EDITORIAL

CAUSES AND CONSEQUENCES OF LABOUR'S FALLING INCOME SHARE AND GROWING INEQUALITY

It was a surprise to many Australians when the head of the Reserve Bank, Philip Lowe, urged workers in June 2017 to ask for a wage rise in response to what he perceived to be a 'crisis of low pay'.[1] What was unexpected about the Governor's remarks was not that they were based on new or ambiguous evidence, but that they followed nearly forty years of government policy premised on the notion that Australia has been living under the threat of a 'wages outbreak', an unjustified and damaging set of claims to an overweening share of Australia's economic pie. This spectre has been periodically invoked as the justification for implementing a range of neoliberal reforms and government interventions. As recently as 2014, Eric Abetz, then Workplace Relations Minister, referred to the risk of a wages 'explosion' as the justification for intervening in a major employer's decision to cut the entitlements of employees.[2]

The empirical basis for such claims is plainly false. By a range of statistical measures, whether it be share of GDP, share of total factor income or the gap between productivity growth and wages, the share

---

1 Peter Martin (2017) 'RBA Governor rules out rate rises as he blames employers for low wage growth', *Sydney Morning Herald,* 22 November, available at *http://www.smh.com.au/business/the-economy/reserve-bank-governor-philip-lowe-blamesemployers-for-low-wage-growth-20171121-gzq126.html* [Accessed 9 May 2018].

2 Senator Eric Abetz (2014) 'Industrial Relations After the Thirty Years War', Address to the Sydney Institute, 28 January 2014, available at *http://resources.news.com.au/files/2014/01/28/1226812/248439-aus-web-file-news-after-30-year-war-speech-pdf.pdf* [Accessed: 8 May 2018].

Flanagan, F. and F. Stilwell (2018)
'Editorial – Causes and Consequences of Labour's Falling Income Share and Growing Inequality'
Journal of Australian Political Economy
No. 81, pp. 5-10.

going to labour in Australia has declined substantially since the mid-1970s. If recognition of the decline by the Australian Treasury has been oblique at best,[3] there has also been a deficiency in wider academic analyses of the economic, institutional and political underpinnings of the fall in Australia, at both an empirical and theoretical level.

This special issue of *JAPE* addresses the topic in two ways. First, it presents four papers directly on the labour share of income in Australia. Secondly, it includes five other articles on broader issues of inequality in Australia and the associated economic and social stresses.

The four papers in the first part of the journal originated in a symposium on 4 December 2017 at the conference of the Australian Society of Heterodox Economists (SHE), University of New South Wales, Sydney. The symposium was organised by Dr. Jim Stanford from the Centre for Future Work who invited other experts to discuss the causes and consequences of the decline in labour's share of GDP. These contributions have been revised in the light of referees' comments and editorial suggestions.

The opening article by Jim Stanford critically reviews the evolution of the measurement of the labour share in Australia, and discusses the limitations of orthodox policy explanations for the phenomenon. Stanford identifies a circular quality to neoclassical explanatory frameworks, noting that the factor distribution of income in such models is either simply assumed to be constant, or alternately is understood to be wholly driven by the competitive market-clearing determinants that are defined by the models themselves. In either case, no reference is made to the wider, non-market institutional and regulatory context. Stanford also notes an asymmetry in the judgments that are typically attached to orthodox descriptions of changes in the labour share, with instances of wage rises relative to productivity typically represented as problematic, while falls are conceptualized as restorations of 'alignment'. He also observes that there is nothing inevitable about the erosion of Australia's labour share. In one third of OECD countries, labour's share actually increased from the 1970s to the 2010s and, while Australia's reduction does reflect a relatively high starting point, it is closely linked to the introduction of policies that have eroded the strength of institutional

[3] See Stanford, this volume, and Treasury, Government of Australia (2017). *Analysis of Wage Growth*, November, *https://treasury.gov.au/publication/p2017-t237966/*.

labour protections and rise of non-standard employment forms over the same period.

David Peetz's article provides a powerful analysis of the significance of financialisation in understanding the causes, nature and consequences of Australia's reduced labour share. After cautioning against the idea of viewing the labour share as a straightforward measure of worker well-being (since labour share not only includes the pay of the top 1%, it is also counter-cyclic), he describes the extent to which finance capital has been the disproportionate beneficiary of the shift in income from labour to capital. Not only have banks, insurance companies, hedge funds and other financial institutions benefitted to a far greater extent than industrial capital from the decline in labour share, they have also used their increased power to shape the behavior of other economic actors, thus further enhancing the mobility of capital and restraining the relative power of labour. A key concept in Peetz's analysis is 'not there' capitalism, his term for the process by which centres of capital are able to fragment corporate structures in ways that enable them to maintain high levels control, reduce labour costs, maximize profits and minimize accountability. Finance capital encourages these trends. He identifies financialisation and consequently 'not there capitalism' as pre-eminent causes of the fall of labour share in Australia, influencing and being influenced by 'neoliberalism' that has driven declining union density, and of far greater salience than technology and compositional change. Industrial capital, in Peetz's analysis, plays a subservient role in driving down the labour share, acting as the enforcer for the rules set by finance capital in increasing the exploitation of labour.

Margaret McKenzie's article connects the decline in labour share of GDP to erosion in the real economic 'bite' of Australia's minimum wage. Australia's strong minimum wage policy, which was historically at the core of its efforts to promote strong job growth and greater earnings inequality, has, she argues, mostly been abandoned over the last 35 years. The present minimum wage is not adequate to lift a full-time worker out of poverty, and does not meet the principles for a living wage laid down in the Harvester decision. Instead, the *Fair Work Act 2009* Minimum Wage Objective has created a framework which has led to a stagnant minimum wage, with consequent adverse impacts on productivity levels, earnings equality and employment creation. McKenzie calls for a revitalized vision of the minimum wage as a truly 'living wage', sufficient for a full-time worker to earn enough to escape poverty, and capable of adjustment over time by reference to median full-time earnings, rather than through the present set of statutory criteria.

Shaun Wilson's article considers the political dimensions that have driven the decline in labour share. He asserts that an 'inequality regime' was introduced in Australia under the Coalition government in the 1990s, which undermined the historic class compromise built around Australia's predistributive wage-earner model at Federation and continues to pertain today. Australia's inequality regime has a range of features, including fiscal mechanisms that are calculated to drain public revenue and retain wealth at the top, a highly decentralized system for bargaining with a heavily proscribed 'right to strike', stripped-back minimum standards and a heavy reliance on a large temporary migrant workforce. While Australia's inequality regime is still constrained by myriad social and political institutions, Wilson argues that the scope for meaningful 'institutionalised combat' is so limited that a resurgence of spontaneous, fragmented and non-institutional forms of class struggle is likely.

Together, these four articles make clear that Australia's declining labour share is both a cause and a consequence of the suite of neoliberal policies that have reduced the power of labour relative to capital, and that neoclassical conceptualisations of the phenomena are inadequate to either describe or explain Australia's trajectory. The fall in labour share represents a historic departure from the distribution of income that pertained in the 20th century, when Australia's institutional arrangements supported an egalitarian, pre-distributive wage earner economy with strong minimum protections. Given the remarkable persistence of the myth of imminent 'wage breakouts' as a justification for the further implementation of neoliberal policies, it is crucial that the arguments raised in these analyses enter mainstream economic discourse. Without an appreciation of the extent to which the labour share of income has shifted to finance capital in recent decades, a democratic realignment of our economic and political institutions to bring about a more egalitarian distribution of income will be extremely difficult.

The second part of this special issue of *JAPE* casts the net wider by looking at other aspects of economic and social inequalities in Australia. These relate to the remuneration of chief executive officers; economic inequalities magnified by housing markets; the appropriation of part of the national income by landed capital; the concentration of economic stress in localities with high unemployment; and capital and labour shares in the light of Thomas Piketty's influential analysis of economic inequality.

The first of these five articles considers the incomes of a particular group of people being handsomely rewarded – the senior managers, especially the chief executive offices, of large corporations. Eugene Schofield-Georgeson refers to evidence showing that the average CEO remuneration as a multiple of the median workers' wage in Australia has risen from around 15:1 to over 180:1 during the last four decades. Could this extreme relativity be reined in? Requiring full disclosure of the top managerial payments could affect some modest redistribution to shareholders, Schofield-Georgeson argues, but would not benefit workers. Stronger and more comprehensive policies to curtail the behaviour of the managerial elite would be necessary for the latter purpose. Class interests are at stake.

At first sight, housing markets are quite different from labour markets. A political economy of housing, however, reveals that the two markets operate in tandem to accentuate inequalities. This has clearly been the case in Australia. House prices and housing costs have rapidly while wages have not, catching low and middle-income earners in a scissors effect. Evidently, wage stagnation does not significantly restrain house price inflation. Nor does increased housing supply. As Isla Pawson's article explains, housing is not just a necessary item of consumption and wellbeing: it has become a vehicle for already-wealthy people to increase their wealth. This process makes affordable housing for all Australians a receding prospect. As Pawson explains, the long saga of negative gearing reflects how housing functions in capitalist society as a site for capital accumulation and the reinvestment of surplus value.

An article by Joe Collins then shows how landed property raises the non-labour share of the national income. The appropriation of rent by landowners operates in tandem with the appropriation of surplus value, and hence profits, by capitalists. The intertwining of these elements makes for a stronger tendency for increases in the non-labour share of national income. Collins traces the history of rent theories and the implications of taking a Marxian political economic perspective. His empirical examples focus particularly on the dismal Australian experience with attempting to increase tax on mining revenues.

The spatial dimension of economic inequalities is also important. The next article, by Mark Dean and Ray Broomhill, looks at a location that has become renowned for its concentration of economic and social problems - Elizabeth in South Australia. Now part of the City of Playford, Elizabeth was planned as a new town north of Adelaide during an earlier era of industrialisation, centred particularly on the car industry. With the closure of the car plants has come unemployment, high rates of welfare dependency, housing stress and related social problems. This article describes how the challenge is being met locally, showing the problems that persist in the absence of any broader governmental commitment to industry and regional policy.

Chris Sheil's short article brings attention back to the shifting income shares underlying these processes, problems and policy concerns. Recognising the importance of Thomas Piketty's analysis for the understanding of capital and labour shares, Sheil shows the distinctive features of the Australian situation. This involves extracting the Australian data from Piketty's analysis, in tandem with updated ABS data that the author has been preparing for the Evatt Foundation. The article reaffirms the importance of a watching brief on the increasing size and concentrations of capital (or wealth, since these are synonymous in Piketty's analysis) as well as income shares, and draws implications for public revenue. As ever, who gets what depends crucially on who owns what.

Finally, this issue includes reviews and notes on recently published books and a short biographical article.

Overall, we hope that readers of *JAPE* will find plenty of useful information and analysis in this issue. It should be of interest to people concerned with inequality, workers' wages and well-being, and the development of progressive strategies and policies. The next issue of this journal, due for publication at the end of the year, will be another special theme issue – looking at Aboriginal and Torres Strait Islander Employment and Employment Policy.

Frances Flanagan

United Voice, Australia: fnflanagan@gmail.com

Frank Stilwell

Coordinating editor, JAPE: frank.stilwell@sydney.edu.au