

# Wages, Prices, and Power:

## The Wages Crisis in Australia, and the Risks of Monetary Austerity

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*For ACTU Webinar, October 2022*

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# THE WAGES CRISIS: REVISITED

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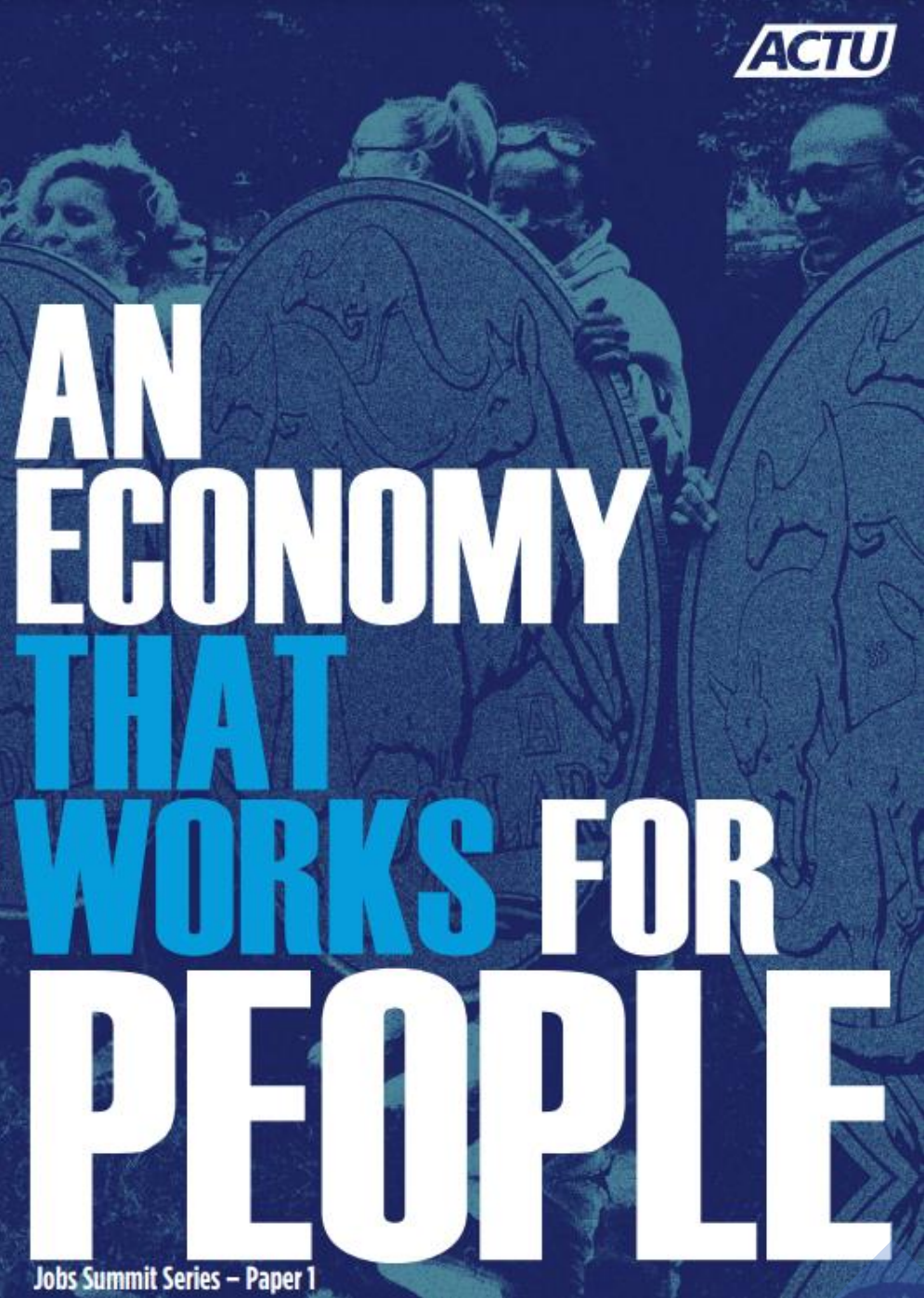
ANDREW STEWART

JIM STANFORD

TESS HARDY

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The ACTU logo is located in the top right corner of the central image. It consists of the letters 'ACTU' in a bold, white, sans-serif font, enclosed within a white rectangular border.The background of the central image is a dark blue, textured photograph. It depicts several people, including a woman on the left and a man on the right, holding large, circular objects that resemble oversized coins or medals. The coins feature intricate designs, including what appears to be a profile of a person and some text. The overall scene suggests a celebratory or significant event.

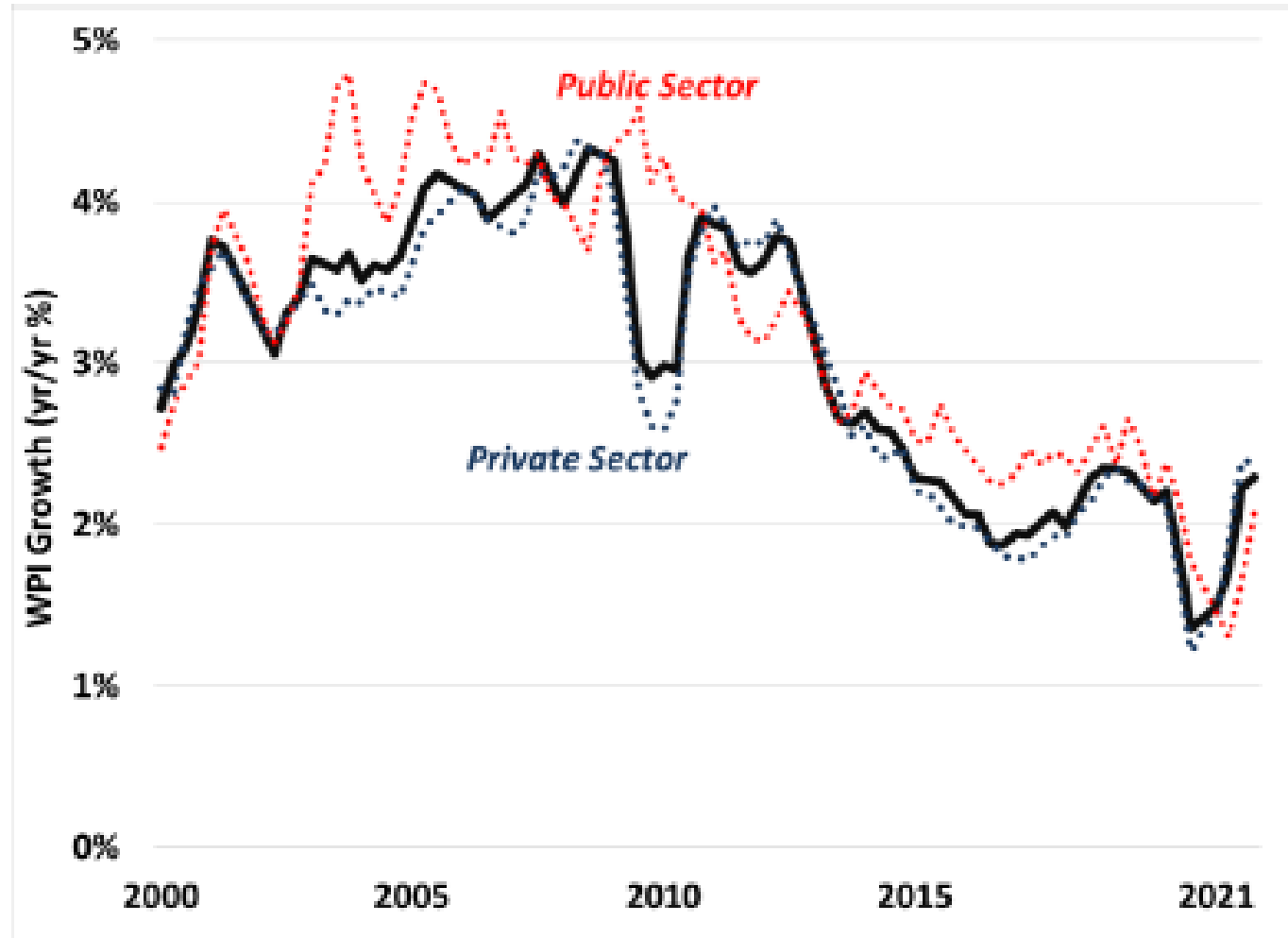
# AN ECONOMY THAT WORKS FOR PEOPLE

Jobs Summit Series – Paper 1

# The Wages Crisis in Australia

- Even before COVID, we had a problem.
- Beginning in 2013, wage growth decelerated.
  - Falling half from about 4%/year to 2%/year.
- Several causal factors:
  - End of mining investment boom.
  - Election of aggressive anti-union government.
  - Continued erosion of wage-supporting institutions.
- Multi-faceted consequences:
  - Erosion of labour share of GDP (now at record postwar low: 45%).
  - Macroeconomic weakness.
  - Growing inequality: across classes, and between workers.

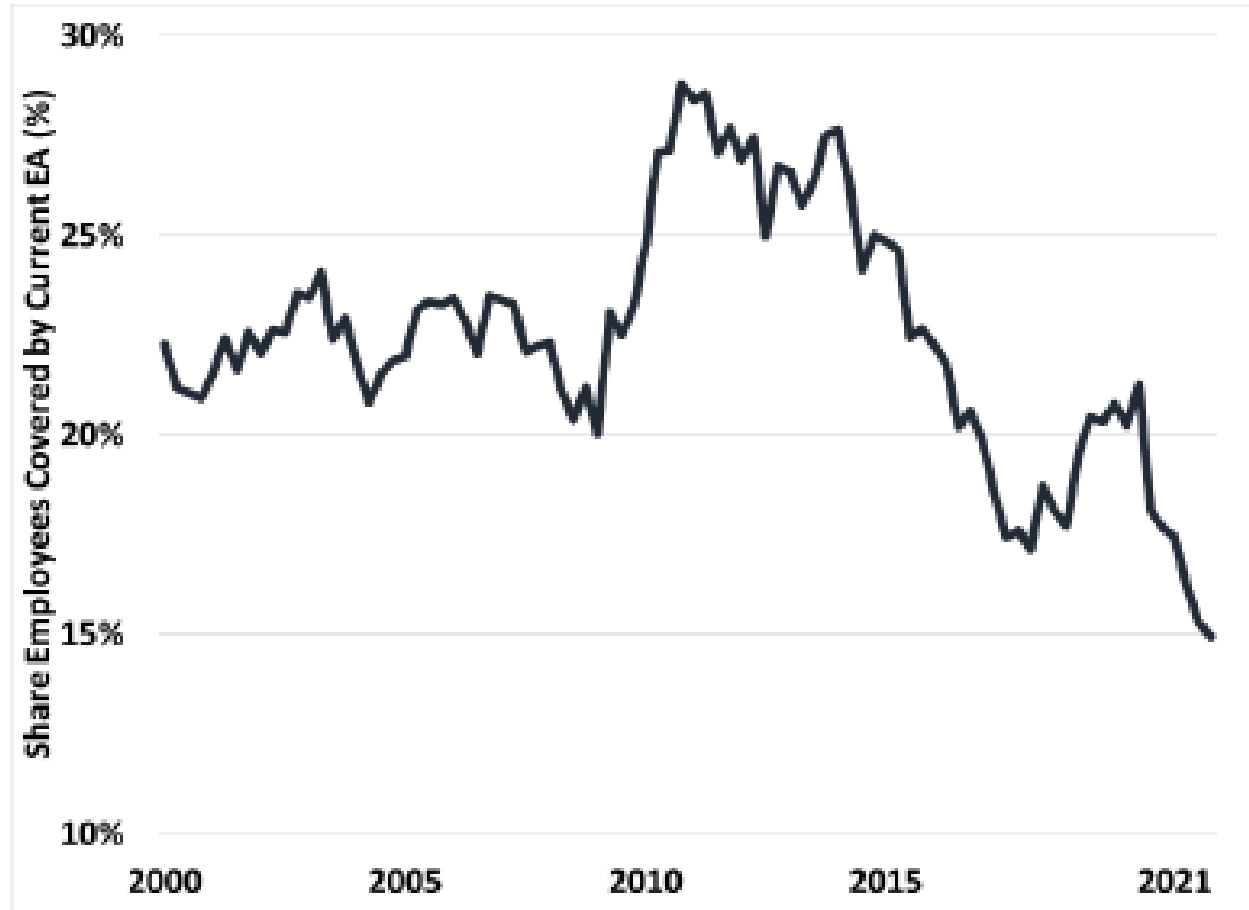
## Wage growth by sector, 2000-2021



## Real wages and labour productivity, 2000–2021



## Coverage of current federally registered enterprise agreements, 2000–2021



## Minimum wage 'bite': Minimum wage as share median wage, 1990–2020





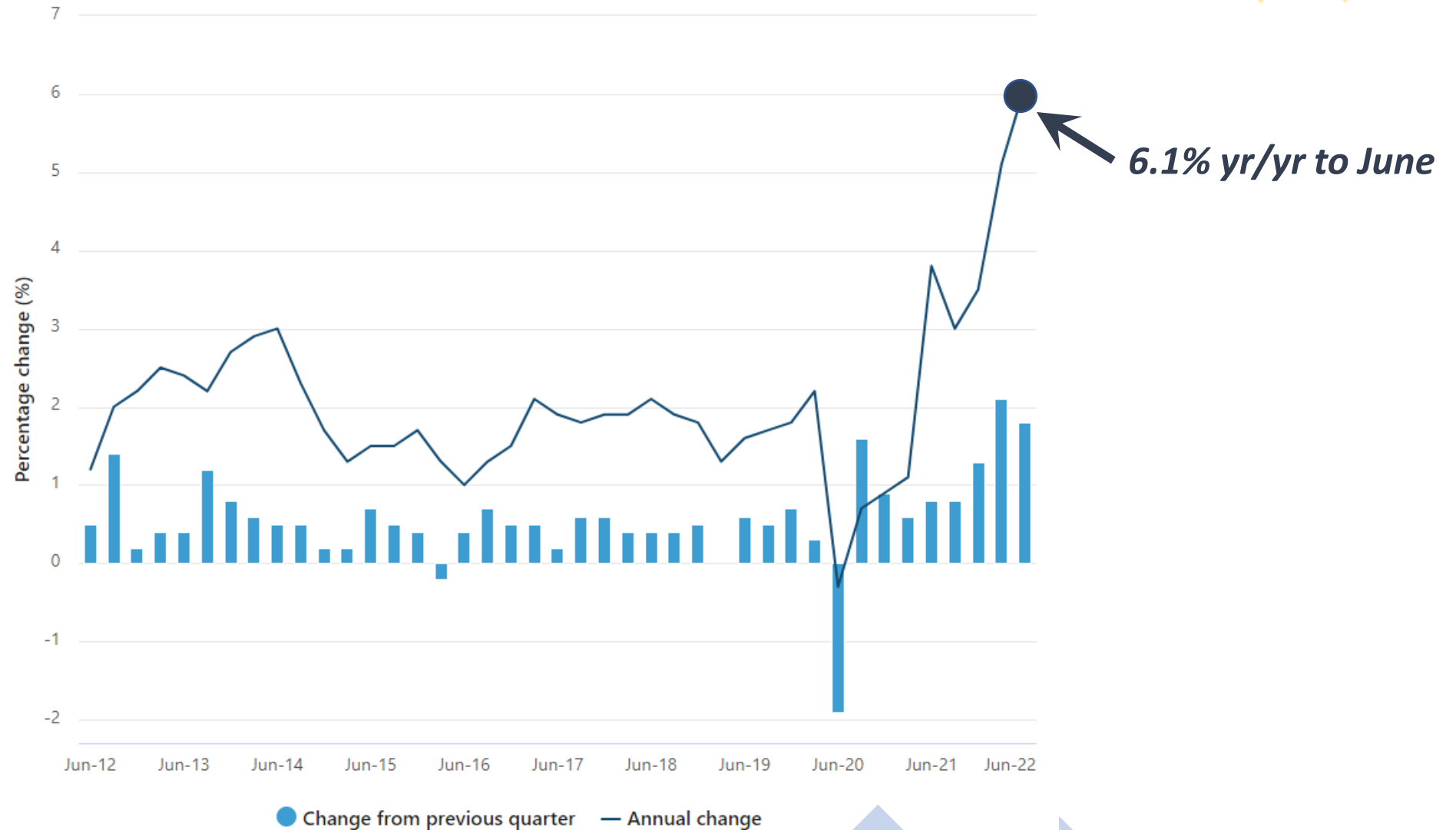
# A New Cost of Living Crisis: Tightening the Screws

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# Accelerating Inflation

All groups CPI, quarterly and annual movement (%)



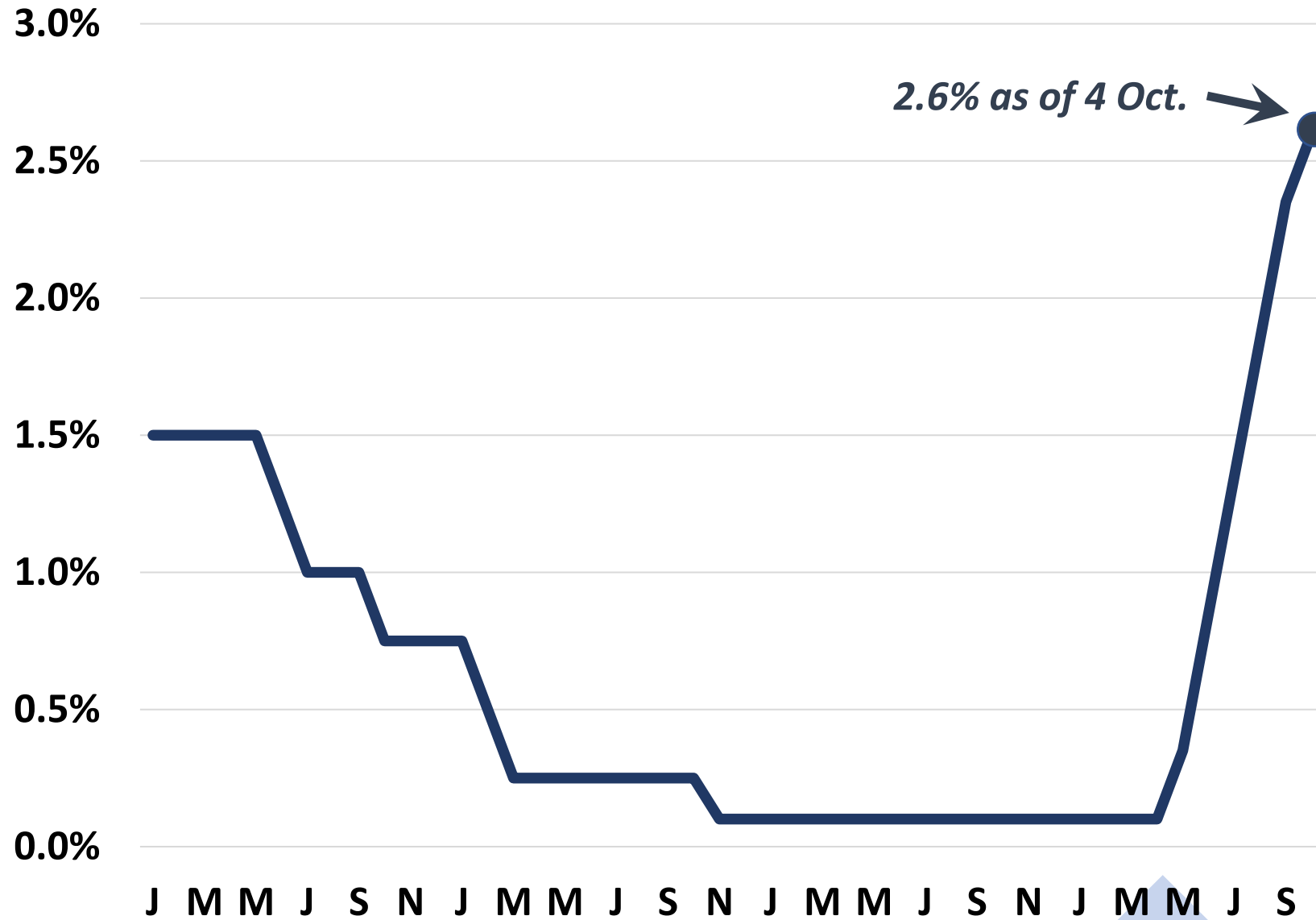
# Inflation Outlook

- Some of it is transitory.
  - Supply chain problems.
  - Surge in pent-up spending.
  - Goods / services rebalancing.
- Some of it is global (energy).
- It has spread into domestic supply & expectations.
- RBA: CPI inflation will peak above 7% later this year, then fall.

# Higher Interest Rates: A Global Movement

- 50 countries have raised rates so far this year.
- That will reduce inflation (via slower global growth) regardless of what the RBA does in Australia.
- So far RBA has been in middle of the pack.

# A Steep Slope: RBA Cash Rate



# 0.25% hike increase in monthly repayments

Loan size	October increase	Total increase May – Oct
\$500,000	\$74	\$687
\$750,000	\$110	\$1030
\$1 million	\$147	\$1374

Source: RateCity

# The Iffy Logic of Interest Rate Increases

- They make some things MORE expensive.
- They have no impact on imported, energy, or supply chain inflation.
- Ultimate goal: slow down growth, job-creation, & spending power.
  - That could (painfully) offset other price pressures.
- Another goal: shore up 'credibility' with financial markets.

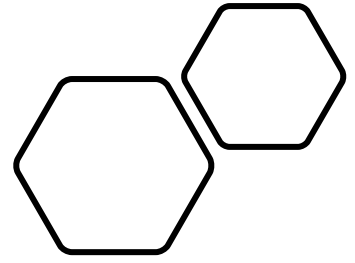
# Stormy Weather Ahead

- Effects of higher interest rates on real economy take 12-18 months.
- Financial and asset market effects can be felt much faster:
  - Stock markets.
  - Housing prices.
  - Speculative assets (crypto).
  - Sovereign debt (emerging markets, Euro periphery, Japan 10-years).
- Growing fears of global recession.
- Financial collapses possible again.



# Inflation and Wages





# Resuscitating the “Wage- Price Spiral”

- Neoliberal argument: if wages increase to keep up with inflation, that will cause more inflation.
- It doesn't matter whether wages caused the initial inflation or not.
- So wages must be suppressed, even though prices are rising faster.

# How it Works

"If the supply side shocks do lead to a permanent or persistent shift in labour cost growth, inflation will not return to where it was before."



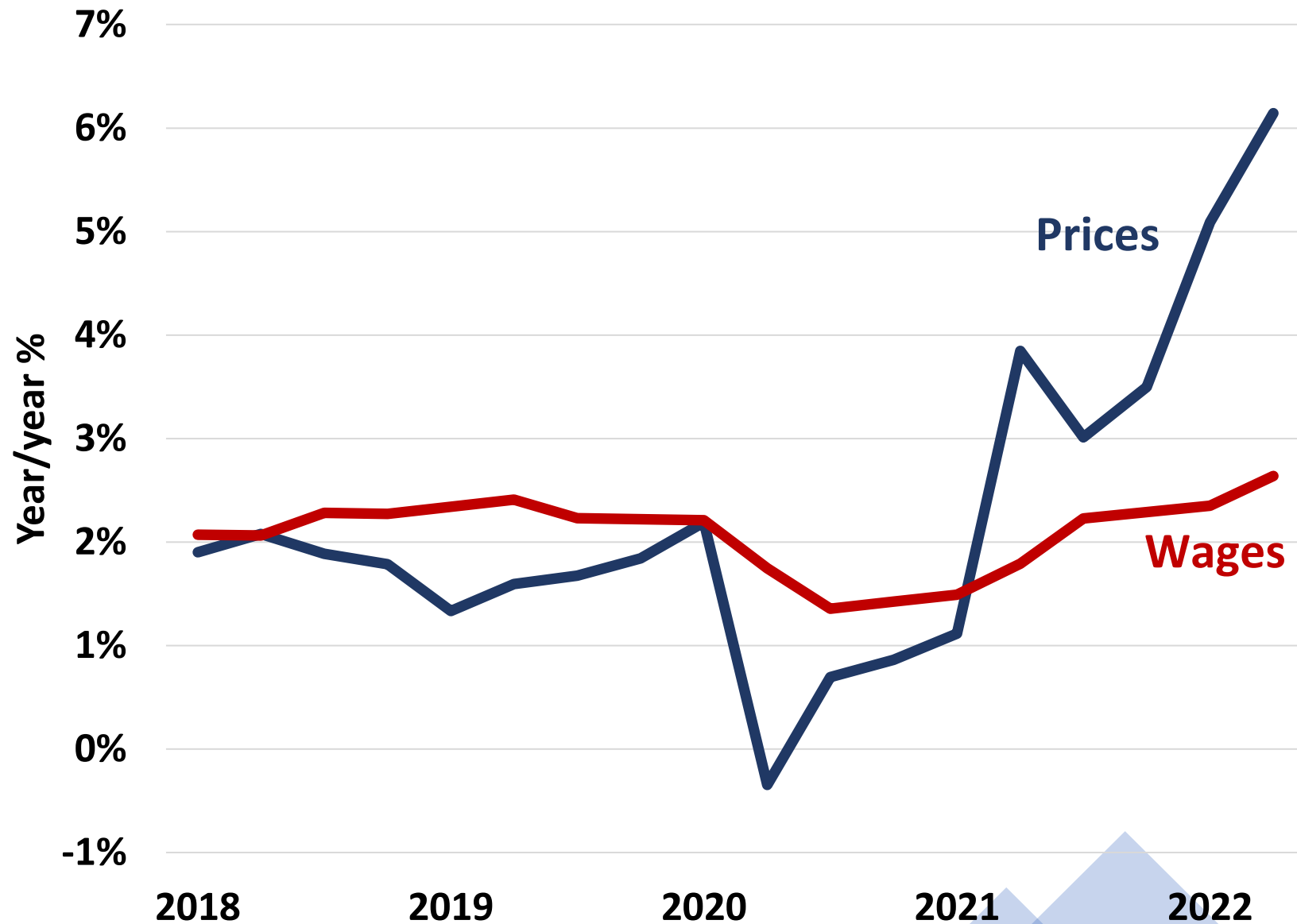
# Translation Please:

"If workers try to win wage increases to keep up with inflation that they didn't cause, that will keep inflation higher than our target. We won't let that happen. So we will disinflate, and force workers to swallow a big real wage cut in the interim."

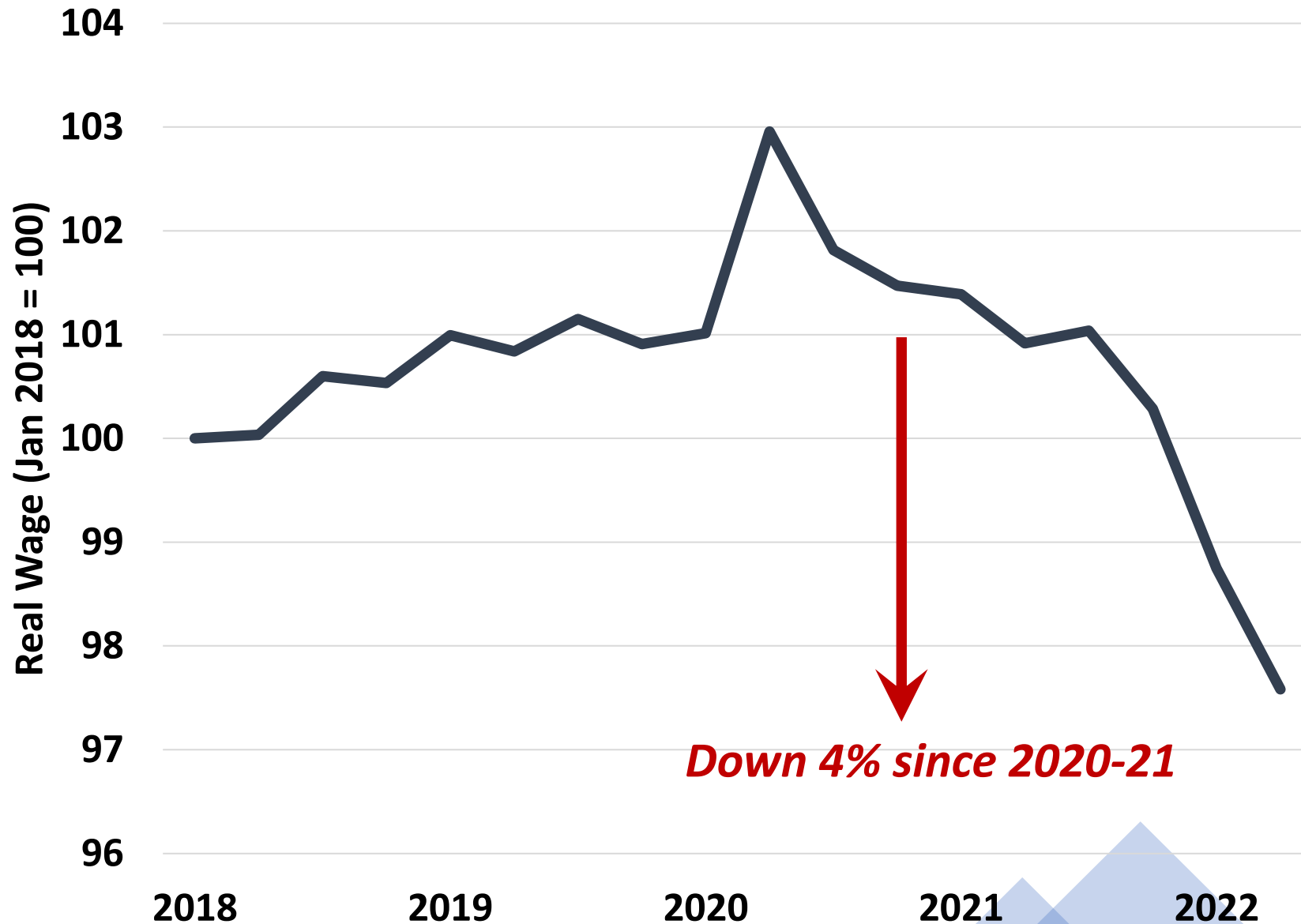


**6 Reasons Wages  
SHOULD Keep Up  
With Inflation**

# 1. Wages Didn't Cause the Inflation

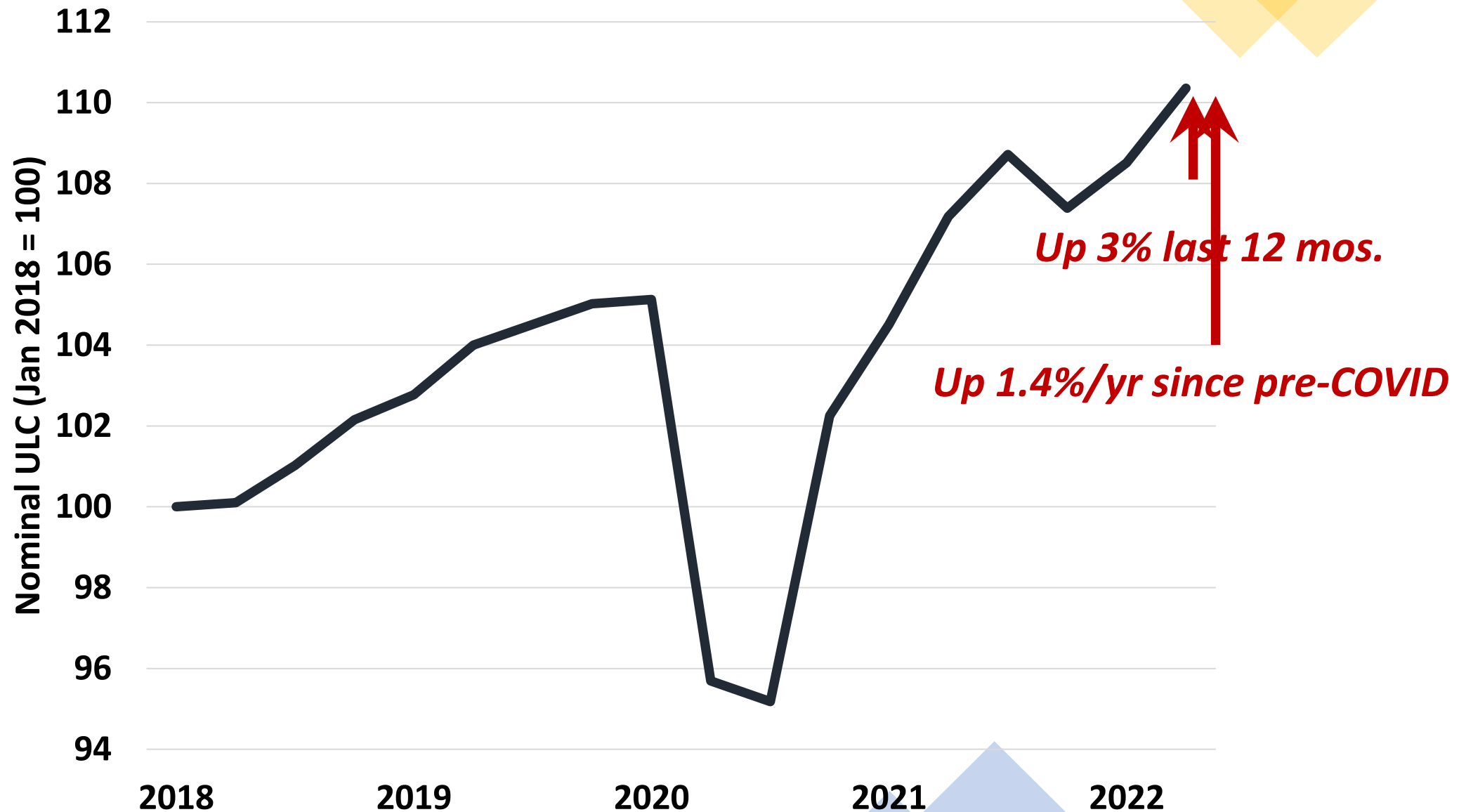


## 2. Real Wages are Falling, not Rising

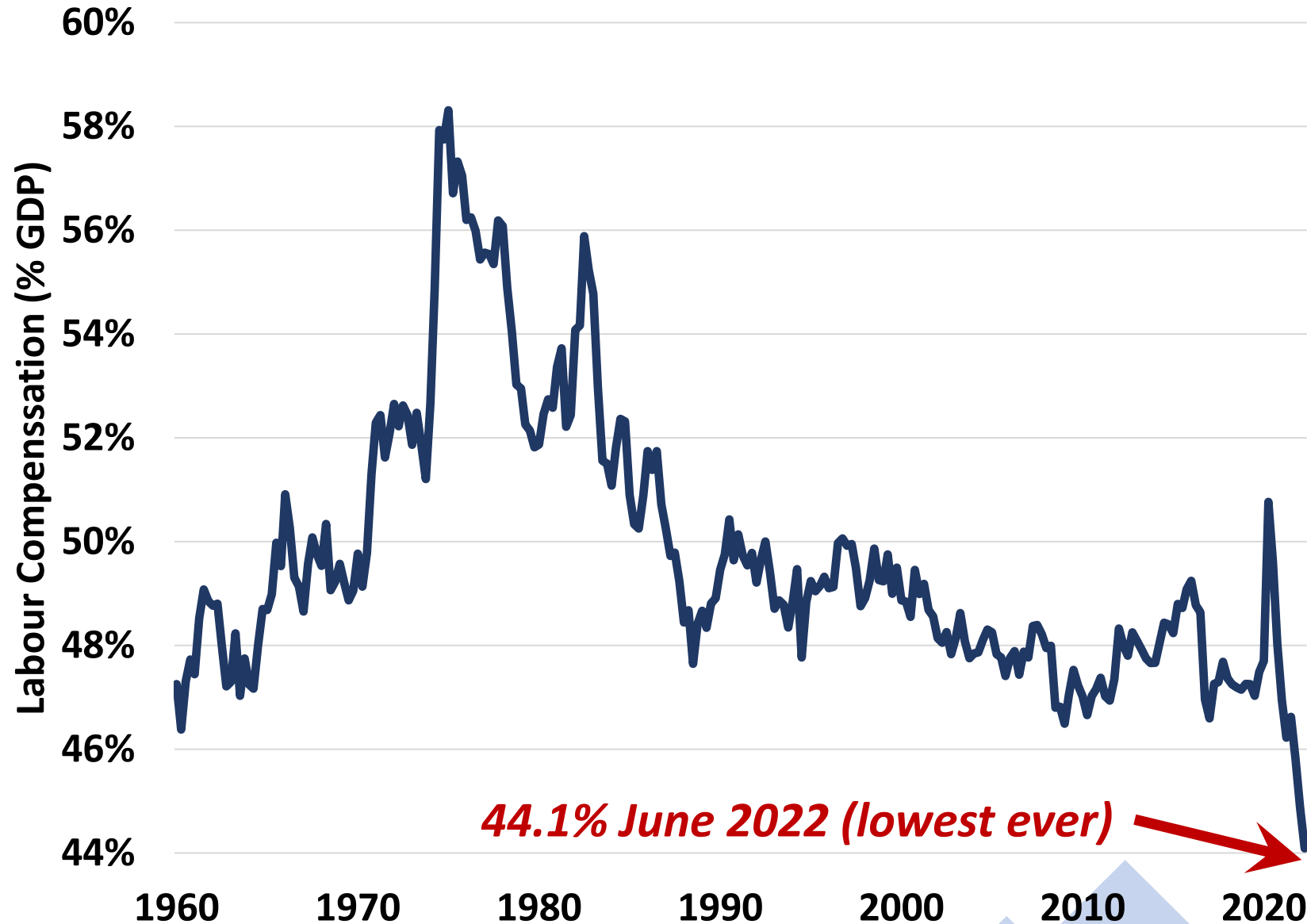




# 3. Unit Labour Costs Grow Slower

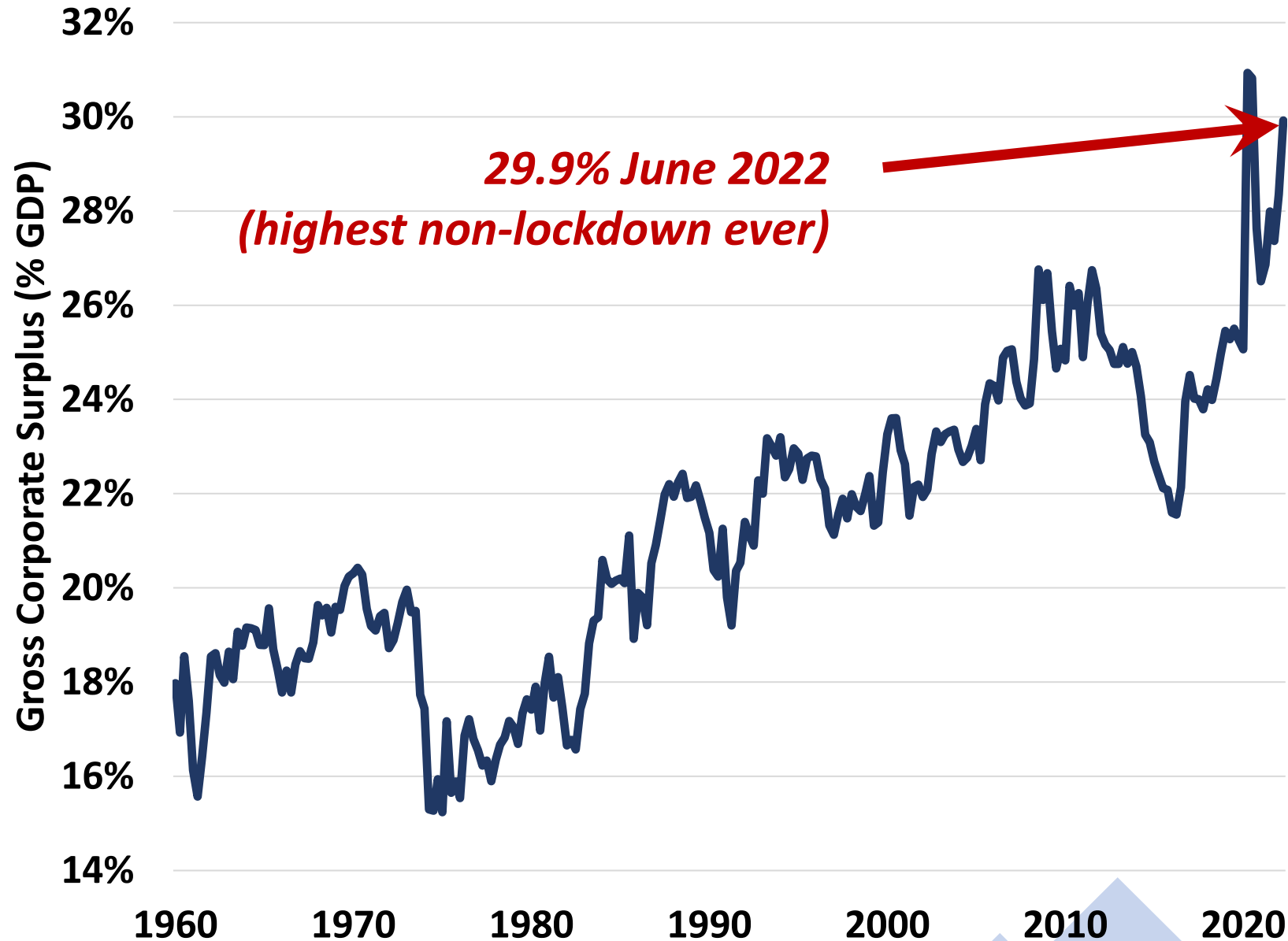


# 4. Labour Share of Pie has Fallen

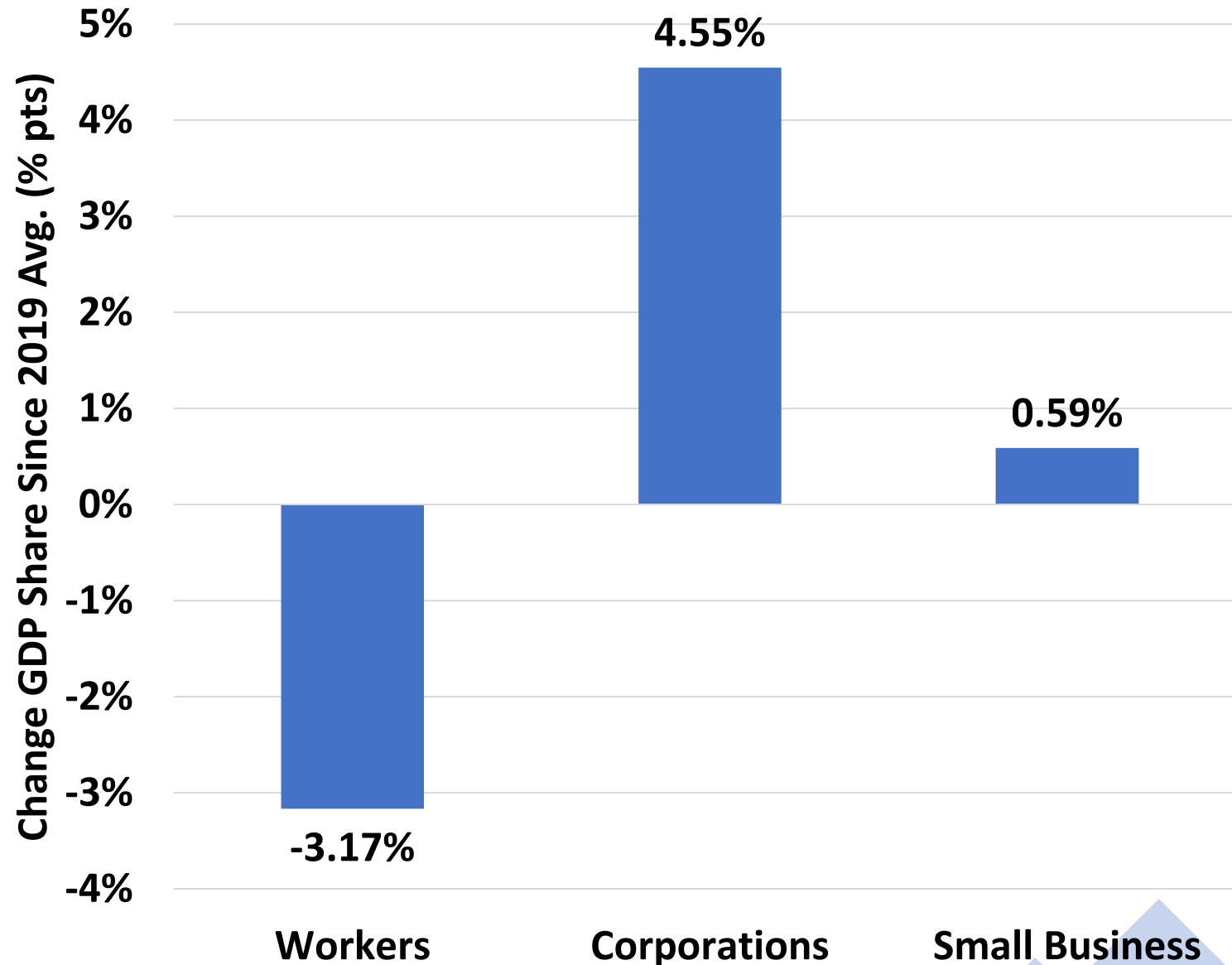


**44.1% June 2022 (lowest ever)**

# 5. Inflation has Boosted Profits



# 6. It's Profit-Price Inflation



Fixing the Problem

A white, torn-paper-like border runs along the bottom edge of the slide, starting from the left and extending towards the right, with a jagged, irregular edge.

# Protect Workers Against Inflation (until it's fixed)

- Lift minimum wage to a living wage.
- Stronger Awards system.
- Rebuild collective bargaining.
- Lift public sector pay caps.
- Pay equity.
- Stronger funding for public & community services.
- Better income supports for those who need it.

# Find Fairer Solutions to the Core Problem

- Regulate some prices (energy, rents).
- Governments can reduce prices:
  - Housing policy.
  - Public services (child care, transit).
  - Accelerate shift to renewable energy.
- Targeted taxes to cool demand.
- Wait while it comes down (and protect people in meantime).

# Key Takeaways:

- Workers are producing more than ever.
- Workers are getting us through the pandemic.
- Workers did not cause this inflation.
- Workers will not tolerate a permanent income cut to solve it.
- A recession will make things worse.
- Join your union!



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**Thank  
You!**