

## **Open Letter on the Benefits of Promoting Faster Wage Growth**

***Signed by 124 Labour Market, Employment Relations and Labour Law Researchers***

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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, the expansion of precarious forms of employment (including independent contracting, temporary work, 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, 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 3.5-4% 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.

***Letter initiated 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
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**Signatories to Public Letter  
On the Benefits of Promoting Faster Wage Growth**

<b><u>Name</u></b>		<b><u>Title</u></b>	<b><u>Affiliation</u></b>
Dr	George	Argyrous	Senior Lecturer University of New South Wales
Prof	Christopher	Arup	Adjunct Professor Business Law Department, Monash University
Prof	Tony	Aspromourgos	Economist University of Sydney
Prof	Greg	Bamber	Professor Co-Director, International Consortium for Research in Employment and Work (iCREW), Centre for Global Business, Monash Business School
Dr	Larissa	Bamberry	Senior Lecturer School of Management and Marketing   Faculty of Business, Justice and Behavioural Sciences, Charles Sturt University

Dr	Tom	Barnes	Senior Research Fellow	Institute for Religion, Politics & Society, Australian Catholic University
Dr	Tim	Battin	Senior Lecturer	University of New England
Dr	Michael	Beggs	Senior Lecturer in Political Economy	University of Sydney
Dr	Laurie	Berg	Senior Lecturer	University of Technology Sydney
Dr	Alysia	Blackham	Associate Professor	Melbourne Law School, University of Melbourne
Dr	Pauline	Bomball	Senior Lecturer, ANU Law School	Australian National University
Prof	Paul	Boreham	Emeritus Professor	Institute for Social Science Research, University of Queensland
	Josh	Bornstein	Principal Lawyer	Maurice Blackburn
Prof	Mark	Bray	Professor of Employment Studies	Newcastle Business School, University of Newcastle
Prof	Cathy	Brigden	Professor	RMIT University
Dr	Gareth	Bryant	Lecturer	Department of Political Economy, University of Sydney
Prof	John	Buchanan	Chair of Discipline	Business Analytics, Business School, University of Sydney
	Renee	Burns	Executive Director	Australian Institute of Employment Rights
Dr	Iain	Campbell		University of Melbourne
	Rod	Campbell	Research Director	The Australia Institute
Prof	Anna	Chapman	Associate Dean (JD)	Melbourne Law School, University of Melbourne
Prof	Sara	Charlesworth	RMIT Distinguished Professor	Professor of Gender, Work & Regulation / Deputy Head of School Research & Innovation, School of Management, Centre for People, Organisation & Work (CPOW), RMIT University
Dr	Lynne	Chester	Associate Professor	University of Sydney
Prof	Anis (Anisuzzaman)	Chowdhury	Adjunct Professor	University of New South Wales and Western Sydney University
Assoc Prof	Linda	Colley	Discipline Leader HRM	School of Business and Law, CQUniversity
Dr	Joe	Collins	Academic Fellow in Political Economy	University of Sydney
Dr	Natasha	Cortis	Senior Research Fellow	Social Policy Research Centre, University of New South Wales
Dr	Peter	Davidson	Senior Adviser	Australian Council of Social Service
	Emma	Dawson	Executive Director	Per Capita
Dr	Richard	Denniss	Chief Economist	The Australia Institute
Dr	Corrado	Di Guilmi	Senior Lecturer	Economics Discipline Group, University of Technology Sydney
Prof	Robert	Dixon	Honorary Professor	Department of Economics, University of Melbourne
Dr	Geoff	Dow	Associate Professor	School of Political Science, University of Queensland

Prof	Bradon	Ellem	Professor of Employment Relations	Work and Organisational Studies, The University of Sydney Business School
Dr	John	Falzon	Senior Fellow, Inequality and Social Justice	Per Capita
Prof	Karen	Fisher	Professor, Disability Research Program	Social Policy Research Centre, University of New South Wales
Dr	Frances	Flanagan	University of Sydney Fellow	Work and Organisational Studies, University of Sydney
Prof	Anthony	Forsyth	Professor	Graduate School of Business & Law, RMIT University
Prof	Beth	Gaze	Professor	University of Melbourne Law School
Dr	Gabrielle	Golding	Lecturer	Adelaide Law School, University of Adelaide
Dr	Caleb	Goods	Lecturer	Department of Management & Organisations, UWA Business School , University of Western Australia
Prof	Roy	Green	Emeritus Professor, Innovation Adviser	University of Technology Sydney
	Egbert	Groen	Sessional Lecturer	Newcastle Law School, University of Newcastle
	Matt	Grudnoff	Economist	The Australia Institute
Prof	GC	Harcourt	Professor Emeritus	University of New South Wales
Dr	Tess	Hardy	Senior Lecturer and Co-Director	Centre for Employment and Labour Relations Law, University of Melbourne
	Peter	Harkness	Former Senior Lecturer	Economics and Business, Swinburne University
	Troy	Henderson	Economist	Centre for Future Work at The Australia Institute
Prof	John	Howe	Director	Melbourne School of Government, University of Melbourne
Dr	Joanna	Howe	Associate Professor in Law	University of Adelaide
Dr	Elizabeth	Humphrys	Social Scientist	Social and Political Sciences, University of Technology Sydney
Dr	Boyd Russell	Hunter Jackson	Associate Professor	Australian National University
Prof	Richard	Johnstone	Professor	RJ Industrial Services
Dr	Evan	Jones	Economist	School of Law, Queensland University of Technology
Dr				Department of Political Economy, University of Sydney
Prof	P.N. Raja	Junankar	Adjunct Professor	Industrial Relations Research Centre, University of NSW
Dr	Anne	Junor	Honorary Associate Professor	University of NSW
Dr	Sarah	Kaine	Associate Professor	Research Director: Future of Work, Organising and Enterprises  Centre for Business and Social Innovation (CBSI), University of Technology Sydney

Prof	Steve	Keen	Honorary Professor	University College London and ISRS Distinguished Research Fellow
	Nicholas	Kimberley		Australian Catholic University
Prof	John	King	Emeritus Professor	La Trobe University and Federation University
Dr	Peter	Kriesler	Associate Professor	School of Economics, University of New South Wales
	Damian	Kyloh	Associate Director of Economic and Social Policy	Australian Council of Trade Unions
	Ingrid	Landau	Lecturer	Department of Business Law & Taxation, Monash Business School, Monash University
Prof	Russell	Lansbury	Emeritus Professor	University of Sydney Business School
Dr	Stephane	Le Queux	Senior Lecturer in Employment Relations	James Cook University
	Tim	Lyons	Research Fellow	Per Capita
Dr	Fiona	Macdonald	Senior Research Fellow	RMIT University
Prof	Johanna	Macneil	Professor	Employment Relations/HRM Discipline, Newcastle Business School, University of Newcastle
Prof	Raymond	Markey	Emeritus Professor of Employment Relations	Faculty of Business and Economics, Macquarie University
Prof	Robert	Marks	Professor Emeritus	Economics, University of NSW
Dr	Shelley	Marshall	Vice Chancellor's Senior Research Fellow	RMIT University
Prof	Greg	Marston	Professor of Social Policy, Head of School	School of Social Science, University of Queensland
	Alison	McClelland	AM	Social Policy Consultant
Dr	Shae	McCrystal	Professor	Professor of Labour Law; Deputy Dean and Deputy Head of School, University of Sydney Law School
Prof	Paula	McDonald	Professor of Work and Organisation	QUT Business School, Queensland University of Technology
Dr	Ian	McGregor	Lecturer	Department of Management - UTS Business School, University of Technology Sydney
Dr	Margaret	McKenzie	Economist	Australian Council of Trade Unions, and Federation University
Dr	Gabrielle	Meagher	Professor	Department of Sociology, Macquarie University
Dr	Alex	Millmow	Associate Professor in Economics	Federation Business School
Prof	Richard	Mitchell	Professor in Labour Law	Monash University
Dr	Cameron	Murray	Visiting Scholar	University of Sydney

Dr	Terri	Mylett	Lecturer in HRM/Industrial Relations	School of Business, Western Sydney University
Dr	Matt	Nichol	Lecturer	Department of Business Law & Taxation, Monash Business School, Monash University
Prof	Anthony Rod	O'Donnell	Senior Lecturer	School of Law, La Trobe University
Dr	Patrick	O'Donnell	Economist	University of Technology Sydney
		O'Leary	Lecturer	Federation Business School, Federation University
Dr	Alice	Orchiston	Lecturer	University of New South Wales
	Adriana	Orifici	Lecturer	Monash Business School, Monash University
Prof	David	Peetz	Employment Relations	Griffith University
Dr	Michael	Pegg	Industrial Relations Consultant	
	Alison	Pennington	Economist	Centre for Future Work at The Australia Institute
Prof	Alison	Preston		University of Western Australia
Prof	John	Quiggin	ARC Australian Laureate Fellow	School of Economics, University of Queensland
Dr	Patricia	Ranald	Convener	Australian Fair Trade and Investment Network
Dr	Michael	Rawling	Senior Lecturer	Faculty of Law, University of Technology Sydney
Prof	Alexander	Reilly	Director	Public Law and Policy Research Unit, Adelaide Law School, University of Adelaide
Dr	Susan	Ressia	Lecturer	Department of Employment Relations and Human Resources, Griffith University
	David	Richardson	Senior Research Fellow	The Australia Institute
Dr	Stuart	Rosewarne	Honorary Associate Professor	Department of Political Economy, University of Sydney
Dr	Peter	Ross	Honorary Senior Lecturer	School of Humanities and Languages, University of New South Wales
Dr	Kerrie	Saville	Senior Lecturer	Department of Management, Faculty of Business & Law, Deakin University
Dr	Robyn	Seth-Purdie	Senior Analyst, Prevention and Equity	UnitingCare Australia
Prof	Rhonda	Sharp	Emeritus Professor AM	University of South Australia
Dr	Christopher	Sheil	Senior Fellow	School of Humanities and Languages, Faculty of Arts and Social Sciences, University of New South Wales

Prof	Peter	Sheldon	Director Industrial Relations Research Centre	Business School, University of New South Wales
Assoc Prof	Meg Warwick	Smith	Deputy Dean	School of Business, Western Sydney University
	Tilly	Smith	Senior Economist	Per Capita
Assoc Prof	Ben	Spies-Butcher	Director	Interns Australia
Prof	John	Spoehr	Head, Department of Sociology	Macquarie University
			Director	Australian Industrial Transformation Institute, Flinders Business School
Dr	Jim	Stanford	Economist	Centre for Future Work at The Australia Institute
Prof	Andrew	Stewart	John Bray Professor of Law	Adelaide Law School, University of Adelaide
Prof	Frank	Stilwell	Professor Emeritus in Political Economy	University of Sydney
Dr	Tony	Stokes		Greenacre Educational Publications
Prof	Carolyn	Sutherland	Director, Labour, Equality and Human Rights Research Group (LEAH)	Department of Business Law & Taxation, Monash Business School, Monash University
Dr	Helen	Szoke	Chief Executive	Oxfam Australia
Prof	Joo-Cheong	Tham	Professor	Melbourne Law School, University of Melbourne
Assoc Prof	Louise	Thornthwaite	Deputy Director	Centre for Workforce Futures, Macquarie University
Dr	Trish	Todd	Honorary Senior Research Fellow	University of Western Australia
Dr	Phillip	Toner	Senior Research Fellow	Department of Political Economy, University of Sydney
Dr	Gerry	Treuren	Senior Lecturer	School of Management, University of South Australia
Prof	Beth	Webster	Pro Vice Chancellor (Research Policy and Impact)	Director, Centre for Transformative Innovation. Swinburne University of Technology,
Prof	Eileen	Willis	Emeritus Professor	Flinders University, College of Nursing and Health Sciences, Discipline of Health & Exercise Sciences
Dr	Shaun	Wilson	Associate Professor	Macquarie University