Why are wages lagging
And what could be done about it?
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Fig 1 REAL AVERAGE WEEKLY EARNINGS. REAL AWOTE AND LABOUR PRODUCTIVITY

Source: ABS, Consumer Price Index, Australia, Sep 2017, Catalogue No. 6401.0; ABS, Australian National Accounts: National Income, Expenditure and Product, Jun 2017, Catalogue No. 5206; ABS, Average Weekly Earnings, Australia, various, Catalogue No. 6302.0. Productivity is defined as GDP per hour worked. The increase in part-time employment over the period has slowed down the growth of RAWE.
Working days lost per year per 1000 employees

- CAA Act average = 228.5
- IR Act average = 180.5
- IR Act post 1993 average = 94.9
- WR Act average = 55.1
- Work Choices average = 13.5
- Fair Work Act average = 14.9

FIG 4 UNION DENSITY

Source: ABS, Employee Earnings, Benefits and Trade Union Membership, Australia, various, Catalogue No. 6310.0; ABS, Characteristics of Employment, Australia, August 2016, Catalogue No. 6333.0.
Fig 5 Gini coefficient and trade union density of OECD countries

![Gini coefficient and trade union density of OECD countries](image_url)

FIG 6 UNEMPLOYMENT RATES

Fig 8 Enterprise Bargaining Agreements

Enterprise bargaining agreements

% y/y (annualised rate) vs % y/y (annualised rate, 2-quarter average)

- Newly struck in the quarter (RHS)*
- Average of stock outstanding (LHS)

* Latest is Q3-17

Source: Department of Employment, UBS
Fig 9 - Public perception of the power of trade unions and big business

General inference to be drawn from statistical material

The statistical pictures suggest weakened union power and a new balance of power in the labour market, confirming the public perception.

WHAT WERE THE UNDERLYING FACTORS IN THIS DEVELOPMENT?
The underlying factors 1
Globalisation and technological context since the 1980s

• Globalisation weakened union power and density in industries subject to foreign competition. Manufacturing contracted from 18% in 1985 to 8% in 2016. The Service Sector expanded from 60.5% to 73% between 1984 and 2017.

• Technological changes have displaced less skilled labour in parts of labour market and may have weakened relevant union power. Impact likely to have been continuous, at times faster.
• ‘Precarious’ employment has increased with the expansion of certain employment arrangements – part-time and casual work, independent contracting and labour hiring.

• Over the 20 years to 2013, the proportion of part-time workers more than doubled; and non-employee (contract) workers increased from 28% of the workforce in 1982 to 40%. Casual workers increased from 17% to 21% between 1992 and 2016. The development of the ‘gig’ (on-call, temporary, independent) workers will have added to the numbers of non-union workers.

• Unionisation is less likely in these areas of work, adding to the reduction in union density. HILDA survey showed that only 5.5% of casual employees were union members in 2016.
The underlying factors 3
Sham contracting

Although illegal, it is rife: difficult to identify and to prosecute – estimated by the ABS to run into 1 m = 8.7% of workers (union free).
The underlying factors 4

Legislation

• **Directly** – on union rights

• **Indirectly** – reduced powers of Fair Work Commission
The underlying factors 5

Direct legislation - Reducing Union Rights 1

• Union right of entry to check pay records and recruit members made more difficult. (Approval by Registrar of formal application. Fitness of union official can be challenged)

• Union preference clause in awards (on employment, redundancy, and promotion) is no longer available.

• Strict procedural requirements on right to strike in enterprise bargaining – 24 hours’ notice, authorised by secret ballot of members.

• Strike pay prohibited
The underlying factors 6

**Direct legislation - Reducing Union Rights** 2

- Union not allowed to pay official’s fine
- Employer entitled to discontinue the terms of an agreement at its expiry, leaving workers on award terms
- Narrow interpretation of s424 – would effectively ban any strike in transport, health sector etc
- Pattern bargaining is illegal
Legislation indirectly reducing Union Power:
Reduced powers of Fair Work Commission:

• Act highly prescriptive – the wide discretion of earlier legislation no longer available.
• Limited compulsory power to conciliate and arbitrate. This is to the advantage of weaker party – frequently union?
The underlying factors 8
Public Opinion and Unionism

Union recruitment likely to have been affected unfavourably by dishonesty of some union officials and Royal Commissions on unions.
The case for multiple employer (industry/sector) bargaining

• EB has fallen significantly in recent years and the promise that it would lead to higher productivity has not materialised
• MEB a common feature of European IR and in pre-1980 Australia
• EB is not feasible for the majority of SMEs because unions do not have the means to deal with such a large number of firms singly. Evidence that most SMEs prefer this.
• So that most SMEs workers are subject to individual bargaining (at a disadvantage?) and are potentially covered by awards. As noted, the proportion of award workers has increased from 15% in 2010 to 24% in 2016.
The case for multiple employer bargaining 2

• Likely to increase union density: visible role of unions in MEB provides inducement for union membership

• Improved balance of power – employers in substantially the same industry face one or more unions collectively

• Provides basis for greater fairness through uniformity of pay, less efficient firms forced to greater efficiency to survive rather than be subsidised by lower wages.

• Labour analogous to raw materials – a factor of production
How to achieve a more balanced power in the labour market? 1

• Should the substantial discretion provided in earlier powers of the Commission be restored, especially its compulsory powers to intervene in disputes and to conciliate and arbitrate?
• Should union preference clauses be available at the discretion of the Commission?
• Should the right of union entry be eased to ensure fewer breaches of awards and agreements and better opportunities for union recruitment?
How to achieve a more balanced power in the labour market? 2

• Should legislation against sham contracting be tightened: for example, a period of say, 4/6? weeks of continuous/regular employment with the same employer would qualify the worker as an employee?

• Should a similar provision (say, 6 months) be considered for casual workers, at their option?

• Should the limitations on strike action in agreement negotiations be eased? Should strike pay be allowed? (cf employer right to lockout for many months and continue to trade profitably?)

• Should right to strike under MEB be allowed and should pattern bargaining be at the discretion of the Commission be allowed?
The Fears

• Fears that strengthening union power will lead to excessive wage increases of the 60s and 70s are not warranted. Global competition and structural changes are likely to limit union power.

• Further, Commission has the capacity legislation permitting not only to curb excessive use of union powers but also to bring parties together to provide the basis for a cooperative agenda.
Finally

• Australia still ahead of many countries: it still has a viable safety net.

• Use of income taxation to reduce income inequality arising from lopsided balance of power is not a satisfactory course: it would require annual corrections and may cause budgetary problems. It will not deal with the core issue: wages missing out on its share of productivity.