

Open Letter on The Benefits of Promoting Faster Wage Growth

For the last several years, Australian wages have experienced an unprecedented slowdown.

Nominal wages have been growing at only about 2% per year since 2015. That's barely half the traditional pace of growth experienced over the preceding 50 years – and the slowest sustained rate of wage growth since the end of the Second World War. Nominal wages have barely kept up with consumer prices; for many Australian workers, the real purchasing power of their incomes has declined. This has occurred despite official labour market indicators (such as employment growth and the unemployment rate) that seem, on the surface, relatively healthy. And despite official assurances that an acceleration of wage growth is imminent, there is no clear indication of any significant or lasting rebound. The most commonly-reported wage measure (the ABS's Wage Price Index) actually showed a slight slowing of wage growth in the December quarter; other measures also indicate continued weakness.

The consequences of this unusually slow wage growth are many and varied, and include: weaker consumer spending, greater household indebtedness and financial stress, slower growth in government revenues, and widening inequality. In our judgment, the deceleration of wage growth is due in significant part to the impact of deep structural and institutional change, and cannot be explained as a normal outcome of market forces. These structural and institutional factors include wage suppression by governments (affecting not just the public sector, but businesses or non-profit organisations reliant on public funding or procurement), the erosion of collective bargaining, a persistent gender pay gap, the expansion of precarious forms of employment and fragmented work arrangements (including independent contracting, temporary work, franchising, labour hire and gig work), and so-called “wage theft”. These are not the only reasons for the slowdown in wages, but they are important ones.

An important public conversation has been sparked in Australia regarding how to address and reverse wage stagnation. In our judgment, waiting for market forces to restore normal wage trajectories is not likely to be effective. Instead, reversing the stagnation of wages will require positive policy action to strengthen institutional supports for higher wages.

Indeed, various proposals have been recently advanced to strengthen those wage-supporting institutions and policies: including measures to raise (and better enforce) minimum wages, strengthen collective bargaining, relax wage caps on public sector workers, tackle pay inequities, and constrain the ability of businesses to avoid or outsource normal employment responsibilities. If those proposals are implemented, in whole or in part, we expect they would support a moderate but meaningful improvement in wage growth in future years, lifting wage increases back above consumer price inflation and towards traditional benchmarks (of 3.5% to 4% per year). This in turn would have positive impacts on consumer spending, aggregate demand, economic growth, fiscal balances, and equality. Policy statements from bodies such as the Reserve Bank of Australia, the Treasury, and others also indicate the positive value of faster wage growth. And while any individual employer may think it benefits from lower (not higher) wages, collectively even the business community has a stake in the stronger purchasing power and community cohesiveness that comes with rising wages.

Some analysts and organisations have expressed concern and even alarm about the prospect of a recovery in wage growth, suggesting this would constitute a threat to Australia's economic stability and success. We find these arguments puzzling and unconvincing. There is a growing consensus among labour market analysts and practitioners that wages today in Australia are too low, not too high. Hence Australia's economic prospects would be enhanced by policies to boost wage growth.

We believe that stronger wages in the future would contribute to a stronger, more balanced and fairer Australian economy.

This public letter was initiated and circulated by:

Prof. Andrew Stewart
John Bray Professor of Law
Adelaide Law School

Dr. Jim Stanford
Economist and Director
Centre for Future Work

Dr. Tess Hardy
Senior Lecturer and Co-Director
Centre for Employment and Labour Relations Law
University of Melbourne

Signed by 124 Australian labour market researchers including legal experts, economists and policy analysts.

Dr George Argyrous Senior Lecturer, UNSW **Prof Christopher Arup** Business Law Dept., Monash U. **Prof Tony Aspromourgos** Economist, U. of Sydney **Prof Greg Bamber** Centre for Global Business, Monash U. **Dr Larissa Bamberry** Management & Marketing, Charles Sturt U. **Dr Tom Barnes** Senior Research Fellow, Australian Catholic U. **Dr Tim Battin** Senior Lecturer, U. of New England
Dr Michael Beggs Senior Lecturer, U. of Sydney **Dr Laurie Berg** Senior Lecturer, UTS **Assoc Prof Alysia Blackham** Associate Professor, Melbourne Law School
Prof Paul Boreham Emeritus Professor, U. of Queensland **Josh Bornstein** Principal Lawyer, Maurice Blackburn **Prof Mark Bray** Employment Studies, U. of Newcastle **Prof Cathy Brigden** RMIT U.
Dr Gareth Bryant Dept. of Political Economy, U. of Sydney **Prof John Buchanan** Chair of Business Analytics, U. of Sydney **Renee Burns** Australian Institute of Employment Rights
Dr Iain Campbell U. of Melbourne **Roderick Campbell** Research Director, The Australia Institute **Prof Anna Chapman** Assoc. Dean, Melbourne Law School **Prof Sara Charlesworth** Distinguished Professor, RMIT U. **Assoc Prof Lynne Chester** Economist, U. of Sydney **Prof Anis (Anisuzzaman) Chowdhury** Adjunct Professor, UNSW & Western Sydney U. **Assoc Prof Linda Colley** Assoc. Professor, CQUniversity **Dr Joe Collins** Academic Fellow, U. of Sydney **Dr Natasha Cortis** Social Policy Research Centre, UNSW **Dr Peter Davidson** Senior Adviser, ACOSS **Emma Dawson** Executive Director, Per Capita **Dr Richard Denniss** Chief Economist, The Australia Institute **Dr Corrado Di Guilmi** Senior Lecturer, Economics, UTS **Prof Robert Dixon** Hon. Professor, Economics, U. of Melbourne
Dr Geoff Dow Assoc. Prof., Political Sci., U. of Queensland **Prof Bradon Ellem** Work & Organisational Studies, U. of Sydney **Dr John Falzon** Senior Fellow, Per Capita **Prof Karen Fisher** Disability Research Program, UNSW **Dr Frances Flanagan** Work & Organisational Studies, U. of Sydney **Prof Anthony Forsyth** Grad. School of Business & Law, RMIT U. **Prof Beth Gaze** Melbourne Law School
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Troy Henderson Economist, Centre for Future Work **Prof John Howe** Melbourne School of Government **Dr Joanna Howe** Associate Professor, U. of Adelaide **Dr Elizabeth Humphrys** Social & Political Sciences, UTS **Assoc Prof Boyd Hunter** Associate Professor, ANU **Russell Jackson** RJ Industrial Services **Prof Richard Johnstone** School of Law, QUT **Dr Evan Jones** Dept. of Political Economy, U. of Sydney **Prof P.N. Raja Junankar** Industrial Relations Research Centre, UNSW **Dr Anne Junor** Honorary Associate, UNSW **Dr Sarah Kaine** Research Director, Future of Work, UTS
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Dr Tony Stokes Greenacre Educational Publications **Prof Carolyn Sutherland** Business Law & Taxation, Monash U. **Dr Helen Szoke** Chief Executive, Oxfam Australia **Prof Joo-Cheong Tham** Melbourne Law School **Assoc Prof Louise Thornthwaite** Centre for Workforce Futures, Macquarie U. **Dr Trish Todd** Honorary Senior Research Fellow, UWA **Dr Phillip Toner** Senior Research Fellow, U. of Sydney
Dr Gerry Treuren School of Management, U. of South Australia **Prof Beth Webster** Pro Vice Chancellor, Swinburne U. of Tech. **Prof Eileen Willis** Emeritus Professor, Flinders U.
Dr Shaun Wilson Associate Professor, Macquarie U.

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