shrinking labour share of total economic output impose substantial consequences for all of Australia's economy. Most obviously, reduced wage incomes undermine consumer spending, and hence hold back growth and job-creation in private businesses.

The value of public sector work

One crucial source of strength in Australia's labour market, and one that could be applied to even greater advantage in the years ahead, has been strong job creation in many public service industries. As indicated in Figure 3, over the past five years, public and human service sectors like healthcare, education, and public administration accounted for almost one-half of all net new jobs created in the Australian economy.

Considering that public sector jobs only make up 15 per cent of all employment, that is far-stronger job-creation than has occurred in the private sector.

Moreover, Commonwealth government forecasts indicate that this disproportionate role will continue: the Department of Jobs and Small Business indicates that new jobs in those public services will constitute 47 per cent of net new work in the next five years.

It's no surprise why this is happening. Australians want and need more public services. And politicians, even those who traditionally decry so-called "big government", are being forced to meet those needs.

Instead of seeing the growth of public service jobs as some kind of problem or drain, we should welcome the expansion of new work in sectors like education and healthcare. After all, these are highly productive jobs, and the workers performing them are very well-trained.

Census data indicates that 60 per cent of public sector workers hold a graduate diploma, bachelor's degree, or post-graduate degree – twice as large as a proportion as in the private sector.

2. For more details, see the Centre for Future Work's research symposium on the falling labour share of GDP, available at https://www.futurework.org.au/exploring_the_decline_in_the_labour_share_of_gdp.

Public service jobs produce value-added, contribute to GDP, generate incomes, and drive consumer spending and government tax revenues as surely as any private sector activity. Just think about it: when public servants (like teachers) get paid, a significant portion (typically between a quarter and a third) goes right back to government in the form of income taxes.

Then, when they spend their disposable income, another slice goes back to government in GST revenues. Meanwhile, procurement purchases by public agencies (everything from construction to utilities to machinery to spare parts to paper clips) adds around $175 billion per year to the sales of private companies – and underpins hundreds of thousands of additional jobs, and more revenue flows back to government.

Considering all these multiplier effects, government gets back in excess of 35 cents for every dollar it spends on public services, and often more. And that doesn't count the inherent value of the human service being provided to Australian citizens – which is, after all, the reason for doing it in the first place.

So it's time to stop bemoaning the growth of public services, and fruitlessly trying to suppress it (through arbitrary and unfounded measures like wage caps or tax cuts). Instead, we should welcome expanded public services as an important source of new opportunity and growth. In fact, without growth in public services and public infrastructure investments, Australia's economy would have experienced a recession in the wake of the post-2013 downturn in mining activity. There is no doubt that public services must play a more important role in job-creation and economic growth in the years ahead.

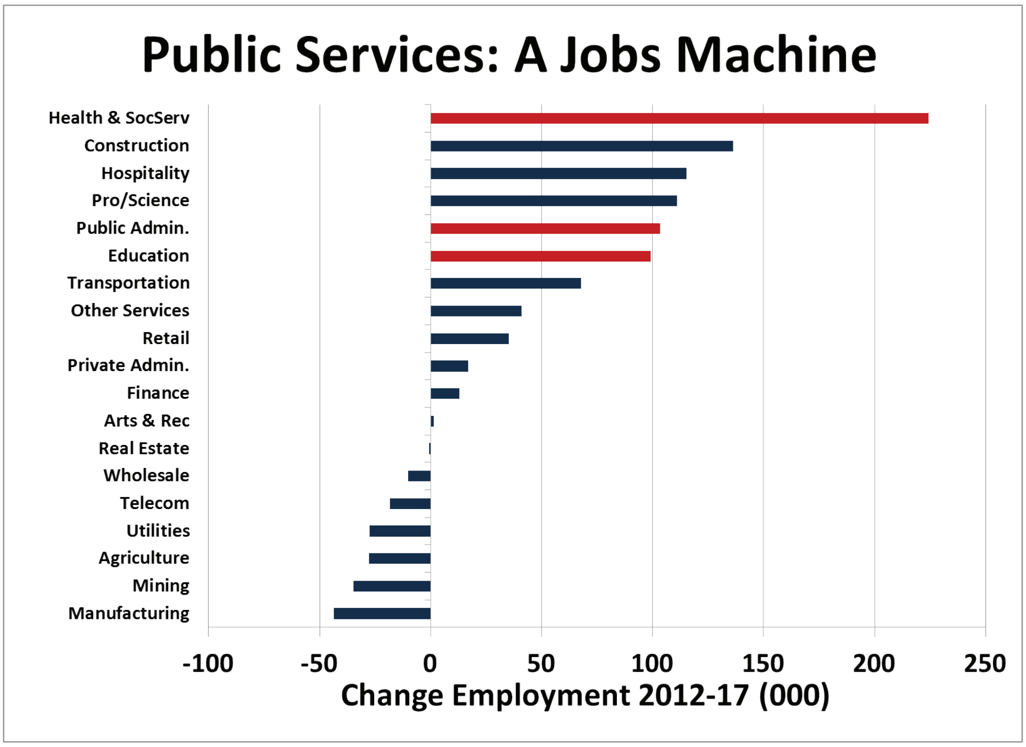

Figure 3. Source: Centre for Future Work from ABS Catalogue 6291.0.55.000.

What's the alternative?

The stagnation and polarisation of incomes in Australia, and the absence of decent employment opportunities for workers (especially young workers just joining the labour force), are not inevitable.

It is a myth that our hands are tied by fiscal necessity, globalisation, or the need to stay competitive. There are clearly alternative strategies that can be pursued to create more jobs, lift the quality of jobs, and ensure that the benefits of economic growth are once again shared more equally throughout society.

The main ingredients of an alternative strategy must include:

- Putting top emphasis on job-creation in governments' macroeconomic and fiscal strategies. It is self-defeating to make deficit reduction an end in itself: the best way to reduce deficits is to put Australians back to work, earning incomes and paying taxes.
- Public services and investments in public infrastructure must play a leading role in stimulating new job-creation and incomes. Australians want and need more quality caring services – from education to disability services to aged care. Putting Australians to work delivering those services is an obvious strategy that can both meet human needs and create badly-needed decent jobs.
- "Change the rules" to lift the quality of jobs and support workers' incomes. The stagnation of wages and the decline of workers' share of total GDP reflect the dismantling of the equality-promoting institutions that once made Australia the "land of a fair go" – including the erosion of minimum wages, the retrenchment of the Awards system, and the ongoing attacks on unions and collective bargaining. Restoring the redistributive power of these institutions is essential for recreating a more inclusive economy.

Of course, old-school economists and politicians still argue that privileging "fiscal rectitude" and the mechanisms of trickle-down growth (through more tax cuts for business and high-income earners, and rolling back or privatising government services) is the only way to strengthen the labour market.

We've been trying that approach for a generation – and outcomes are only getting worse for most workers. A new approach is both timely and feasible. And by stepping up the campaign for decent jobs, fair rules, and quality public services, we can make that hope a reality.