# Scott Morrison doesn't understand wage growth, or the system trashing it (Ahem... capitalism).

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If you have a good job but find your income is stagnating or falling, your experience is backed by official data, writes Ian McAuley.

On Wednesday the ABS released its survey on wages, showing that over the year to June average hourly wages rose by only 1.9 per cent. Over the same period consumer prices also rose by 1.9 per cent, confirming that there was no real wage rise over 2016-17.

This is not what the government had us believe would happen when it presented the 2016-17 budget in May last year. Wages were forecast to rise by 2.5 per cent, while inflation was forecast to be 2.0 per cent, implying a real wage rise of 0.5 per cent, with increasing rates of real wage growth over the following three years.

Undaunted by what was obviously going to be a flat outcome for the year just past, the Treasurer included the same optimistic forecast in the 2017-18 budget, presented just three months ago. Real wages are forecast to rise by 0.5 per cent this year, and to rise steadily to 1.25 per cent by 2020-21. Not an exciting figure by Australia's historical standards but at least positive.

The trouble with this forecast is that there is no reason, under present policy settings, to expect any change from the present situation of stagnation.

The official spin is that thanks to the Coalition's sound economic management, economic growth will see a rebound in wages: Australia is simply going through a short-term cyclical slump in wages. Healthy corporate profits will see firms investing, taking on more labour and paying higher wages – and this engine of growth would be strengthened if only the Senate would pass the government's corporate tax cuts.

The present company reporting season is certainly showing impressive profit results, particularly in the finance sector. But there is no reason to expect profits to pass through to higher investment: the pattern has been for firms to pay higher dividends, higher executive salaries and to return funds to shareholders as capital buybacks. Even if firms do invest and take on more workers, there is no reason to expect them to pay higher wages.

Although the media tend to focus only on quarterly and annual data, our sluggish wage growth is not some short-term phenomenon. Over the 21st century so far, wage growth has been falling. Over the five years to 2007, in the lead up to the 2008 financial crisis, real hourly wages rose by six per cent. Over the following five years they rose by five per cent, and over the last five years they have risen by only two per cent.

Such a sustained decline in wage growth suggests that there may be fundamental structural problems in the Australian economy.

As Reserve Bank Governor Philip Lowe has pointed out, "... the slowing in earnings growth has been more pronounced than that in productivity. The result has been a decline in labour's share of national income." He warns that our economy faces "a crisis of low pay".

Low wage growth is an economic problem because the very dynamic of capitalism is a circular one, with wages driving consumption and consumption driving wages. That's the simple mathematics of Economics 101 – a point missed by those business lobbies who continue to press for more "flexibility", a term which suggests accommodation of the changing needs of corporations and employees, but which in reality means one-way flexibility on the corporate side and a squeeze on real wages, manifest most starkly in recent demands for cuts in weekend penalty rates.

More basically, when wage earners do not share the benefits of economic growth – when over a sustained period profits grow faster than wages – people understandably come to question the legitimacy of the whole economic system. In countries a little further along the path to widening inequality, including the USA and the UK, the political backlash is proving to be particularly destructive.

What I describe above is the basic political economy of capitalism as understood by people as far apart ideologically as Karl Marx and Henry Ford. Marx understood that the tendency for corporations to suppress wages would see capitalism destroying its own markets. Ford understood that only a well-paid workforce could afford to buy his cars.

Over the 20th century, particularly after the horrors of the 1930s depression and the 1937-1945 war, institutions protecting workers' wages, particularly trade unions, saved capitalism from its own destructive forces. That was the reason for intense animosity between the communists and the ALP in the post-war years, because the communists saw a strong union movement with political legitimacy as a bourgeois institution keeping capitalism alive.

We know what has happened with trade unionism. Union membership is down to 17 per cent of the employed workforce (12 per cent in the private sector). Tellingly, in the ABS wage statistics, the only sectors (apart from the finance sector) where wages have grown over the last year are the comparatively unionised health and education sectors.

There are many reasons for the decline in union membership. Trade unions thrived in large vertically-integrated and labour-intensive corporations with concentrated employment locations, and in communities with distinct "working-class" identities. These are long gone, and never before have there been so many opportunities for self-employment. The "gig economy" is here to stay.

These structural changes cannot be reversed, but their effects can be ameliorated, and good public policy would be directed to supporting institutions, including unions, that protect the wages and conditions of those who lack strength in the marketplace – including seasonal workers, students, recent immigrants, the self-employed and employees of small businesses.

In the wake of the 7-Eleven scandals the government has been shamed into some belated moves against franchise operations underpaying wages (former Liberal Minister Bruce Billson was on the payroll of the Franchise Council while he was Minister for Small Business, which may explain why nothing happened on his watch).

But the problem is far deeper than the occasional "bad egg" as claimed by apologists in industries exposed for bad employment practices. There is a mindset in the Coalition and its supporters in the so-called business lobbies who don't understand, or don't want to understand, the way capitalism will destroy itself unless it attends to the interests of those without economic strength.

No economic system – socialist, capitalist, communist, corporatist – can sustain its social licence unless there is some reasonable relationship between contribution and reward, and that relationship is weaker than in any time in recent history.

I suspect that readers of New Matilda don't need official statistics to demonstrate that their wages are going backwards. The data used in this article is almost two months old, and by now people will be experiencing higher utility charges and higher fees for other services such as public transport and toll roads – the September quarter consumer price index usually shows a sharp rise as cash-strapped state governments lift fees and charges to compensate for Commonwealth-imposed fiscal stringency.

Will it take hard data showing that real wages are actually falling for our politicians to wake up to the need to change their policies?