

Briefing Note:

**Commonwealth Budget 2019-20:
Refusing to Learn from Past Mistakes**

2 April, 2019

Introduction and Summary

- Since 2013, Australian wages have been growing at their slowest sustained pace since the end of the Second World War. But every Commonwealth budget tabled during this period has featured an optimistic forecast that wages would suddenly and strongly accelerate. Every one of those wage forecasts was false.
- The 2019-20 budget continues this dubious tradition. Despite another slowdown in wage growth in the last months of 2018, the budget once again predicts a sharp and sustained acceleration in wage growth – reaching 3.5% in the third year of the budget. However, the government provided no plan or policies to achieve that rebound.
- If actual wages had grown as quickly since 2013 as forecast in the Commonwealth budgets, the annual earnings of an average full-time worker would be more than \$4000 higher today than they actually are. The consistent, one-sided errors in the government’s wage forecasts therefore correspond to a large and growing gap between promised prosperity and a more daunting reality.
- Annual compounding wage increases deliver improvements in workers’ incomes far greater than the incremental increases in disposable income that can be attained through occasional tax cuts. It is mathematically impossible for tax cuts to deliver ongoing improvements in living standards; moreover, the “savings” of tax cuts are inevitably offset by foregone public services and income supports (which also benefit workers), and hence they do not actually improve workers’ overall living standards.
- The 2019-20 budget features modest reductions in personal income taxes for workers, attained by expanding a special “low and middle income tax offset” first introduced in 2018-19. The impact of this measure on workers’ disposable incomes is very small – ranging from 0 (for low-income workers) to under 1% of pre-tax income.

- We compare the small increment in disposable income resulting from those tax cuts, to the gains in disposable income resulting from annual normal wage increases (in the range of 3.5% per year, confirmed by RBA Governor Philip Lowe as normal and sustainable wage growth). Even just a single year of normal wage increases produces disposable income gains several times larger than the apparent “savings” of tax cuts. More dramatically, the benefits of wage growth compound over time (since successive wage increases are applied against a growing base). After just 3 years of normal wage gains (the term of the next federal government), wage increases deliver enormously larger gains in disposable income than tax cuts.
- The only way to deliver continuing and sustainable improvements in the real living standards of workers and their families, is through regular and reliable increases in wages. Market forces are not delivering those needed wage increases; instead, policy should focus on rebuilding appropriate labour standards and institutions (including higher minimum wages, a stronger awards system, and improvements in collective bargaining) to support wage growth in the future.
- Other measures contained in the 2019-20 budget were also disappointing. Despite high-profile announcements in targeted, politically sensitive regions, the amount of new capital forthcoming for infrastructure projects is still inadequate relative to Australia’s economic and social needs. The government’s approach to skills and vocational education is still trapped within the failed model of private delivery and contestability which has left Australia’s once-vaunted VET system on the verge of collapse. And once again the government has failed to take meaningful action to address the crisis of incomes among unemployed Australians. Its mean-spirited decision to exclude Newstart recipients from its pre-election one-time cash payouts to other welfare recipients reveals the depth of the government’s callous attitude toward the jobless.

Wages: Still Stuck

By several measures, wages in Australia have experienced the slowest sustained growth since 2013 of any period since the end of the Second World War. According to the most commonly-cited indicator of wages, the Wage Price Index (WPI) reported quarterly by the Australian Bureau of Statistics, wages have grown since 2013 at an average annual rate of slightly above 2% per year. That is far slower than traditional rates of wage increase (which have averaged between 3.5 and 4% over the past quarter-century). And it has been barely enough, on average, to keep up with growing consumer prices, implying virtually no change in real wages over that period (despite continuing growth in labour productivity).

The WPI, however, may overestimate wage growth during periods when either average hours of work or falling, or the composition of employment is shifting toward less desirable jobs (offering lower wages or irregular hours). That is because the WPI estimates wage change each quarter across a fixed “bundle” of jobs, without considering

changes in the make-up of employment. If more jobs are part-time, insecure, or low-paid, then income growth for workers will be worse than implied by the WPI.

Other measures of labour compensation confirm that this has indeed been the case in recent years. For example, an aggregate measure of labour compensation can be constructed from the quarterly national income accounts, by comparing total labour compensation (including wages, salaries and other compensation such as superannuation contributions) to total employment. This measure of labour compensation per employed Australian will reflect changes in the composition of employment, as well as “pure” wage inflation. It grew faster than the WPI (by over 4% per year) in earlier years, when underemployment was falling and job quality was improving. Since 2013, however, it has grown even more slowly than the WPI: by an annual average of just 1.5% between 2013 and 2018.

Perhaps most worrisome, there is no sign that wage growth is experiencing any sustained rebound. By some measures, year-over-year wage growth has rebounded from rock-bottom levels experienced in 2016 and 2017 – but not significantly, nor consistently. And whatever progress was recorded was mostly due to larger increases in the national minimum wage – which rose by 3.5% effective July 1, 2018. That boosted wages for the close to 25% of all waged employees in Australia who work for award-determined wages and conditions. Despite that increase in the minimum, overall wage growth has remained muted. If we strip out the impact of the minimum wage, recent trends imply year-over-year wage increases for non-award workers that remain under 2% over the past year. And most recent statistics indicate another slowdown in wage growth in the December quarter of 2018.

Table 1		
The Deceleration of Wages		
<i>(% per year)</i>		
	Wage Price Index	Labour Compensation per Employed
2000-2013	3.7%	4.4%
2013-2018	2.2%	1.5%
Dec. Quarter 2018¹	1.9%	1.1%
<i>Source: Authors' calculations from ABS Catalogues 6345.0, Table 1; 5206.0, Table 7; and 6202.0, Table 1.</i>		
<i>1. Annualised rate.</i>		

On an annualised basis, wage growth in the last 3 months of the year decelerated to 1.9% per year according to the WPI, and just 1.1% according to compensation per employed person (Table 1). That December quarter slowdown likely reflects the after-

effect of the July 1 minimum wage increase (which produced a relatively strong annualized increase in wages in the previous quarter's data). This reaffirms that government action – not market forces – is the more effective lever in raising wages.

Commonwealth government leaders have suggested that wage growth will automatically recover as a result of market pressures in a supposedly tightening labour market. For example, Prime Minister Scott Morrison predicted confidently (when he was still Treasurer) that wages would accelerate: “As the labour market tightens, that’s obviously going to lead over time to a boost in wages.”¹ Later he confirmed his faith in the market: “The laws of supply and demand ... have not been abolished.”² However, waiting for supply-and-demand forces to fix Australia’s wages crisis does not seem to be working. At around 5%, the official unemployment rate does not seem high (although since it excludes underemployment, non-participation, and other pools of “disguised” unemployment, that official rate underestimates the true degree of labour market slack). Nevertheless, the unprecedented stagnation of wages in recent years bears little relationship to the market forces assumed by the government to be the crucial determinants of wage trends. Even in sectors with reported “skills shortages,” there is no indication of significant wage pressure.³ Hoping that market forces will naturally accelerate wage growth is a recipe for further disappointment.

Commonwealth Budget Wage Forecasts: Missing the Mark

Skepticism that a market-driven resuscitation of wage growth is “just around the corner” is ratified by the current government’s poor record of forecasting wage trends. Since winning election in September 2013, the government has optimistically predicted a quick and dramatic acceleration of wage growth – but every one of its forecasts has missed the mark, and by a wide margin. The 2019-20 budget continues this dubious tradition: sluggish wages are predicted to rapidly accelerate to reach 3.5% (approaching the traditional range) by just the third year.

Figure 1 illustrates the consistent pattern of overestimated wage growth in each of the six budgets delivered by the government since May 2014. The figure illustrates the trend in actual wage growth (measured by the WPI), using financial year averages. The

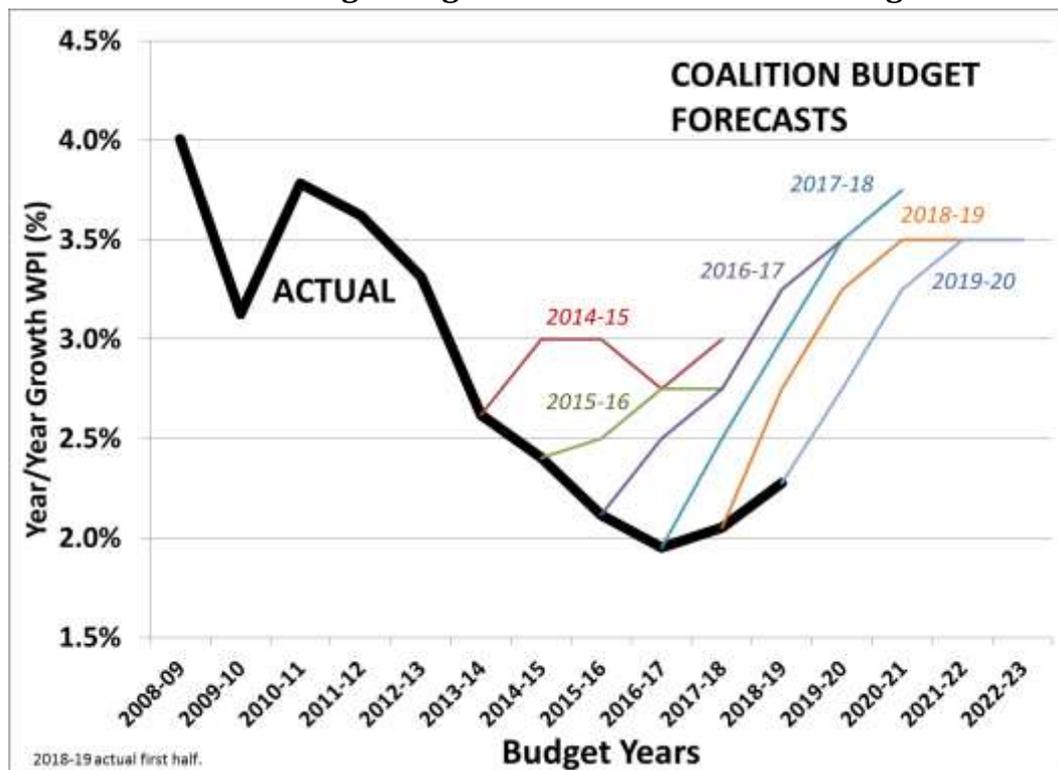
¹ Phillip Coorey, “Scott Morrison urges bosses to turn profits into higher wages,” *Australian Financial Review*, 10 September, 2017, <https://www.afr.com/news/politics/scott-morrison-urges-bosses-to-turn-profits-into-higher-wages-20170910-gyeb2f#ixzz4z2JiAoAM>.

² Katharine Murphy, ‘Scott Morrison on wage growth, tax cuts and playing politics: The full interview’, *The Guardian*, 7 February 2018, <https://www.theguardian.com/australia-news/2018/feb/08/scott-morrison-on-wage-growth-tax-cuts-and-playing-politics-the-full-interview>.

³ New research sheds light on why seeming shortages of skilled labour may not translate into rising wages. Firms take other actions to respond to labour requirements other than raising wages, and in some cases reported skill shortages actually reflect an “inflation” of desired credential in conditions of abundant labour supply; for example, see Hannah Leal, “Firm-level Insights into Skills Shortages and Wages Growth,” *RBA Bulletin*, March 2019, <https://www.rba.gov.au/publications/bulletin/2019/mar/firm-level-insights-into-skills-shortages-and-wages-growth.html>.

marked deceleration of wage growth from traditional rates (of 3.5-4% per year) is evident after 2012. Many factors help to explain that deceleration: including the contraction in business investment spending, the failure of the Reserve Bank to achieve its 2.5% inflation target, and global pressures. But there is no doubt that the policy actions of the present Commonwealth government reinforced the deceleration – including strict caps on wage increases for its own employees, underfunding of outsourced human services (suppressing wages in aged care, child care, and disability services), and repeated attacks on trade union activity and collective bargaining.

Figure 1
Commonwealth Budget Wage Forecasts versus Actual Wage Growth



Source: Authors' calculations from ABS Catalogue 6345.0 and Commonwealth budget documents.

Figure 1 also shows the forecasts of WPI growth contained in each of the Coalition government's budgets: from 2014-15 through 2019-20.⁴ In every case, those budgets predicted a fast and sustained rebound in wage growth back toward its traditional pattern (of 3.5-4% annual growth). The optimism of those wage forecasts persisted, despite the fact that actual wage growth sank lower as the government's term in office proceeded. Those consistent forecast errors did not lead to more caution in subsequent budgets; in other words, the budget planners did not learn from their own errors. The 2019-20 budget indicates the government's inability (or refusal) to learn from past mistakes: its projection of a fast rebound of WPI growth (reaching 3.5% within three years) is identical to last year's (false) forecast, but simply delayed one year. Once again,

⁴ Each budget contains four years of forecasted wage growth: two in the estimates, and two in the forward projections.

there is not even any serious attempt in the budget document to explain why this optimistic forecast should be believed – while the previous five were wildly off the mark.

Table 2	
Record of Budget WPI Forecasts	
Number of budgets reviewed	5
Number of year-forecasts testable against actual data ¹	14
Year-forecasts which underestimated actual data	0
Year-forecasts which matched actual data ²	0
Year-forecasts which overestimated actual data	14
Average difference between budget estimate and actual	0.7 points
<i>Source: Authors' calculations from ABS Catalogue 6345.0 and Commonwealth budget documents.</i>	
<i>1. 2018-19 actual for first half.</i>	
<i>2. Within a 0.25-point margin of error.</i>	

This consistent pattern of overestimation of wage growth is summarised in Table 2. Since the Coalition's election in 2013, there are now a total of 14 distinct year-forecasts of annual wage growth which can be tested against actual financial year outcomes.⁵ None of those year-forecasts has matched the actual outcome (within a reasonable range of error⁶). None of them underestimated actual wage growth. Every one of the 14 year-forecasts of WPI growth overestimated actual wage growth. As is visible from Figure 1, the size of those errors increased further out into the forecast period – since the forecasts anticipated a continuing acceleration of wage growth, even as actual wages continued to stagnate. Across the 14 year-forecasts, the average margin of error was 0.7 percentage points. This pattern of consistent, one-sided errors leads to the conclusion that those budgets consciously overestimated likely wage growth: to reinforce the government's message that better times were around the corner, and also to boost the budgets' revenue forecasts (since wage growth is a crucial determinant of revenue growth from personal income taxes and the GST).

⁵ Each budget forecasts WPI growth 4 years into the future, starting with the financial year for the budget in question. The total number of year-forecasts therefore includes 4 testable year-forecasts from each of the 2014-15 and 2015-16 budgets, 3 from the 2016-17 budget, 2 from the 2017-18 budget, and 1 from the 2018-19 budget. "Actual" WPI growth for the 2018-19 financial year is based on data from the first half of that year (for which the WPI increased 2.27% on a year-over-year basis); that number will change by the end of the financial year, but it cannot match the 2018-19 forecasts in any of the Coalition's budgets.

⁶ We would consider a year-forecast to match reality if it equaled the actual outcome rounded to the nearest quarter-percentage-point (since the budget WPI forecasts are stated in quarter-point intervals).

Missed Forecasts and Actual Wages

The government's pattern of consistent overestimation of wage growth has a significant, cumulating impact on the gap between economic expectation and economic reality experienced by most Australians. After all, Australians interpret all of the government's budgetary decisions (regarding programs, income supports, and taxes) in the context of their own expected economic position. Government fiscal announcements are judged in light of the expected evolution of overall macroeconomic aggregates. Australians will feel differently about a particular set of fiscal and budgetary policies, and adjust their behaviour (including their voting behaviour) accordingly, depending on whether their own circumstances (including their personal incomes) are expected to improve or deteriorate.

In this regard, the consistently and probably intentionally misleading wage growth forecasts contained in each of the government's five budgets cannot be dismissed merely as a "forecast error." The one-sided nature of those errors has economic and political consequences, for which the government should be accountable.

Consider, for example, an adult earning average full-time ordinary time wages when the Coalition's first budget was tabled in May 2014.⁷ If their wages actually grew over the subsequent 5 financial years at the same ebullient pace predicted in the government's official budget documents, their annual ordinary-time income would have increased by over \$12,000 by the current (2018-19) financial year.⁸ In reality, actual full-time earnings increased by less than \$8000 by end-2018.⁹ The difference – a disadvantage of over \$4000 per worker in *annual* foregone wages – represents the real out-of-pocket loss to workers arising from the government's failure to actually achieve its rosy forecasts.

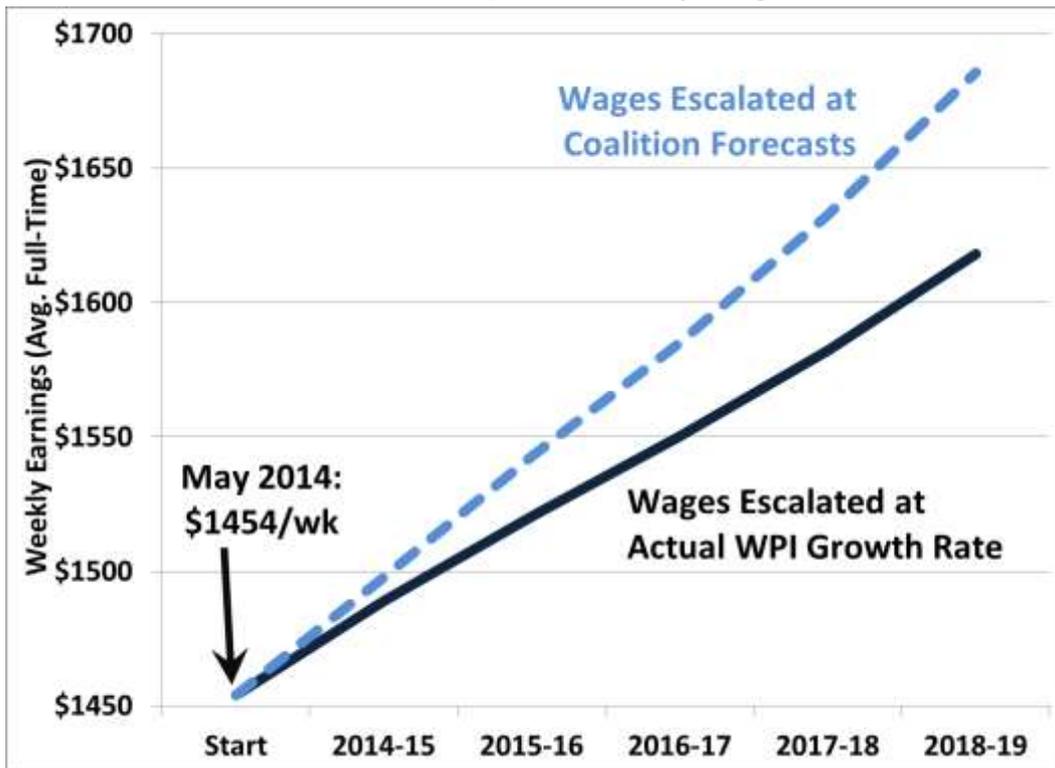
Moreover, as illustrated in Figure 2, the cost of foregone wage growth gets larger with each passing year. This is because the ongoing gap between the government's wage forecasts and actual wages compounds over time: since whatever wage increases are forthcoming in the real-world labour market (still below the forecasts) are now applied against a significantly lower base. Without an urgent and concrete effort to stimulate wage growth, rather than simply pretending that budget forecasts automatically come true, the income losses for Australian wage-earners will expand further over time.

⁷ According to ABS Catalogue 6302.0, Table 2, average adult full-time ordinary earnings in May 2014 were \$1454 per week (seasonally adjusted).

⁸ The simulation applies the strongest wage growth assumption for each financial year from the various WPI forecasts contained in the respective budgets.

⁹ ABS Catalogue 6302.0, Table 2.

Figure 2
Actual and Projected Weekly Wages



Source: Authors' calculations from ABS Catalogue 6345.0, Table 1, and Commonwealth budget documents.

Wage Increases Beat Tax Cuts

The preceding discussion illustrates dramatically the large and cumulating loss of potential income which workers experience as a result of the unprecedented slowdown in wage growth in Australia since 2013. Since wage increases normally occur every year, and compound over time (with each annual increase applied to a growing base), the impact on take-home incomes of steady, normal wage increases expands exponentially over time. This is an important and fundamental mathematical reality to keep in mind, when evaluating government claims that potential cuts in future taxes could somehow “compensate” for the lack of wage growth in Australia’s labour market.

Even conservatives acknowledge that taxes cannot be cut year after year: specific incremental cuts may be feasible in particular years, depending on fiscal and political conditions (and on the priorities of the government). Those incremental cuts may or may not have a noticeable impact on disposable incomes – and, as discussed further below, tax cuts always imply a cost in the form of public services and programs that must be foregone as a result of government’s reduced revenue base. But tax cuts can never underpin steady and cumulating increases in disposable income, in the same manner as regular annual wage increases.

This crucial difference between tax cuts and wage increases as determinants of trends in disposable income over time is highlighted further through the following simulation. We consider wage-earners at 6 different levels of annual income: from \$20,000 through \$120,000 (at increments of \$20,000). We estimate their disposable income in the current financial year on the basis of a simplified federal tax calculation (considering marginal rates, the regular tax offset, and the new “low and middle income” tax offset introduced this year¹⁰). We then consider how that disposable income would change as the result of the expanded “low and middle income tax offset” announced in the budget.

Income	Disposable Income Gains from Tax Cut		Disposable Income Gains from Wage Increase			
	\$	Percent of Pre-Tax Income	1 year		3 years	
			\$	Percent of Initial Pre-Tax Income	\$	Percent of Initial Pre-Tax Income
\$20,000	\$0	0.0%	\$700	3.5%	\$2,064	10.3%
\$40,000	\$190	0.5%	\$966	2.4%	\$3,001	7.5%
\$60,000	\$550	0.9%	\$1,386	2.3%	\$4,305	7.2%
\$80,000	\$550	0.7%	\$1,890	2.4%	\$5,871	7.3%
\$100,000	\$400	0.4%	\$2,153	2.2%	\$6,686	6.7%
\$120,000	\$100	0.1%	\$2,583	2.2%	\$8,139	6.8%

Source: Centre for Future Work calculations from Commonwealth Budget Documents. Simulates impact on after-tax disposable income; wage increases at 3.5% per year.

The impacts are summarised in Table 3, and are modest. Very low-income workers receive no increase in disposable income (since they paid no income tax to start with). Gains in disposable income are very modest for other workers included in the simulation, ranging from \$100 to \$550. In every case these “savings” amount to under 1% of pre-tax incomes.

Moreover, it is self-evident that personal tax cuts cannot be implemented year after year: that would be fiscally impossible, and would result in the ultimate elimination of the fiscal base for government and public services. So the simulated tax cut program amounts to a small one-time enhancement of annual disposable income, equal to less than one percent of pre-tax income for most workers – and offset by the lost public services and income supports that are the inevitable price tag for tax cuts. This is not a

¹⁰ For simplicity we exclude the Medicare levy (which would not change under the simulated tax cuts) and any non-labour sources of income.

solution for the stagnating living standards most Australians have experienced in the last five years.

Table 3 also reports the impact on the disposable income of workers at the same income levels of annual normal wage increases, of the same magnitude which prevailed in Australia's economy until 2013. For a benchmark of "normal" wage growth, we choose 3.5% per year. That is at the low end of the range of typical wage growth realised in Australia from the recession of the early 1990s through the post-2013 slowdown. It is also a rate specified by RBA Governor Philip Lowe as being both healthy, and consistent with the RBA's inflation target. Lowe has noted¹¹ that the combination of real productivity growth (of around 1% per year) plus target inflation (2.5%) implies normal nominal wage growth of 3.5% per year. That pace is consistent with stable inflation at the target rate, and imposes no pressure on profit margins (since real wage growth in that scenario matches average productivity growth).

Table 3, therefore, simulates the impact on disposable income of 3.5% wage increases. The simulations take into account the extra tax paid by each worker (as a result of rising wages),¹² and hence are comparable to the tax cut simulations (both measuring disposable income). At every income level, even a single year of normal wage growth delivers far more disposable income to workers than the simulated tax cuts, usually by many times over. For low income workers, of course, since their savings from tax cuts are non-existent, wage increases literally provide an *infinitely* larger boost to disposable incomes than tax cuts.

However, the comparison between wage increases and tax cuts is even more one-sided when we consider the compounding effect over time that is generated by annual wage increases – a compounding effect which is mathematically impossible to replicate with tax cuts. So the last columns of Table 3 report the impact on disposable incomes (again deducting extra taxes paid) of three years of consecutive wage growth at the normal 3.5% annual rate. (This 3-year simulation corresponds to the term of office of the next Commonwealth government.) For low-income workers, this produces an increase in disposable income of over 10% – once again, infinitely larger than their tax savings. Other workers benefit from increases in disposable income of 6-8%.

The claim that incremental reductions in income taxes could somehow compensate workers for the absence of normal wage increases (and the complete stalling of real wage growth) is utterly indefensible. Tax cuts offset only a very small fraction of the

¹¹ See, for example, Philip Lowe, Governor of the Reserve Bank of Australia, evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, Sydney, 16 February 2018, 14–15.

¹² Stronger public revenues from faster wage growth could ultimately be used to support an extended set of public programs. Hence this simulation understates the ultimate growth in living standards in a normal wage growth environment – since higher wages would likely be supplemented by stronger public programs.

losses from wage growth – and even those savings are illusory, since they must ultimately be “paid for” in the form of reduced public services.

Risks to Progressive Taxation

The new tax cuts effective in the coming budget year are relatively modest, and generate insignificant improvements in workers’ disposable income. However, the budget signaled that bigger changes are afoot in future years – if it is re-elected. Specifically, the budget signaled major changes in the system of progressive income taxation, establishing very wide bands of income across which a “flat tax” would apply. By 2024-25 under this proposal, a worker earning \$45,000 (below the poverty line for someone with dependents) would pay the same marginal rate of tax (30%) as someone earning \$200,000. The “savings” from this flattening of the tax system are overwhelmingly weighted in favour of higher income earners: someone earning \$200,000 per year would save over \$11,000 per year in taxes under the new, “flatter” system, whereas someone earning \$45,000 per year saves less than \$1000. The government’s is signaling a major shift away from the principles of progressive taxation: namely, the idea that those with more income should make a proportionately greater contribution to the cost of public services.

Other Budget Measures

Infrastructure Spending

In the 2018-2019 Budget the government committed to:

The Government’s \$75 billion 10-year national infrastructure plan will benefit people and businesses in every State and Territory by improving road safety, tackling congestion and delivering essential rail links (Budget Overview, 2018, p. 5)

Subsequent analysis of the Budget’s infrastructure commitments by Makeham-Kirchner and Deans concluded that: “The Parliamentary Library has not been able to identify project commitments in the Budget documents that equal the Government’s \$75 billion total” (Budget Review 2018-2019, p. 51). So the ultimate final impact of major infrastructure announcements (especially those made imminent to an election) are not fully reflected in actual investment.

Budget 2019-2020 has made an even bigger apparent commitment to infrastructure spending with a commitment of \$100 billion of 10 years for the purposes of ‘busting congestion and ensuring our towns and regions are better connected’ (Budget Overview, 2019-2020, p. 26).

The proposed spending is dispersed around the country with a combination of previously announced projects and new announcements for rail, road, airports, and other types of investment, with \$42 billion to be spent over the next 4 years. There is an increase of \$4 billion in the urban congestion fund, which includes a focus on building car parking near rail stations (Budget Overview 2019-2020, p. 26).

While there should be legitimate debate over which projects should be prioritized, any increase in Commonwealth infrastructure spending is a welcome development. However, given the scale of the economic, social and environmental challenges the nation faces, a commitment of \$10 billion per year – around half a percent of GDP, even if fulfilled – should be viewed as modest.

Skills and Training

Our [previous research](#) has highlighted the urgency of rebuilding Australia's vocational education and training system that has been systemically privatised, degraded and defunded in recent decades. Treasurer Frydenberg trumpeted the Coalition government's commitment to 'ensure all Australians have the skills needed for the jobs of today and tomorrow' by 'investing over \$525 million to upgrade the vocational education and training (VET) sector.' The government pledged to 'deliver up to 80,000 new apprentices in occupations experiencing skill shortages', create 10 new Training Hubs, increase subsidies to both employers and apprentices, and create a National Skill Commission (Budget Overview 2019-2020, p. 19).

Regrettably, the Budget Papers also reveal that expenditure on vocational and other education line item is: "expected to decrease by 0.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 11.1 per cent in real terms from 2019-20 to 2022-23" (Budget Paper No. 1, 2019-2020, p. 5-17). In nominal terms funding is set to stagnate from \$1.65 billion in 2018-19 to \$1.62 billion in 2022-23. (see Table 7, Budget Paper No. 1 2019-2020, p. 5-17). This is hardly a "bonanza" when it comes to rebuilding TAFE. And it casts great doubt over the viability of the budget's other promises (such as 80,000 apprentices).

Support for the Unemployed

Finally, [our research](#) has shown that unemployment, underemployment and non-participation affect well over 3 million Australians, representing over 15% of the potential total labour force. But the unemployed are the most disadvantaged members of the labour force. While spending on Job Seeker Income Support fell from \$11.14 billion in 2017-2018 to \$10.48 billion in 2018-2019 in part due to falling unemployment, these most disadvantaged Australians are still being left further and further behind (Budget Paper No. 1 2018-2019, and Budget Paper No. 1 2019-2020).

The rate of Newstart has not increased in real terms for over 25 years. Now the government expects to save \$2.1 billion over four years by ‘applying a received model of income assessment for employment income for Social Security income support payments, which will also facilitate the automated reporting of employment income through Single Touch Payroll’ (Budget Paper No. 1, 2019-2020, p. 3-21). This Treasurer talked about a more “individualized” model of treating welfare recipients, which likely means another dose of intrusive workfare.

Conclusion

Since 2013, Australian wages have endured a period of unique weakness. The stagnation in wages occurred despite continuing economic expansion, job-creation, and unemployment numbers that – on the surface, anyway – do not seem excessive. While the wage slowdown is not solely the result of policies of the current Commonwealth government, some of its policies clearly made matters worse. More importantly, the government has failed to undertake the reforms necessary to rebuild normal wage trajectories. Instead it continues to emphasise “trickle-down” policies (like tax cuts) that will, the government claims, benefit workers by enhancing profits and business sentiment. The hope that market forces, no matter how profitable businesses become, will automatically rekindle wage growth is unjustified by real experience.

Not only has the present government failed to address the structural weakness in wages, it actually continues to pretend the problem doesn’t exist: with yet another official forecast predicting a sharp and sustained rebound in wage growth, but with absolutely no intellectual or empirical justification explaining why that might actually occur. 100% of its past wage forecasts have proven wrong – and the average full-time worker today receives \$4000 less in wages per year than if those forecasts had been realised. The continued decline since 2013 of workers’ share of total GDP (in the form of wages, salaries, and other compensation) has also denied each worker thousands of dollars in foregone income.

Now the government claims that pre-election tax cuts, instead of regular, normal wage increases, can somehow address the crisis in household finances faced by millions of working Australians. That claim is mathematically false. There is no scenario in which tax cuts can offset more than a tiny fraction of the income losses resulting from wage stagnation and the continuing redistribution of income from workers to corporations. For most workers, a single year of normal wage increases overwhelms, by several times over, the supposed “savings” of tax cuts. And compounded over time, returning to normal wage trajectories generates cumulating benefits to workers incomparably larger than could be delivered through tax cuts. Worse yet, those tax “savings” carry an inevitable price in the form of foregone public services and income supports.

The only way to sustainably improve living standards in Australia over time is to put more Australians to work, ensure that their labour continues to become more productive, and then – crucially – empower them to receive a fair share of that wealth in the form of steadily rising real wages.