

**Briefing Note:**

**Wages, Taxes and the Budget:  
How to Genuinely Improve Living Standards**

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**Introduction and Summary**

- Since 2013, Australian wages have been growing at their slowest sustained pace since the end of the Second World War. They have increased around 2% per year during this time: barely half their traditional rate, and barely sufficient to keep up with consumer prices. As a result, real wages have been flat – despite ongoing improvements in labour productivity.
- The most recent data on wage growth, from the last three months of 2018, refutes claims that wage growth is rebounding of its own accord. Measured by either the Wage Price Index, or by labour compensation per employed Australian, compensation growth slowed down in the December quarter of 2018. The pickup in recorded wage trends earlier in 2018 (compared to ultra-low growth recorded in 2016 and 2017) reflected the strong increase in minimum wages (3.5%) applied to about one-quarter of Australian workers on July 1. Controlling for that impact, the annual rate of growth for non-award-dependent workers remains below 2%.
- Despite the sustained slowdown in actual wages, since its election in 2013 the Coalition government continued to forecast a fast and sustained acceleration in wages in every one of the Commonwealth budgets tabled during its term in office. Those optimistic wage projections had no economic or empirical support, but were included year after year – in an effort to paint a rosier picture of economic trends, and to underpin optimistic revenue projections.
- Commonwealth budgets beginning in 2014-15 have included 14 specific year-forecasts of wage growth that are testable against actual results. Every one of those 14 year-forecasts overestimated actual wage growth for the year in question; none were accurate, and none underestimated actual wage growth. The average margin of error of these 14 year-forecasts was large: 0.7 percentage points per year.

- If actual wages had grown as quickly since 2013 as forecast in the Commonwealth budgets, the annual earnings of an average full-time worker would be more than \$4000 higher today than they actually are. The consistent, one-sided errors in the government’s wage forecasts therefore correspond to a large and growing gap between promised prosperity and a more daunting reality.
- Annual compounding wage increases deliver improvements in workers’ incomes far greater than the incremental increases in disposable income that can be attained through occasional tax cuts. It is mathematically impossible for tax cuts to deliver ongoing improvements in living standards; moreover, the “savings” of tax cuts are inevitably offset by foregone public services and income supports (which also benefit workers), and hence they do not actually improve workers’ overall living standards.
- This paper simulates the impact on workers’ disposable incomes at various wage levels, of likely personal tax cuts that may be included in the 2019-20 Commonwealth budget – based on reports that the government plans to accelerate its “Step 2” tax cuts by 3 years. The resulting increases in disposable income are found to be very small: less than 0.5% of pre-tax income for most workers. The benefits of those tax cuts, such as they are, are disproportionately concentrated among people who earn over \$120,000 per year.
- We compare the increment in disposable income resulting from those tax cuts, to the gains in disposable income resulting from annual normal wage increases (in the range of 3.5% per year, confirmed by RBA Governor Philip Lowe as normal and sustainable wage growth). Even one year of normal wage increases produces disposable income gains several times larger than the apparent “savings” of tax cuts. More dramatically, the benefits of wage growth compound over time: after 3 years of normal wage gains, wage increases are found to deliver many times more additional disposable income than tax cuts.
- The freeze in real wage growth that has been experienced in Australia since 2013, combined with ongoing improvements in labour productivity, corresponds to a decline in the share of total GDP allocated to labour compensation (including wages, salaries, and other compensation such as superannuation contributions). Since 2013, the labour compensation share has declined by almost one full percentage point of GDP. That represents an aggregate redistribution away from workers (mostly reflected in higher corporate profits) of \$17.5 billion per year – or around \$1650 per year for each waged employee in Australia. Again, the loss of normal wage income resulting from labour’s shrinking slice of the economic pie dwarfs any conceivable (and illusory) “savings” from tax cuts.
- The only way to deliver continuing and sustainable improvements in the real living standards of workers and their families, is through regular and reliable increases in wages. Market forces are not delivering those needed wage increases; instead, policy should focus on rebuilding appropriate labour standards and institutions (including higher minimum wages, a stronger awards system, and improvements in collective bargaining) to support wage growth in the future.

## **Wages: Still Stuck**

By several measures, wages in Australia have experienced the slowest sustained growth since 2013 of any period since the end of the Second World War. According to the most commonly-cited indicator of wages, the Wage Price Index (WPI) reported quarterly by the Australian Bureau of Statistics, wages have grown since 2013 at an average annual rate of slightly above 2% per year. That is far slower than traditional rates of wage increase (which have averaged between 3.5 and 4% over the past quarter-century). And it has been barely enough, on average, to keep up with growing consumer prices, implying virtually no change in real wages over that period (despite continuing growth in labour productivity).

The WPI, however, may overestimate wage growth during periods when either average hours of work or falling, or the composition of employment is shifting toward less desirable jobs (offering lower wages or irregular hours). That is because the WPI estimates wage change each quarter across a fixed “bundle” of jobs, without considering changes in the make-up of employment. If more jobs are part-time, insecure, or low-paid, then income growth for workers will be worse than implied by the WPI.

Other measures of labour compensation confirm that this has indeed been the case in recent years. For example, an aggregate measure of labour compensation can be constructed from the quarterly national income accounts, by comparing total labour compensation (including wages, salaries and other compensation such as superannuation contributions) to total employment. This measure of labour compensation per employed Australian will reflect changes in the composition of employment, as well as “pure” wage inflation. It grew faster than the WPI (by over 4% per year) in earlier years, when underemployment was falling and job quality was improving. Since 2013, however, it has grown even more slowly than the WPI: by an annual average of just 1.5% between 2013 and 2018.

Perhaps most worrisome, there is no sign that wage growth is experiencing any sustained rebound. By some measures, year-over-year wage growth has rebounded from rock-bottom levels experienced in 2016 and 2017 – but not significantly, nor consistently. And whatever progress was recorded was mostly due to larger increases in the national minimum wage – which rose by 3.5% effective July 1, 2018. That boosted wages for the close to 25% of all waged employees in Australia who work for award-determined wages and conditions. Despite that increase in the minimum, overall wage growth has remained muted. If we strip out the impact of the minimum wage, recent trends imply year-over-year wage increases for non-award workers that remain under 2% over the past year. And most recent statistics indicate another slowdown in wage growth in the December quarter of 2018.

On an annualised basis, wage growth in the last 3 months of the year decelerated to 1.9% per year according to the WPI, and just 1.1% according to compensation per employed person (Table 1). That December quarter slowdown likely reflects the after-effect of the July 1 minimum wage increase (which produced a relatively strong annualized increase in wages in the previous quarter’s data). This reaffirms that government action – not market forces – is the more effective lever in raising wages.

<b>Table 1</b>		
<b>The Deceleration of Wages</b>		
<b>(% per year)</b>		
	<b>Wage Price Index</b>	<b>Labour Compensation per Employed</b>
<b>2000-2013</b>	3.7%	4.4%
<b>2013-2018</b>	2.2%	1.5%
<b>Dec. Quarter 2018<sup>1</sup></b>	1.9%	1.1%
<i>Source: Authors’ calculations from ABS Catalogues 6345.0, Table 1; 5206.0, Table 7; and 6202.0, Table 1.</i>		
<i>1. Annualised rate.</i>		

Commonwealth government leaders have suggested that wage growth will automatically recover as a result of market pressures in a supposedly tightening labour market. For example, Prime Minister Scott Morrison predicted confidently (when he was still Treasurer) that wages would accelerate: “As the labour market tightens, that’s obviously going to lead over time to a boost in wages.”<sup>1</sup> Later he confirmed his faith in the market: “The laws of supply and demand ... have not been abolished.”<sup>2</sup> However, waiting for supply-and-demand forces to fix Australia’s wages crisis does not seem to be working. At around 5%, the official unemployment rate does not seem high (although since it excludes underemployment, non-participation, and other pools of “disguised” unemployment, that official rate underestimates the true degree of labour market slack). Nevertheless, the unprecedented stagnation of wages in recent years bears little relationship to the market forces assumed by the government to be the crucial determinants of wage trends. Even in sectors with reported “skills shortages,” there is no indication of significant wage pressure.<sup>3</sup> Hoping that market forces will naturally accelerate wage growth is a recipe for further disappointment.

<sup>1</sup> Phillip Coorey, “Scott Morrison urges bosses to turn profits into higher wages,” *Australian Financial Review*, 10 September, 2017, <https://www.afr.com/news/politics/scott-morrison-urges-bosses-to-turn-profits-into-higher-wages-20170910-gyeb2f#ixzz4z2JiAoAM>.

<sup>2</sup> Katharine Murphy, ‘Scott Morrison on wage growth, tax cuts and playing politics: The full interview’, *The Guardian*, 7 February 2018, <https://www.theguardian.com/australia-news/2018/feb/08/scott-morrison-on-wage-growth-tax-cuts-and-playing-politics-the-full-interview>.

<sup>3</sup> New research sheds light on why seeming shortages of skilled labour may not translate into rising wages. Firms take other actions to respond to labour requirements other than raising wages, and in some cases reported skill shortages actually reflect an “inflation” of desired credential in conditions of abundant labour supply; for

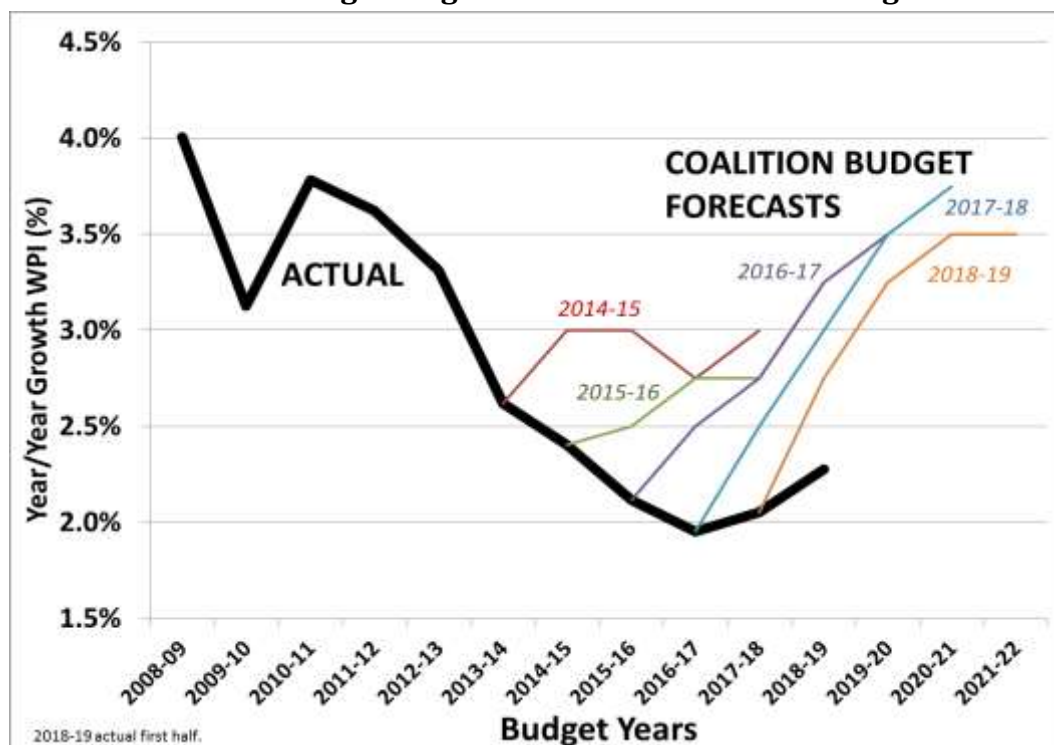
## Commonwealth Budget Wage Forecasts: Missing the Mark

Skepticism that a market-driven resuscitation of wage growth is “just around the corner” is ratified by the current government’s poor record of forecasting wage trends. Since winning election in September 2013, the government has optimistically predicted a quick and dramatic acceleration of wage growth – but every one of its forecasts has missed the mark, and by a wide margin.

Figure 1 illustrates the consistent pattern of overestimated wage growth in the last five budgets, going back to the government’s first budget in May 2014. The figure illustrates the trend in actual wage growth (measured by the WPI), using financial year averages. The marked deceleration of wage growth from traditional rates (of 3.5-4% per year) is evident after 2012. Many factors help to explain that deceleration: including the contraction in business investment spending, the failure of the Reserve Bank to achieve its 2.5% inflation target, and global pressures. But there is no doubt that the policy actions of the present Commonwealth government reinforced the deceleration – including strict caps on wage increases for its own employees, underfunding of outsourced human services (suppressing wages in aged care, child care, and disability services), and repeated attacks on trade union activity and collective bargaining.

**Figure 1**

### Commonwealth Budget Wage Forecasts versus Actual Wage Growth



Source: Authors’ calculations from ABS Catalogue 6345.0 and Commonwealth budget documents.

example, see Hannah Leal, “Firm-level Insights into Skills Shortages and Wages Growth,” *RBA Bulletin*, March 2019, <https://www.rba.gov.au/publications/bulletin/2019/mar/firm-level-insights-into-skills-shortages-and-wages-growth.html>.

Figure 1 also shows the forecasts of WPI growth contained in each of the Coalition government’s budgets: from 2014-15 through 2018-19.<sup>4</sup> In every case, those budgets predicted a fast and sustained rebound in wage growth back toward its traditional pattern (of 3.5-4% annual growth). The optimism of those wage forecasts persisted, despite the fact that actual wage growth sank lower as the government’s term in office proceeded. Those consistent forecast errors did not lead to more caution in subsequent budgets; in other words, the budget planners did not learn from their own errors. Even in its most recent budget (covering the current financial year), the government projected a fast rebound of WPI growth from its low actual rate (around 2%) to 3.5% within three years. There was no convincing reason to expect such an immediate and impressive rebound.

<b>Table 2</b>	
<b>Record of Budget WPI Forecasts</b>	
Number of budgets reviewed	5
Number of year-forecasts testable against actual data <sup>1</sup>	14
Year-forecasts which underestimated actual data	0
Year-forecasts which matched actual data <sup>2</sup>	0
Year-forecasts which overestimated actual data	14
Average difference between budget estimate and actual	0.7 points
<i>Source: Authors’ calculations from ABS Catalogue 6345.0 and Commonwealth budget documents.</i> 1. 2018-19 actual for first half. 2. Within a 0.25-point margin of error.	

This consistent pattern of overestimation of wage growth is summarised in Table 2. Since the Coalition’s election in 2013, there are now a total of 14 distinct year-forecasts of annual wage growth which can be tested against actual financial year outcomes.<sup>5</sup> None of those year-forecasts has matched the actual outcome (within a reasonable range of error<sup>6</sup>). None of them underestimated actual wage growth. Every one of the 14

<sup>4</sup> Each budget contains four years of forecasted wage growth: two in the estimates, and two in the forward projections.

<sup>5</sup> Each budget forecasts WPI growth 4 years into the future, starting with the financial year for the budget in question. The total number of year-forecasts therefore includes 4 testable year-forecasts from each of the 2014-15 and 2015-16 budgets, 3 from the 2016-17 budget, 2 from the 2017-18 budget, and 1 from the 2018-19 budget. “Actual” WPI growth for the 2018-19 financial year is based on data from the first half of that year (for which the WPI increased 2.27% on a year-over-year basis); that number will change by the end of the financial year, but it cannot match the 2018-19 forecasts in any of the Coalition’s budgets.

<sup>6</sup> We would consider a year-forecast to match reality if it equaled the actual outcome rounded to the nearest quarter-percentage-point (since the budget WPI forecasts are stated in quarter-point intervals).

year-forecasts of WPI growth overestimated actual wage growth. As is visible from Figure 1, the size of those errors increased further out into the forecast period – since the forecasts anticipated a continuing acceleration of wage growth, even as actual wages continued to stagnate. Across the 14 year-forecasts, the average margin of error was 0.7 percentage points.

This pattern of consistent, one-sided errors leads to the conclusion that those budgets consciously overestimated likely wage growth: to reinforce the government’s message that better times were around the corner, and also to boost the budgets’ revenue forecasts (since wage growth is a crucial determinant of revenue growth from personal income taxes and the GST).

### **Missed Forecasts and Actual Wages**

The government’s pattern of consistent overestimation of wage growth has a significant, cumulating impact on the gap between economic expectation and economic reality experienced by most Australians. After all, Australians interpret all of the government’s budgetary decisions (regarding programs, income supports, and taxes) in the context of their own expected economic position. Government fiscal announcements are judged in light of the expected evolution of overall macroeconomic aggregates. Australians will feel differently about a particular set of fiscal and budgetary policies, and adjust their behaviour (including their voting behaviour) accordingly, depending on whether their own circumstances (including their personal incomes) are expected to improve or deteriorate.

In this regard, the consistently and probably intentionally misleading wage growth forecasts contained in each of the government’s five budgets cannot be dismissed merely as a “forecast error.” The one-sided nature of those errors has economic and political consequences, for which the government should be accountable.

Consider, for example, an adult earning average full-time ordinary time wages when the Coalition’s first budget was tabled in May 2014.<sup>7</sup> If their wages actually grew over the subsequent 5 financial years at the same ebullient pace predicted in the government’s official budget documents, their annual ordinary-time income would have increased by over \$12,000 by the 2018-19 financial year.<sup>8</sup> In reality, actual full-time earnings increased by less than \$8000 by end-2018.<sup>9</sup> The difference – a disadvantage of over \$4000 per worker in *annual* foregone wages – represents the real out-of-pocket loss to workers arising from the government’s failure to actually achieve its rosy forecasts.

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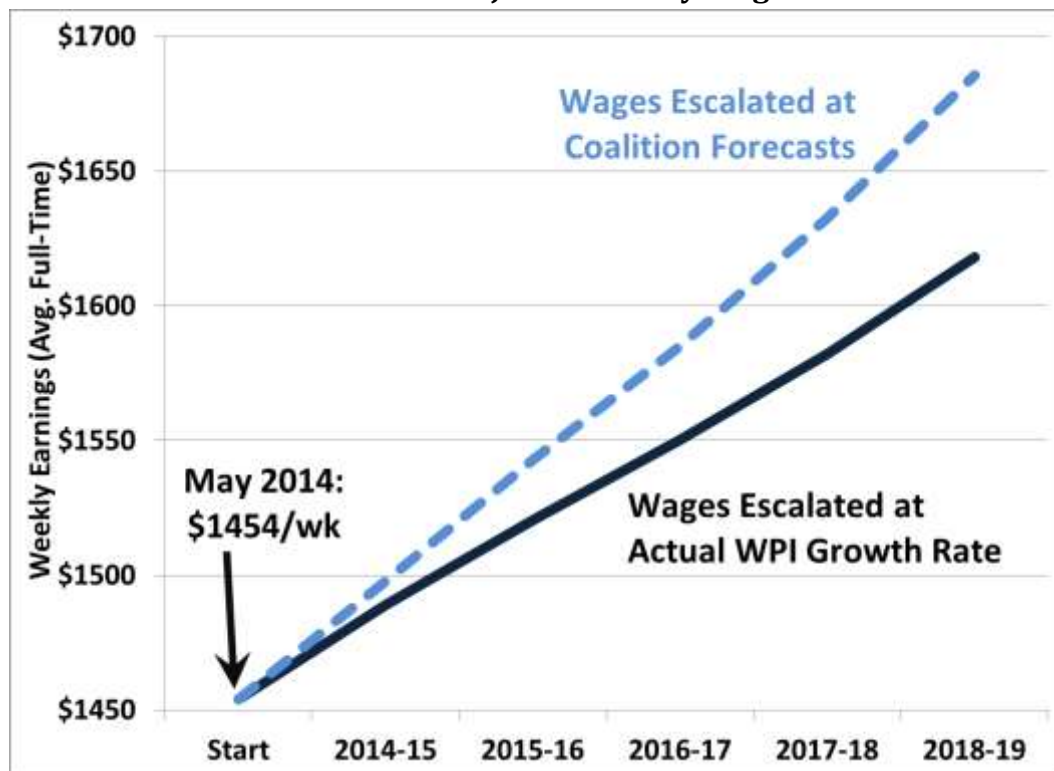
<sup>7</sup> According to ABS Catalogue 6302.0, Table 2, average adult full-time ordinary earnings in May 2014 were \$1454 per week (seasonally adjusted).

<sup>8</sup> The simulation applies the strongest wage growth assumption for each financial year from the various WPI forecasts contained in the respective budgets.

<sup>9</sup> ABS Catalogue 6302.0, Table 2.

Moreover, as illustrated in Figure 2, the cost of foregone wage growth gets larger with each passing year. This is because the ongoing gap between the government’s wage forecasts and actual wages compounds over time: since whatever wage increases are forthcoming in the real-world labour market (still below the forecasts) are now applied against a significantly lower base. Without an urgent and concrete effort to stimulate wage growth, rather than simply pretending that budget forecasts automatically come true, the income losses for Australian wage-earners will expand further over time.

**Figure 2**  
**Actual and Projected Weekly Wages**



Source: Authors’ calculations from ABS Catalogue 6345.0, Table 1, and Commonwealth budget documents.

### **Wage Increases Beat Tax Cuts**

The preceding simulation illustrates dramatically the large and cumulating loss of potential income which workers experience as a result of the unprecedented slowdown in wage growth in Australia since 2013. Since wage increases normally occur every year, and compound over time (with each annual increase applied to a growing base), the impact on take-home incomes of steady, normal wage increases expands exponentially over time. This is an important and fundamental mathematical reality to keep in mind, when evaluating government claims that potential cuts in future taxes could somehow “compensate” for the lack of wage growth in Australia’s labour market.



Even conservatives acknowledge that taxes cannot be cut year after year: specific incremental cuts may be feasible in particular years, depending on fiscal and political conditions (and on the priorities of the government). Those incremental cuts may or may not have a noticeable impact on disposable incomes – and, as discussed further below, tax cuts always imply a cost in the form of public services and programs that must be foregone as a result of government’s reduced revenue base. But tax cuts can never underpin steady and cumulating increases in disposable income, in the same manner as regular annual wage increases.

This crucial difference between tax cuts and wage increases as determinants of trends in disposable income over time is highlighted further through the following simulation. We consider wage-earners at 6 different levels of annual income: from \$20,000 through \$120,000 (at increments of \$20,000). We estimate their disposable income in the current financial year on the basis of a simplified federal tax calculation (considering marginal rates, the regular tax offset, and the new “low and middle income” tax offset introduced this year<sup>10</sup>). We then consider how that disposable income would change as the result of potential income tax cuts that might be included in the upcoming 2019-20 Commonwealth budget. Specifically, we simulate the impact on disposable incomes at each increment of bringing forward the “Step 2” tax-cut program announced by the government last year. Some observers have predicted that those changes, originally planned to take place in 2022-23, would be implemented three years early as part of the Coalition’s re-election strategy. Those changes include:

- Raising the upper threshold for the 19% tax bracket from \$37,000 to \$41,000.
- Raising the upper threshold for the 32.5% tax bracket from \$90,000 to \$120,000.
- Increasing the traditional tax offset from a maximum of \$445 to \$645.<sup>11</sup>
- Phasing out the additional “low and middle income” 2018-19 tax offset.

We simulate the impact of those changes on disposable incomes for workers at each income level. The impacts are summarised in Table 3, and are modest. Very low-income workers receive no increase in disposable income (since they paid no income tax to start with). Gains in disposable income are very modest for workers earning less than \$100,000: ranging from \$10 to \$315 per year.<sup>12</sup> Disposable income gains are larger for those earning \$100,000 or more – reflecting the clear “top-loading” of the Step 2 tax

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<sup>10</sup> For simplicity we exclude the Medicare levy (which would not change under the simulated tax cuts) and any non-labour sources of income.

<sup>11</sup> We assume no change in the thresholds and phase-out rates for that offset.

<sup>12</sup> The very small simulated gains in disposable income for some middle-income workers is the result of the odd design of the 2018-19 “low and middle income” tax offset – which we assume would be eliminated as part of the “Step 2” changes (as indicated by the government last year). That additional offset, curiously, provided maximum benefit to workers with between \$48,000 and 90,000 income; for some of them the elimination of that second offset eliminates almost all of the benefits from adjustments to the bracket thresholds. It is possible the final tax package presented in the 2019-20 budget will include adjustments to correct this anomaly, so that tax “savings” received in this income range would be somewhat larger (but still small relative to their income).

cuts. But even someone earning \$120,000 per year receives annual savings of just 1.5% of pre-tax income (or around \$1800 per year).

Moreover, it is self-evident that tax cuts on that scale cannot be implemented year after year: that would be fiscally impossible, and would result in the ultimate elimination of the fiscal base for government and public services. So the simulated tax cut program amounts to a small one-time enhancement of disposable incomes, less than or equal to one-half percent of pre-tax income for most workers – and offset by the lost public services and income supports that are the inevitable price tag for tax cuts. This is not a solution for the stagnating living standards most Australians have experienced in the last five years.

<b>Table 3</b>					
<b>Comparative Impact of Tax Cuts and Wage Increases</b>					
<b>on Disposable Income</b>					
<i>(\$ per year)</i>					
<b>Before-Tax Wages</b>	<b>Change in Disposable Income Due To:</b>				
	<b>Income Tax Cuts</b>			<b>Normal Wage Increases</b>	
	<b>Original Taxes</b>	<b>After Tax Cut</b>	<b>Change</b>	<b>1 year</b>	<b>3 years</b>
\$20,000	0	0	0	700	2064
\$40,000	3857	3542	315	966	3001
\$60,000	10417	10207	210	1386	4305
\$80,000	17017	17007	10	1890	5871
\$100,000	24117	23507	610	2153	6686
\$120,000	31817	30007	1810	2583	8139
<i>Source: Authors' calculations as described in text.</i>					

Table 3 also reports the impact on the disposable income of workers at the same income levels of annual normal wage increases, of the same magnitude which prevailed in Australia's economy until 2013. For a benchmark of "normal" wage growth, we choose 3.5% per year. That is at the low end of the range of typical wage growth realised in Australia from the recession of the early 1990s through the post-2013 slowdown. It is also a rate specified by RBA Governor Philip Lowe as being both healthy, and consistent with the RBA's inflation target. Lowe has noted<sup>13</sup> that the combination of real productivity growth (of around 1% per year) plus target inflation (2.5%) implies normal nominal wage growth of 3.5% per year. That pace is consistent with stable

<sup>13</sup> See, for example, Philip Lowe, Governor of the Reserve Bank of Australia, evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, Sydney, 16 February 2018, 14–15.

inflation at the target rate, and imposes no pressure on profit margins (since real wage growth in that scenario matches average productivity growth). The last two columns in Table 3, therefore, simulate the impact on disposable income of 3.5% wage increases. The simulations take into account the extra tax paid by each worker (as a result of rising wages),<sup>14</sup> and hence are comparable to the tax cut simulations (both measuring disposable income). At every income level, a single year of normal wage growth delivers far more disposable income to workers than the simulated tax cuts, usually by many times over. For low income workers, of course, since their savings from tax cuts are non-existent, wage increases literally provide an *infinitely* larger boost to disposable incomes than tax cuts.

However, the comparison between wage increases and tax cuts is even more one-sided when we consider the compounding effect over time that is generated by annual wage increases – a compounding effect which is mathematically impossible to replicate with tax cuts. So the last column of Table 3 forecasts the impact on disposable incomes (again deducting extra taxes paid) of three years of consecutive wage growth at the normal 3.5% annual rate. (This 3-year simulation corresponds to the term of office of the next Commonwealth government.) For low-income workers, this produces an increase in disposable income of over 10% – once again, infinitely larger than their tax savings. Other workers benefit from increases in disposable income of 6-8%. Even higher-income workers (starting at \$120,000 per year), who receive proportionately larger tax “savings” under the “Step 2” plan, the benefits of annual normal wage increases dwarf the effect of tax cuts: by a factor of more than 4-to-1.

<b>Table 4</b>		
<b>Ratio of Gains from Wage Increases to Gains from Tax Cuts<sup>1</sup></b>		
	<b>One 3.5% Wage Increase</b>	<b>3 years of 3.5% Wage Increases</b>
\$20,000	n.a. <sup>2</sup>	n.a. <sup>2</sup>
\$40,000	3.1	9.5
\$60,000	6.6	20.5
\$80,000	189	587
\$100,000	3.5	11.0
\$120,000	1.4	4.5
<i>Source: Authors' calculations as described in text. Measures ratio of increases in disposable income of wage increases and tax cuts.</i>		

<sup>14</sup> Stronger public revenues from faster wage growth could ultimately be used to support an extended set of public programs. Hence this simulation understates the ultimate growth in living standards in a normal wage growth environment – since higher wages would likely be supplemented by stronger public programs.

1. *Tax cuts simulated equal Coalition “Step 2” proposals, accelerated three years.*
2. *Since the value of the simulated tax cuts to this income group is zero, the ratio of benefits from wage increases to tax cuts is infinite.*

The superiority of annual normal wage increases in boosting the disposable incomes of workers at all income levels is summarised in Table 4. It reports the ratio of disposable income gains from normal wage increases (both for 1 year only, and compounded over 3 years) to “savings” from the simulated tax cut package. The claim that incremental reductions in income taxes could somehow compensate workers for the absence of normal wage increases (and the complete stalling of real wage growth) is shown to be utterly indefensible. Tax cuts offset only a very small fraction of the losses from wage growth – and even those savings are illusory, since they must ultimately be “paid for” in the form of reduced public services.

### **Workers’ Shrinking Slice of the Pie**

The effective freeze in real wages for Australian workers in recent years contrasts sharply with continued growth in labour productivity. Workers are producing more real output (in goods and services) with each hour of their labour, on average, but are not receiving higher real compensation in return. The inevitable, arithmetic consequence of this combination of growing productivity with flat compensation is that workers’ aggregate share of total GDP produced in Australia has continued to decline. This continues a damaging trend that first became evident in the late 1970s.

Since 2013, the labour compensation share of total GDP has declined by almost one full percentage point. The labour share averaged below 47% of GDP for both the calendar years 2017 and 2018 – the lowest of any years since the ABS began gathering quarterly GDP statistics in 1959. The continued decline of the labour compensation share just since 2013 corresponds to an additional redistribution of \$17.5 billion per year in income away from workers, toward other factors of production – and that is on top of the large earlier redistribution away from labour that occurred prior to 2013.<sup>15</sup> Three-quarters of that lost labour income is reflected in an increase in the corporate profit share of GDP over the same period; the rest has gone to other factors.

Divided among all of Australia’s waged employees, that foregone labour income (\$17.5 billion per year) translates into a loss of \$1650 in wages and other compensation per worker per year. Again, this amount lost due to the redistribution since 2013 – way from workers, and primarily toward businesses – confirms that the structural weakness

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<sup>15</sup> Since peaking in the mid-1970s, the cumulative decline in the labour compensation share of GDP (now down by almost 11 percentage points) represents the redirection of over \$200 billion in potential labour income, or about \$20,000 per waged employee per year. Most of that foregone labour income has been reflected in a large increase in the share of corporate profits in GDP over the same time. For description and analysis of the erosion in the labour share of Australian GDP, see Jim Stanford, “The Declining Labour Share in Australia: Definition, Measurement, and International Comparisons,” in *Journal of Australian Political Economy* 81, 2018, pp. 11-32.

of wages is the main reason for the stagnation of living standards in Australia. Tax cuts cannot “compensate” for this continuing, structural decline in wages. To pretend that they can, both distracts public attention from the true source of the problems in living standards, and undermines the fiscal basis for public programs and services that are also a crucial component of workers’ living standards.

## **Conclusion**

Since 2013, Australian wages have endured a period of unique weakness. The stagnation in wages occurred despite continuing economic expansion, job-creation, and unemployment numbers that – on the surface, anyway – do not seem excessive. While the wage slowdown is not solely the result of policies of the current Commonwealth government, some of its policies clearly made matters worse. More importantly, the government has failed to undertake the reforms necessary to rebuild normal wage trajectories. Instead it continues to emphasise “trickle-down” policies (like tax cuts) that will, the government claims, benefit workers by enhancing profits and business sentiment. The hope that market forces, no matter how profitable businesses become, will automatically rekindle wage growth is unjustified by real experience.

Not only has the present government failed to address the structural weakness in wages, it actually continues to pretend the problem doesn’t exist: continuing to publish official wage forecasts with each consecutive budget that repeatedly predict a sharp and sustained rebound in wage growth. 100% of those forecasts have proven wrong – and the average full-time worker today receives \$4000 less in wages per year than if those forecasts had been realised. The continued decline since 2013 of workers’ share of total GDP (in the form of wages, salaries, and other compensation) has also denied each worker thousands of dollars in foregone income.

Now the government claims that pre-election tax cuts, instead of regular, normal wage increases, can somehow address the crisis in household finances faced by millions of working Australians. That claim is mathematically false. There is no scenario in which tax cuts can offset more than a tiny fraction of the income losses resulting from wage stagnation and the continuing redistribution of income from workers to corporations. For most workers, a single year of normal wage increases overwhelms, by several times over, the supposed “savings” of tax cuts. And compounded over time, returning to normal wage trajectories generates cumulating benefits to workers incomparably larger than could be delivered through tax cuts. Worse yet, those tax “savings” carry an inevitable price in the form of foregone public services and income supports.

The only way to sustainably improve living standards in Australia over time is to put more Australians to work, ensure that their labour continues to become more productive, and then – crucially – empower them to receive a fair share of that wealth in the form of steadily rising real wages.