

THE DECLINING LABOUR SHARE AND THE RETURN OF DEMOCRATIC CLASS CONFLICT IN AUSTRALIA

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The previous articles in this special issue of *JAPE* have analysed Australian economic trends contributing to the declining labour share of national income. This article considers the *political* dimensions that have driven this decline, and some of the implications of such a dramatic long-run shift in the distribution of economic resources in Australia.

My argument builds on the observation by French economist Thomas Piketty and other researchers associated with the *World Inequality Report*: no matter how much economists improve the statistical accuracy and detail attached to their studies of incomes and wealth, the problem of distribution remains a ‘deeply political’ one (Piketty 2013: 20). If, as most accounts suggest, the decline in the labour share in Australia has been among the more severe in international comparisons, then it follows from Piketty’s conclusion that the *political economy* driving this decline in the labour share must have involved correspondingly large shifts in politics and policy. The main aim of this article is to characterise the general pressures that face wage-earners in Australia’s new political economy, and in turn, the challenges facing the broader labour movement in redressing and reversing these trends. There is little doubt that pressures on the share and distribution of labour earnings are influenced by the broader forces reshaping global capitalism. But this article proceeds on a premise reinforced in recent scholarship within comparative political economy: that national politics and institutions can, at least to some extent, determine the distributional consequences of national economic change (see Thelen 2012).

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This article proceeds as follows. The next section sets the scene with the briefest of characterisations of the contemporary Australian political economy and is mainly focused on the welfare, fiscal, and labour market institutions that shape it. The following section tracks some of the major shifts in policy and politics that have undermined the class compromise built around Australia's wage-earner model. I make the argument that a lengthy period of Coalition rule (the Liberal and National Parties have governed for 16 out of the last 22 years) is producing an *inequality regime*—Joan Acker's (2006) term. Fiscal structures benefit the wealthy and the 'rules' of the labour market institutionalise hostility to unions and legitimise the fragmentation of secure work. This leads to considerations of the Coalition government's 'inequality regime' in more detail, establishing the extent to which it is still constrained by resistance from political and social forces. A simple concluding argument follows: that once the union movement recognises that the 'rules of the game'—Erik Olin Wright's (2015) phrase—of this inequality regime offer little scope for institutionalised combat, the alternative is to return to risky but necessary return to *union mobilisation* to rebuild pro-labour institutions in Australia's political economy.

The political economic context

Australia is an unusual political economy in key respects. It is a rich economy in per capita income terms that is also highly resource-dependent with economic prospects that vary with commodity prices (Mackrael *et al.* 2015). Already highly urbanised, the population is concentrated in large metropolitan service economies centred on the fast-growing urban areas of Melbourne, Sydney, Brisbane, and Perth. It has a relatively large financial industry dominated by four highly profitable banks that are effectively protected from competition by state policy. Not surprisingly, this political economy has produced uneven growth—between sectors, classes, and regions—as the forces of resource booms, real estate and financial speculation, and deindustrialization have pushed in different directions. Large mining and financial companies, not surprisingly, wield power in Canberra and use their political capital to resist taxes and regulatory reform.

Tax and welfare policies inherited from Labor Party reforms of three decades ago have somewhat shielded the social fabric from the adverse

impacts of opportunity-driven, uneven development. These continue as the fragmented foundations of a modernized class compromise or social compact that a clear majority of voters favour. Medicare, as a basic universal health insurance system, remains largely intact; income support for age pensioners was made more adequate by Labor in 2009; and minimum wages (attached to sector-wide industrial awards) underpin comparatively acceptable living standards for low income workers. Income taxes remain more progressive than New Zealand, where reforms produced major damage to social institutions. The Australian safety net is also generally well-targeted to alleviate the worst forms of poverty in the community, despite serious questions about benefit adequacy, over-policing of Centrelink recipients, and political indifference to the predicament of jobless workers.

Still, major problems in the Australian political economy are evident, with the fiscal and policy architecture now struggling to contain these challenges. Wage-earners working in Australia's regional economies, neglected by a National Party focused on big agriculture and mining, face persistently high joblessness and economic insecurity. This insecurity has in turn fueled right-wing populism—evident not only in the electoral resurrection of One Nation, but also in a host of other ultra-conservative and nationalist political forces at the margins of politics. In the larger cities, where job opportunities are generally better, housing costs have escalated dramatically as a result of cheaper and more risky lending, a tax system that benefits housing speculation, and government disinvestment in public housing. Crowded cities suffer from problems that range from traffic snarls to the absence of effective local planning and adequate investment in public transport infrastructure.

As Dani Rodrik (1998) pointed out two decades ago, national transitions to global openness and trade would require active and probably larger democratic states, committed to redistributing opportunities and risks encountered as part of global change. However, Australia's political duopoly has attempted to achieve these transitions without expanding the revenue base of government. Until very recently, both major political parties were committed to a relatively small government, with an obsessive adherence to living within a 'fiscal straightjacket' (Argy 2007). It was the Coalition that broke this commitment without appearing to do so. The late Howard years featured fiscally destructive tax breaks for high-income and high-wealth individuals that drained future budgets of resources (see Denniss 2016; Megalogenis 2016). The implication is that

the real size of the Australian state is larger than it appears in official accounting measures, with the Australian government generously supporting the accumulation of wealth by middle and upper-middle classes. In Australia, the ‘fiscal crisis of the state’, to use James O’Connor’s (2009) well-known term, is taking on a different form to the more typical characterisation of governments ‘under siege from below’ from restive classes demanding democratic responsiveness. Instead, the crisis in Australia stems from revenue-draining largesse to the wealthy; and that largesse has undermined the fiscal capacity necessary to sustain a more inclusive forms of adaptation to global realities.

The containment of inequalities, and the political consequences they bring, has been aided by other factors, particularly the *predistributive* features of the Australian political economy. This predistributive effort derived from the wage-earners’ model (described in Castles 1985), initially focused on distributing incomes via ‘breadwinner’ wages and then becoming generalised through a system of award wages and associated ‘occupational welfare’ and protections. However, these predistributive foundations have now badly frayed (Castles 2001); indeed, the institutions and compromises that supported a more equal redistribution have only been preserved in a minimal state of effectiveness through costly efforts at political mobilisation. The central illustration of this pattern of resistance was the combined efforts of the ACTU and State labour councils in resisting American-style labour market deregulation after 2005 with an energetic and popular campaign against John Howard’s WorkChoices. Howard’s laws enshrined neoclassical economic dogma about the employment merits of weaker minimum wages and individual (rather than collective) contracts. They operated on an illusion that the labour market was structured by equal power and opportunity for employers and workers—and a majority of voters saw through it once concerted campaigning drew attention to the likely long-term consequences of WorkChoices.

Labor’s return to government in 2007 only partially reversed the employers’ advance. The most anti-worker features of WorkChoices were addressed through legal reforms embodied in the *Fair Work Act* of 2009, supported by the union movement, even though the legal architecture of WorkChoices would stay. These reforms preserved a limited role for unions, a system of highly decentralised enterprise bargaining, an extremely proscribed ‘right’ to strike, and a hybrid system of stripped-

back minimum standards (through the ‘modern awards’) governed by Fair Work Australia.

Despite these improvements made by Labor, Australia’s legal and practical commitment to the rights of trade unions and their members remains poor by international standards. According to the global indicators of trade union rights published by the International Trade Union Confederation (widely interpreted as a proxy for labour standards more generally), Australia maintains a Category 3 classification. This Category refers to nations where there is ‘regular violation’ of union rights (ITUC 2017). Only the United Kingdom and the United States rate lower than Australia among ‘rich country’ developed economies (they rank in Category 4, characterised by ‘systematic violation of rights’). Other English-speaking liberal democracies, such as Canada and New Zealand, have Category 2 ratings. Since 2013, the Coalition governments of Prime Ministers Tony Abbott and Malcolm Turnbull have intensified attacks on labour standards generally, and the trade union movement in particular. The question to consider is why this attack has intensified in recent years.

From wage-earners’ welfare state to inequality regime

Despite improvements following the Labor government’s 2009 reforms, Australia’s ‘employment regime’ is at risk of unravelling. This problem is repeatedly stressed by the ACTU Secretary Sally McManus (2018) when she highlights that the rules governing the Australian workplace are ‘broken’. Such a deterioration reflects changing employer strategies in the pursuit of opportunity and profit, as well as the failure of the regulatory and enforcement regime to keep up with these shifts. The politics of deteriorating labour standards and conditions was kept off the front pages of the newspapers because, until recently, Australia’s enterprise bargaining model continued to provide benefits for wage-earners. The institutions designed to distribute economic gains remained sufficiently inclusive, despite rises in inequality at the top. However, the end of the commodity price boom and the return of the Coalition to power in 2013 has weakened prospects for inclusive growth and has further sharpened the divide in the distribution of wages and profits. Evidence of these changes includes most notably:

- A serious and persistent problem with underemployment that is among the worst in the OECD (Letts 2018; Jericho 2017a; OECD 2017; Stanford 2016). This is evidence of pervasive insecurity in the Australian labour market that has serious life-course impacts for workers who are unable to find a path away from insecure work. The regional severity of this problem is a reminder of the unevenness of opportunity in 21st century Australia.
- An increased reliance on a large temporary visa workforce which amounted to as much as 7 per cent of the Australian workforce in 2015, and 20 per cent of the workforce aged 20-24 years (Taranto 2015). There is widespread evidence that workers on short-term work visas are regularly paid less than minimum wages, and often work in substandard conditions including work environments that are unsafe in several ways (see Wilson 2018).
- A slowdown in wage increases as well as a decline in the relative level of minimum wages compared with pre-WorkChoices levels. As stated above, enterprise bargaining is no longer producing a wage premium for wage-earners with measures of overall earnings growth falling to record lows (Pascoe 2018; Karp 2018). Minimum award wages continue to track below their relative value prior to WorkChoices (see Wilson 2017; Mackenzie in this journal). As Briggs and Buchanan (2005: 188) forecast at the time, WorkChoices would abandon the principles of an ‘independent wage-setting tribunal’. More conservative national wage decisions during and after WorkChoices have been consistent with that prediction: wage relativities between minimum awards and median wages have not been restored to pre WorkChoices levels.

The Turnbull government has also sent clear signals to the public about what to expect—or more to the point, what *not* to expect—from paid employment. Government-sponsored internships created as entry points to the labour market for young workers (Knaus 2017; Jericho 2017b) are, at worst, experiments in shifting employment norms. They serve to justify ‘trials’, ‘unpaid training,’ ‘training wages,’ and other wage-reducing concepts. Similar signals about the entrepreneurial ‘innovations’ expanding the ‘gig’ economy (Stanford 2017) do not acknowledge the downsides. The government’s own actions in stalling the resolution of public sector enterprise bargains (see, for example, Kelly 2017) are a further example of signaling—getting tough with unions and workers by

resisting wage-claims to the bitter end is now acceptable industrial relations practice in Australia.

Putting these efforts at signaling aside, the three most important aspects of the shift in the balance of power in labour markets are the proliferation of insecure work, the breakdown of 'shared growth' via enterprise bargaining, and the erosion of Australia's traditional commitment to redistributive living wages. These three trends have contributed significantly to widespread insecurity among workers and also to falling trust in politics. Far from being the abstract consequences of a shifting global capitalism, all three have their roots in deliberate government policy changes.

The Coalition's inequality regime

Joan Acker's (2006) construct of the 'inequality regime' helps capture in practical and symbolic terms the important shift in the role of the state in advanced capitalist societies. Although Acker applied this concept to a more specific organisational contexts, the term might be extended to capture the broader structural shift away from the *containment* of inequalities via welfare state policies to the *entrenchment* of inequalities via political institutions. Under pressure from countervailing forces, liberal democracies have compensated domestic constituencies through social protections and rights that were most consistently realised when they had functional value for capitalist organisations. Examples of this logic included state pensions that served an income- and consumption-smoothing function, decent wages that contributed to effective demand and facilitated accumulation, and stable mechanisms for dispute resolution that reduced the unpredictability of class conflict. Offe's (1984) analysis captured many of these features and roles in their most general terms.

With the union movement on the defensive and struggling to maintain membership since the 1990s, it is little wonder that public policy in Australia (and elsewhere) has started to *entrench inequalities*, rather than ameliorate them. It has done so via a range of mechanisms variously described in the institutionalist political science literature as 'conversion' and 'drift' (Béland 2007; Thelen 2012). The evolution of tax expenditures is the best example in the Australian case, showing how institutions evolve in directions that reinforce inequality (between both

generations and classes) and that are difficult to identify and mobilise against. Just as important has been the slide towards inequality *reinforcement* in the policy areas of employment and industrial relations. Here, the Australian state has either remained ‘carefully’ unresponsive to the new risks facing workers (i.e. an exercise in ‘drift’), or it has actively pursued a policy agenda with higher inequality as an inevitable consequence. Central to this activism has been sustained political and legislative attacks on the union movement. Former Prime Minister Tony Abbott’s government established a Royal Commission into ‘trade union governance and corruption’ for a range of reasons but primarily for the attainment of political ends—what American political scientist Elmer Schattschneider called the *mobilisation of bias* (Mair 1997). At the time of the Coalition’s return to government, there can be no doubt that the Liberals were still smarting from the heavy electoral losses that the labour movement perpetrated on it at the 2007 federal election (with its campaign against WorkChoices); in any case, the goal of weakening the labour movement has always been central to the political ambitions of Australia’s conservative politics.

In some ways, worse was to come during the post-Abbott era. For the union movement, the ascendancy of Malcolm Turnbull to national leadership presented a more formidable challenge. The Senate elected as a result of the 2016 double dissolution, with four One Nation Senators, has frequently yielded to the Government’s better internal and tactical organisation. These realities have forced unions into constant appeals to the Senate to reject the anti-labour agenda that is threaded through the Government’s legislative initiatives. Turnbull’s need to appeal to Tony Abbott’s loyal conservative base among the Coalition’s parliamentary representatives, still fuming at the latter’s displacement, meant the Prime Minister has had to marshal *even greater* hostility towards the union movement as a demonstration of his red-blooded conservatism.

It is easy to lose sight of how important anti-union politics have been to the Turnbull administration. The double dissolution of 2016, which saw Turnbull skate very close to minority government, was triggered by the Senate’s refusal to re-instate the Australian Building and Construction Commission (the ‘cop on the beat’ in the allegedly lawless building and construction industries), as well as its failure to pass the *Fair Work (Registered Organisations)* legislation with its focus on scrutinising and penalising union maladministration. Since these legislative victories for the government, there have been raids on the offices of the Australian

Workers Union that are now themselves the subject of police investigation (Percy 2017). There are also frequent calls for further legislative intervention into the affairs of unions, most recently to prevent the formation of a so-called 'super union' through a merger of the Construction, Forestry, Mining and Energy Union with the Maritime Union of Australia and the Textile Clothing and Footwear Union of Australia (Marin-Guzman 2018).

These ongoing interventions provide dramatic substance to Australia's ranking as among the worst of the rich democracies in the global league table produced by International Trade Union Confederation [ITUC] (2017). The Australian state now regularly interferes with workers' organisations, and regularly uses strong-arm legal oversight to limit union organisational capacity and collective actions. Australia is not unique in this respect: state and employer hostility to unions is a defining element of industrial politics in most of the English-speaking rich democracies; indeed, numerous developing countries now rank more favourably for unions than do Australia, the United States, and the United Kingdom.

Responses have been many and varied. Left-wing politics in the United Kingdom and the United States, clear reference points for national affairs, are ascendant once more. Political narratives are braver and policy proposals are less apologetic. Here in Australia, the Coalition's response to rising inequality has been largely to deny that the problem exists or to rationalise it away; yet importantly, the Government has carefully avoided more aggressive Thatcherite moves in sensitive areas like public health care, hospitals, and education, where cutbacks and privatisations are often electorally unacceptable.

More recently, and in the search for a compelling program to sell to voters, the Australian government has adopted some of the Trump administration's economic policy positions, particularly corporate tax cuts for large businesses and a flatter, less progressive income tax system. In both rhetoric and policy, the Coalition has defiantly promoted and defended 'trickle down' economics. Federal Treasurer Scott Morrison is arguing, like President Trump, that a government boost to corporate profits will unleash a fresh round of business investment and job-creation that will stimulate labour demand and thus compensate workers with better wages and more jobs. The Coalition's aggressive program of tax reductions outdoes earlier rounds of pro-business policies

where public administrators had at least one eye on the long-term fiscal consequences of their tax cuts. The current program of tax-cutting has a sheen of recklessness about it, with the political opportunity to reduce the tax liabilities of corporations (and, to an extent, high-income individuals) being seized unhesitatingly.

The Coalition's tax cuts are being pursued in the context of a fragmenting labour market in which job opportunities come and go with the fortunes of start-ups, volatile fluctuations in demand, and the ability of employers to 'game the rules' (or lack of them) in hiring and compensation processes. Superficially, the Coalition's economic policy may achieve some of their objectives. Business *will be* less constrained by taxes, rules, and unions. Fiscal stimulus produced by large tax cuts and loose labour market regulations *may well* accelerate job creation in the short term on terms that favour employer profits over security and fairness for workers. For the time being, the pursuit of aggressive trickle-down policies acts as a frame for the Coalition to convince voters that such pro-business policies will soon deliver the 'jobs and growth' benefits that the Government has long promised.

The return to democratic class conflict: challenging the rules of the game

Given this economic, political and industrial context, it is not surprising that a new generation of labour activists would find their way into positions of leadership. These leaders are now faced on the one hand with the prospects of a further fragmentation of work and falling working class living standards and on the other with evaporating industrial, legal, and social resources to deal with the problems. Sally McManus's election as Secretary of the ACTU in 2017 was the most notable manifestation of this transition and the scale of the challenge and the risk-taking required by it. If we adopt Erik Olin Wright's (2015) analysis of the *levels* of class conflict in contemporary capitalist societies, then it is clear that playing within the current 'rules of the game' would require *some* prospect of gaining an advantage for workers. However, not only are the current rules designed to organisationally weaken unions and reduce union membership, they also impose institutional blocks to unions seeking to address low pay growth and worker insecurity. In her call to 'Change the Rules' in her speech to the National Press Club in March 2018,

McManus was merely acknowledging this reality. Australian workers and their representative organisations have little if anything to gain from reflexive cooperation with the current employment regime. The problems facing the working class in Australia require social movement responses by unions willing to take risks to build public and political awareness of the scale of the problems and what will be required to change them.

It is commonplace to read arguments, even on the progressive political left, that the weakness of organised labour marks the end of the collectivist era—driven either by declining opportunities for workers as technology changes the workplace, or by the individualism sanctioned in the media and popular culture. The reality, however, is more complex. Employment-to-population ratios continue to defy panicked predictions of the looming takeover by AI and automation. Moreover, workers seem willing to join and remain in unions when workplace organisation and job conditions, or institutional contexts, make collective membership and action more amenable.¹

One area where Australian unions have already begun to exercise successful interventions is in electoral battles with the Coalition. The reason for this is quite simple. With the exception of the United States, the rules of democratic contest in liberal democracies have been significantly *less* undermined than has been the case in workplaces. Given the limits on effective capacity to strike and mobilise at work, Australian unions have searched out other ways to express the power of their membership and reach. These moves should not be dismissed as an exercise in expedience. If the common underlying source of the many problems facing unions and workers in Australia is the *institutional* framework regulating employment, then it makes sense for unions to focus their efforts on defeating the parties and politicians who are opposed to improving that regulatory framework and who instead pursue corporate interests. Unions now enter electoral battles as more independent actors. This can be seen as partly a consequence of their limited industrial power and efforts in the Labor Party to develop a broader electoral base that is less focused on fewer unionised workers.

The current political focus of Australian unions is not without precedent. For example, as Macarthy (1967) recounts, unions, defeated industrially

¹ Peetz (2010) similarly finds limited evidence of declining collectivism in his analysis of comparative public opinion data.

in the early federation after years of recession, turned to political mobilisation to revive class interests via a ‘change to the rules’—namely, through state recognition of unions and wage negotiation (see also Markey (2002)). Today’s fragmented labour market, combined with an industrial relations environment that constrains unions, has meant that unions have had to expand the scope of organising activities, to reach an ‘audience’ interested in wage-earner policies via other means of contact. Since many of these campaigns involve tactics that overlap with social-movement tactics (including door-knocking, phone calls, workplace meetings, and local events), it is sensible to understand these campaigns as *political* organising as opposed to ‘politicking’ in the narrow sense.

Analysis from Wilson and Spies-Butcher (2011) suggests the union campaign against WorkChoices in 2007 had a tangible national electoral impact, confirmed by seat-level regression analysis showing that unions hurt the Coalition in the seats targeted by the campaign. In the 2016 election, which produced a much closer result than the Coalition had expected, union-targeted seats moved to Labor by an incremental 2 percentage points in two-party terms, after controlling for other factors (Peetz 2018). These mobilisations are not without risks or costs—they involve unions in partisan contests that continue to enrage Coalition politicians and frustrate their best tacticians. Internal reports on the Coalition’s 2016 campaign failures noted that ‘little thought had been given to how to quarantine against the huge on-the-ground mix of union and GetUp! teams backing Labor — even though this was a known danger from previous elections’ (Williams 2018).

This ‘democratic class conflict’² goes well beyond power struggles at relatively elite levels of politics. Coalition tacticians have managed to convince a substantial share of the voting public that unions are not only tainted by corruption, but still exert too much power. An analysis of voting in the 2016 election according to attitudes toward unions provides ample illustration of the influence of anti-union sentiment on voter party choice. These beliefs have no doubt been reinforced by the constant

² My use of this phrase draws on, but also differs from, Walter Korpi’s well-known expression—‘the democratic class struggle’. Largely, I am referring to the return of union mobilisation in the *absence* of power resources rather than the *use* of power resources to direct the political economy. This distinction is supported in Edlund and Lindh’s (2015) account of the distinctions in the type and degrees of class conflict experienced in the social-democratic and liberal democracies.

succession of anti-union inquiries, police actions, and ‘earnest’ legislative initiatives—all part of the *mobilisation of bias* exercised against unions by the Coalition government currently in office.

Not surprisingly, this campaign has had a broader impact. According to the 2016 Australian Election Study (McAllister *et al.* 2016), a larger number of Coalition voters, both Liberals and Nationals, believed unions have too much power than believed big business did (see Table 1). By contrast, Labor and Greens voters were in (net) disagreement with the proposition that unions have too much power (-22% and -14% respectively). Coalition voters still overwhelmingly supported the proposition that there should be ‘stricter laws to regulate the activities of trade unions’, with 77% and 72% (net) agreement respectively. Labor and Greens voters were much cooler on this proposition, with more voters in the neutral category. Still, net agreement with this proposition still remained positive at +7% and +8% respectively.

Table 1: Australian voter attitudes to business and union power and laws regulation unions, 2016, net percentage of respondents agreeing with each of these statements

	Liberals (n>1067)	Nationals (n>102)	Labor (n>770)	Greens (n=252)
Big business has too much power	+48	+67	+83	+83
Trade unions have too much power	+74	+71	-22	-14
Stricter laws to regulate activities of unions	+77	+72	+7	+8

Source: Australian Election Study 2016, unweighted sample. See McAllister *et al.* (2016).

Conclusion

The fact that large numbers of Coalition voters support the government's attempts to limit the power of unions confirms that the Coalition campaign against unions goes well beyond elite politics—that is, politics driven by actors in executive government in concert with the urgings of senior executives and boardrooms. Anti-union sentiment has a significant base among voters, making it a unifying electoral theme as conservative and business leaders attempt to defuse rising protests about the insecurities and inequalities of working life. On the other side, unions have demonstrated some ability to politically organise in the interests of wage-earners, and to defend social-democratic policymaking, in an industrial relations environment that increasingly restricts the democratic functions of unions. It is for these reasons that unions have little reason to play by the current 'rules of the game' set out for the Australian political economy. Instead, with the resuscitated demand to 'change the rules,' they are embarking on an ambitious, risky but necessary return to democratic class struggle—in the workplace, and in politics more broadly.

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