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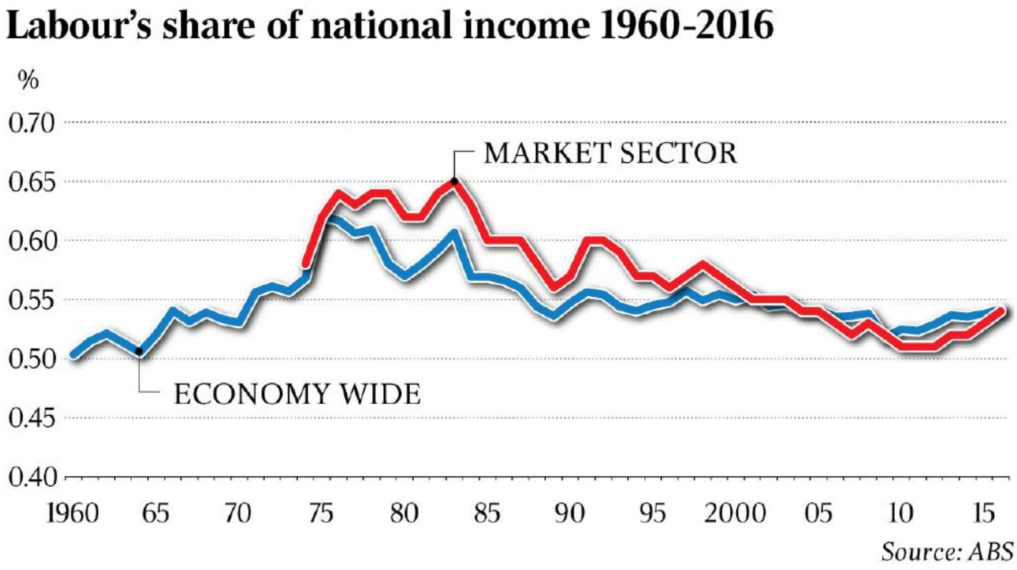
ACTU chief’s fake facts on wages undone by history



HENRY ERGAS THE AUSTRALIAN 12:00AM November 10, 2017

It is a truth universally acknowledged that we live in a post-truth age.

That Sally McManus’s speech on the 110th anniversary of the Harvester decision last week is replete with claims whose only - relationship to reality is that they contradict it may therefore be par for the course.

But as demagogues have known since time immemorial, myths can have powerful consequences; and McManus’s myths are made all the more dangerous by the remedies she proposes to the problems she invents.

At the heart of those inventions is the assertion that Australian workers are being brutally crushed. “Labour’s share of national income,” she says in support of that assertion, “is at a 50-year low.”

Like so many of her purported facts, that claim is simply incorrect: at 54 per cent, the share of wages in national income is line ball with the 55 per cent that has been its trend level since the late 1980s.

Moreover, far from being at a low, the wages share of national income is materially higher now than it was during the mining boom, when surging export prices boosted profits and helped finance a doubling in Australia’s capital stock.

As for profits being at historic peaks, profit rates, as measured by the national accounts, have dropped since the boom ended to well below their long-term average, and the profits share of national income has fallen with them.

But however shonky McManus’s data may be, it shines compared to her understanding of Australian economic history.

Eulogising Justice HB Higgins’s Harvester decision, which increased the minimum wage by 18 per cent, she argues it shows that raising the minimum wage lifts the living standards of the poorly paid and reduces inequality.

That decision, she claims, consequently stands as a ringing endorsement of the ACTU’s call for a more than 10 per cent increase in the minimum wage.

No characterisation of the Harvester decision could be more fanciful. In reality, Justice Higgins had little regard for productivity; accused by his critics of refusing to “consider the rates which industry could bear”, he readily admitted that was “very nearly true”. As a result, the higher wages he mandated benefited the most skilled and productive workers, but cast the less skilled and disabled on to the dust heap of long-term unemployment.

“Higgins thought he was protecting the weak,” Colin Forster concluded in his classic assessment of the Harvester decision; “in fact, he was aiding the strong.”

But McManus did not need to plunge into the scholarly archives to see the dangers of raising the minimum wage without taking - account of productivity. Rather, even the most cursory examination of the Whitlam government’s experience should have set alarm bells ringing.

Much like McManus, Gough Whitlam, and his minister for labour, Clyde Cameron, believed there was an urgent need to ensure "wage justice" for those "who have been disadvantaged by their relative bargaining weakness".

On coming to office, they therefore secured a 27 per cent minimum wage increase in the 1973 National Wage Case.

As that increase spread through industry, triggering a wages explosion, unemployment soared, leading Cameron to complain in August 1974 that "union bloody mindedness" was "slowly but surely pricing thousands of Australian workers out of employment".

By the end of 1974, even Whitlam admitted that "employees can price themselves out of the market", while also admitting that the "sharp squeeze on profits" — which, much as McManus hopes to do, had slashed profits' share of national income from 45 per cent to 38 per cent — was causing a complete collapse in investment.

The 1973 rise in the minimum wage was therefore one of the worst economic policy mistakes in Australian history. And yet again, it was the most vulnerable who paid the price, with younger workers the hardest hit.

As Cameron recognised in his 1982 memoirs, "we have not helped the young by demanding that they not be employed unless paid excessive wages. We priced them out of the labour market and we deserve no thanks for that."

By then it was, of course, too late. Correcting the Whitlam disaster took nearly 15 years, with the Hawke government's Prices and Incomes Accord, which reduced the wages share of national income towards its current level, beginning the recovery.

All that ought to have taught McManus an obvious lesson: firms won't hire workers who cost more than they produce. Productivity growth therefore sets a constraint on wage rises.

That McManus entirely avoids that issue is unsurprising: our productivity performance hardly creates scope for the steep wage hikes she advocates.

Multifactor productivity — which measures how much output we get for each unit of capital and labour combined — is only 1.5 per cent higher today than it was in 2006-07, implying an annual growth rate of less than two-tenths of 1 per cent.

Yes, labour productivity has increased more rapidly. However, 90 per cent of that increase is just the result of "capital deepening", that is, of the rise in capital per worker.

In marked contrast to their counterparts in the US and Britain — where less than half the growth in labour productivity is due to capital deepening — Australian workers are not more productive because they are doing things better but simply because they have more capital to work with.

Instead of addressing our productivity crisis, the myriad restrictions McManus wants to impose on Australian workplaces would worsen it. And the higher wages she seeks would merely induce more inefficient substitution of capital for labour, compounding the problem.

Those are truths phony facts cannot wave away. After all, to say something is true is to say it is the case whether we want it or not. And nothing can be made true by words alone. Not even Sally McManus's.