

# **THE DECLINING LABOUR SHARE IN AUSTRALIA: DEFINITION, MEASUREMENT, AND INTERNATIONAL COMPARISONS**

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The explosion of research and policy interest in the problem of inequality in recent years has focused primarily on the distribution of income across individuals or households. This research has documented the dramatic growth of personal income inequality, and explored its causes, consequences, and solutions.<sup>1</sup> However, a parallel and related dimension of inequality has received rather less attention: namely, the shifting distribution of income between the major factors of production (primarily labour and capital, but also land, mixed incomes, and other smaller categories). In fact, the changing factor distribution of income is one of the major causes of shifts in personal income distribution. And the factor distribution of income raises many additional and important issues for macroeconomics and political economy.<sup>2</sup> Indeed, David Ricardo (1911) stated famously, ‘To determine the laws which regulate this distribution, is the principal problem in Political Economy.’ For these reasons, exploring the changing distribution of income between factors is an essential complement to other studies of inequality.

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<sup>1</sup> Leading entries in this body of literature include Piketty (2014), Wilkinson and Pickett (2009), and Stiglitz (2012).

<sup>2</sup> Including savings, investment, growth, and taxation; see Bertola *et al.* (2006).

**Stanford, J. (2018)**  
**‘The Declining Labour Share in Australia: Definition, Measurement, and  
International Comparisons’**  
*Journal of Australian Political Economy*  
**No. 81, pp. 11-32.**

This article reviews the evolution of the factor distribution of income in Australia through the postwar era, with a focus on the initial rise and subsequent fall of the share of national income going to labour. The next section defines the labour share, discusses its relationship to the personal distribution of income, and considers several issues of measurement and theoretical interpretation. The following section presents empirical evidence of the marked decline of the labour share since its peak in the mid-1970s. The Australian experience is then placed in an international context, comparing it to the experience of other developed capitalist economies. The conclusion considers the implications of this trend for future economic and labour market policy.

### Definitions, Methodology, and Theoretical Perspectives

At its simplest, the labour share (LS) of GDP represents the proportion of total economic output that is received as compensation by paid employees. Compensation is considered broadly to include wages, salaries, and other benefits (such as superannuation contributions by employers). ‘Employee’ is also defined broadly to include anyone in a paid position (in most statistical series this even includes the salary portion of the compensation of top business executives<sup>3</sup>).

$$(1) \quad LS = \frac{\text{Labour Compensation}}{\text{Output}}$$

The labour share can be measured in aggregate terms over a period of time (say, a year or a quarter, to coincide with macroeconomic statistics). It can also be expressed in terms of hourly output, by decomposing both compensation and output into hourly rates.

$$(2) \quad LS = \frac{\text{Hourly Compensation} * \text{Hours of Employment}}{\text{Hourly Productivity} * \text{Hours of Employment}}$$

On an hourly basis, therefore, the labour share of output is identical to unit labour cost: that is, the cost of hiring an hour of labour relative to the value of output produced in that hour:

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<sup>3</sup> Most business leaders receive much of their compensation in the form of equity-based options or grants, which are not included in labour compensation; their base salaries and cash bonuses, however, are considered payment to their labour. Some authors have attempted to adjust overall labour share measures by excluding estimated compensation received by, say, the highest-income 1 percent of households or top executives; see, for example, Brennan (2016) and Cowgill (2013, Appendix D).

$$(3) \quad LS = \frac{w}{q}$$

where  $w$  represents hourly compensation (or the wage, broadly defined), and  $q$  represents hourly productivity. Indeed, the labour share of output is a macroeconomic analog to unit labour cost, serving as a summary indicator of the cost of labour relative to its aggregate productivity.

From employers' perspective, whether operating at a firm level or the national level, a lower unit labour cost (ie. lower labour share) implies a higher degree of competitiveness and profitability. Employers will attempt to manage both components of the unit labour cost fraction in their efforts to extract labour effort more profitably (by limiting compensation in the numerator of the ratio, and enhancing productivity in the denominator).<sup>4</sup>

Several statistical and methodological choices are encountered in empirically describing the evolution of the labour share of GDP. Any of the measures above can be expressed in nominal or real terms. It is important, however, to be consistent in this regard. Both the numerator and the denominator should be expressed in the same terms – and, if that is in real terms, both should be deflated with a consistent deflator. This last issue becomes important when comparing trends in real productivity with the growth of real wages; the former is typically deflated by a measure of output or producer prices (and at the macroeconomic level by the implicit GDP price index), while the latter is most commonly expressed relative to an index of consumer prices (thereby representing the real purchasing power of wages relative to the products which workers buy). Differences between the two deflators can, therefore, affect the movement of the ratio, as considered empirically below.

The relationship between the factor distribution of income and personal income distribution can also be considered. If ownership of each factor of production was distributed equally across the entire population, then the distribution of income between factors would not affect the distribution of income between individuals or households. Of course, that is not the case. In particular, ownership of business and financial wealth (what is typically referred to as 'capital' in common usage) is

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<sup>4</sup> Gordon (1990), Palley (2001), and Stanford (2015, Ch.8) discuss the dynamics of this labour extraction imperative in terms of employers' dual emphasis on both compensation and productivity.

concentrated in a surprisingly small segment of society. While official data on wealth ownership is inconsistent and incomplete, various studies have estimated that the richest 1 percent of Australians owns between 15 and 25 percent of all financial wealth, and the majority of wealth is owned by the richest decile (Hutchens, 2018; Sheil and Stilwell, 2016). Moreover, the composition of household income shifts predictably toward a greater reliance on capital income as household incomes rise.<sup>5</sup> Distributional shifts of aggregate income from labour to capital, therefore, generate rising relative incomes for the higher (wealth-owning) echelons of society. Research has indicated that most of the recent increase in top incomes (for the richest 1 percent, or 0.1 percent, or even 0.01 percent of the population) is attributable to growing capital incomes,<sup>6</sup> confirming the importance of the shifting factor distribution of income to growing inequality in personal income distribution.

Neoclassical economic theory explains the distribution of income as the result of mutually beneficial exchange between the owners of different factors of production – both direct (through trading one factor for another) and indirect (through the exchange of final products which embody different intensity of factors). Market-clearing prices for all factors are determined in competitive markets, ensuring both uniform prices for equivalent factor supplies (which, under perfectly competitive conditions, should equal the marginal productivity of each factor), and the optimal allocation of all available factors to their most productive uses. In this framework, it is not clear at all why the aggregate distribution of income across factors is even relevant; the whole framework is described as optimal market interactions between individuals possessing various exogenously-determined initial endowments of factors.

Indeed, the most typical representations of this general equilibrium income distribution process implicitly assume the factor distribution of income is *constant*. For example, in the famed Cobb-Douglas aggregate production function:

$$(4) \quad Q = AK^\alpha L^{(1-\alpha)}$$

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<sup>5</sup> Austin and Williams (2015) provide exhaustive data on this relationship for the U.S.

<sup>6</sup> See Saez (2016), for example.

the share of total output going to labour is automatically equal to the (constant) coefficient on the labour input to production ( $1-\alpha$ ). This is because the elasticity of substitution between factors with respect to their price is 1, and hence any change in the price of a factor is proportionately offset by an opposite change in relative demand for its services (and vice versa), preserving its share of total output regardless of changes in relative supply of or demand for each factor. More flexible functional forms (such as constant elasticity of substitution production functions) allow for variation in factor shares (Bentolila and Saint-Paul, 2003), but these movements are still assumed to be driven by competitive market-clearing mechanisms in the context of shifting relative factor endowments, non-neutral technological change, and/or other general equilibrium determinants (rather than linking these movements to non-market forces such as regulations, institutions, or power).

When orthodox policy analysts bother to consider the factor distribution of income as a variable of interest, their underlying neoclassical framework leads to odd and often circular conclusions. For example, one recent OECD paper (Schwellnus *et al.*, 2017) set out to explain the decoupling of real wage growth in most OECD countries from growth in labour productivity (in contrast to conventional marginal productivity analysis, which expects a close relationship between the two). The authors identified the declining labour share of GDP as a *cause* of that decoupling – whereas, arithmetically, the former is the result of the latter (since whenever real wages grow more slowly than real productivity, the labour share of GDP must fall).

The International Monetary Fund (2017) attributes the declining labour share experienced in many OECD countries to the falling relative price of investment goods, which has supposedly sparked a shift in demand toward capital and away from labour. There are several problems with this analysis, not least of which has been the very weak rate of business capital investment in most OECD countries since the turn of the century (and especially since the GFC). This contradicts the model's assumption that lower investment good prices must have led to faster investment. Moreover, under marginal productivity principles, the growing capital intensity of production should be associated with *rising* labour productivity and hence wages (as labour becomes relatively scarce).<sup>7</sup> As

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<sup>7</sup> Whether rising wages translates into a growing labour share depends on the assumed elasticities of substitution in the underlying production function; in some cases, as noted,

with other applications of neoclassical distributional theory (similarly based on the *assumption* that incomes reflect marginal productivity), the IMF approach explains the shift in factor distribution as a tautology: since relative labour incomes are falling, this must (in a market-clearing model) *prima facie* reflect a decline in the relative demand for labour, which is assumed to reflect a relative decline in labour productivity.

The Treasury Department in Australia (2017) also considered the evolution of the labour share of GDP, as part of a recent review of the slowdown in wage growth. This report correctly describes the arithmetic of movements in the labour share – driven by differences in relative growth rates of real wages (deflated by producer prices or the GDP deflator, rather than by the consumer price index) versus real productivity. But then, curiously, the report denies that there has been any downward trend in the labour share in Australia at all since the early 1990s; the authors suggest Australia's experience has differed from other OECD economies (where they acknowledge the labour share has declined). This claim is empirically false: as indicated below, the labour share has indeed declined since 1990 (although not as rapidly as during the 1983-1990 period), falling by about 3 percentage points of GDP over the last quarter-century. Despite denying any recent decline in the labour share of GDP, the Treasury paper catalogues several potential reasons why it *might* decline. Like the IMF, the Treasury paper highlights market adjustments in relative factor prices (and in particular a supposed decline in the relative price of capital). The paper also mentions the market power of 'superstar' firms which control large market shares in specific industries (such as high-tech sectors), and this might boost the profit share.<sup>8</sup> The Treasury report acknowledges that the compositional shift in production toward more labour-intensive service sectors should be *lifting* the labour income share of total output, but suggests that this trend must be overwhelmed by other factors. There is no reference to the institutional or political-economic context of factor income distribution in explaining the decline of the labour share.

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factor shares are assumed constant as an artifact of the assumed functional form, and this would hold even under growing capital intensity.

<sup>8</sup> Most economists would refer to these dominant firms as monopolies or oligopolies, not 'superstars.'

Quiggin (2018) has critiqued an especially one-sided analysis of changes in the labour share prepared by another Australian government agency: the Department of Industry, Innovation and Science, which recently published a report celebrating the legacy of neoliberal policy reform in Australia since the 1980s (Office of the Chief Economist, 2018). This report criticised the rise in the labour share that was experienced in the initial postwar decades; it then credits more ‘flexible’ and pro-competitive labour policies (starting with the Prices and Incomes Accords of the early 1980s) with reestablishing a healthier equilibrium:

Australian wage growth ran ahead of GDP per capita growth throughout the 1950s and 1960s which was a major source of underlying inflation. The gap opened wider in the 1970s and 1980s. This further drove up domestic inflation. ‘Imported inflation’ from global trading partners increased inflation yet more. During the operation of the Prices and Incomes Accord, real wages and GDP per capita were gradually brought into alignment and alleviated inflationary pressures in the economy (p. 9).

The asymmetry of the analysis is clear. When wages rise faster than productivity, it is a problem (allegedly causing inflation, among other ills), but when wages rise more slowly than productivity (as has usually been the case since the early 1980s), this is said to restore ‘alignment.’ (In reality, wages growth and productivity growth were not ‘aligned’ after the early 1980s; the former has consistently lagged the latter, as is described below.) In short, in the government view, an ongoing decline in the labour share is considered healthy. At least this report implicitly hints at the relevance of shifting regulatory and institutional factors in explaining the decline in the labour share (mentioning in particular the erosion of collective bargaining in Australia over this period); however, this trend is interpreted as the restoration of some ‘normal’ market equilibrium, rather than a matter of concern.

Heterodox economists, in contrast, recognise both the fluidity of factor shares (instead of assuming their fixity), and the importance of changes in factor distribution to other economic and social outcomes. Concern with inequality, as noted, has sparked some of this focus. But there are other rationales for heterodox interest in the factor distribution of income. In the Kaleckian macroeconomic tradition, differential savings rates out of labour versus capital income are a key behavioural feature of the macroeconomy. In this context, changes in the factor distribution of income have major implications for savings behavior, consumer demand,

and hence overall economic growth (especially when output and employment are demand-constrained, as heterodox theory believes is generally the case). This perspective has sparked a rich literature on the different properties of wage-led versus profit-led economic systems.<sup>9</sup> Other implications of changes in factor shares include impacts on investment (to the extent that investment is sensitive to labour cost competitiveness), innovation, and fiscal performance. Recent examples of heterodox analyses of the labour share of GDP include Glyn (2009), Atkinson (2009), and in the Australian context Cowgill (2013).

### **Evolution of the Labour Share in Australia's Postwar Economy**

An aggregate measure of the labour share of GDP (corresponding to equation (1) above) can be directly constructed from the national income accounts published by the Australian Bureau of Statistics. Figure 1 illustrates the evolution of the aggregate labour share, including all wages, salaries, and other compensation (such as superannuation benefits), dating back to the advent of the ABS's quarterly GDP data in 1959.

The labour share rose steadily during the 1960s and early 1970s, reaching peaks of over 55 percent of GDP in the late 1970s and early 1980s. The labour share began to decline rapidly after 1984, initially due in part to the effects of the Prices and Incomes Accords system launched in 1983 by the new Labor government (led by Bob Hawke) and the trade union movement. The Accord process was aimed at restricting wage growth and boosting profits, purportedly to ameliorate the effects of 'excessive' wage growth in previous years;<sup>10</sup> measured by the decline in labour share, the policy achieved these goals. The erosion of the labour share continued through the 1990s and 2000s, falling below 47 percent of

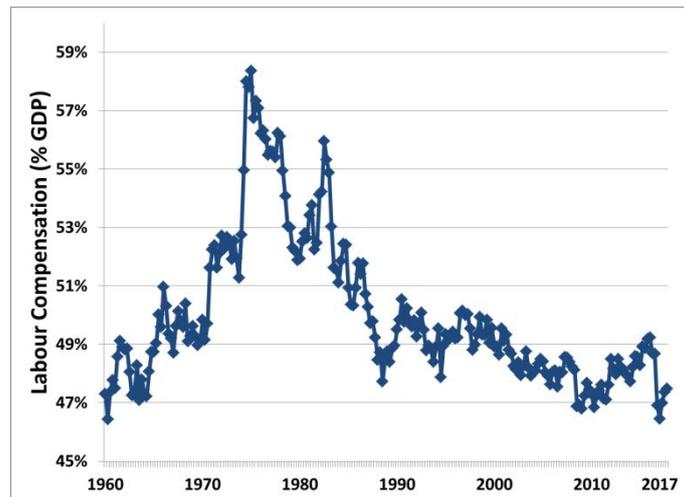
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<sup>9</sup> A classic reference is Bhaduri and Marglin (1990); an important recent application is Stockhammer and Lavoie (2013).

<sup>10</sup> The Accords also featured an expansion of important social benefits, notably the re-introduction of Medicare and the implementation of the superannuation system, described as trade-offs in return for voluntary wage restraint by unions. Note, however, that employer superannuation contributions are included in this measure of labour compensation; so the decline in base wages was even steeper.

GDP by 2010. The labour share regained about 2 percentage points of GDP over the following several years, on the strength of a renewed boom in the natural resources sector (which sparked rapid wage growth, led by the mining and construction sectors, from 2011 through 2015), but that rebound was temporary. The sharp downturn of global commodity prices after 2014 put an end to the resource boom, and the labour share began to decline again. In the March quarter of 2017 the labour share reached 46.5 percent, the lowest point since 1960.

**Figure 1: Labour Compensation as Share of GDP, 1959-2017**

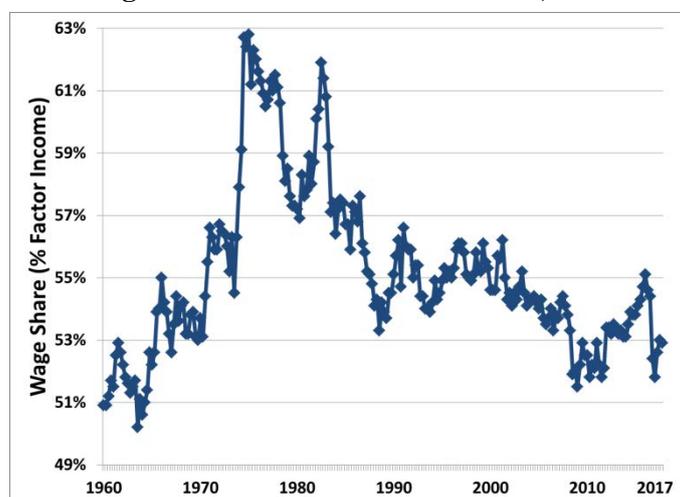


*Source:* Author's calculations from ABS Catalogue 5206.0, Table 7.

It is evident from Figure 1 that the labour share exhibits a complex combination of cyclical and structural movements. In peak times, with relatively strong labour market conditions, workers may be able to wrest a larger share of output from employers, and the labour share grows; this was true in the long postwar expansion, as well as during the peak of the more recent resources boom. But the labour share can also exhibit a counter-cyclical pattern, rising (at least temporarily) during a downturn (because profits typically decline faster than wages as a recession sets in). Simultaneously, longer-run evolution of the institutional structures of

income distribution, and changes in the broad balance of economic and political power between classes, will also affect the factor distribution of income in a more lasting way. This effect is apparent in the long decline of labour's share throughout the whole era of neoliberalism.

**Figure 2: Wages Share of Total Factor Income, 1960-2017**

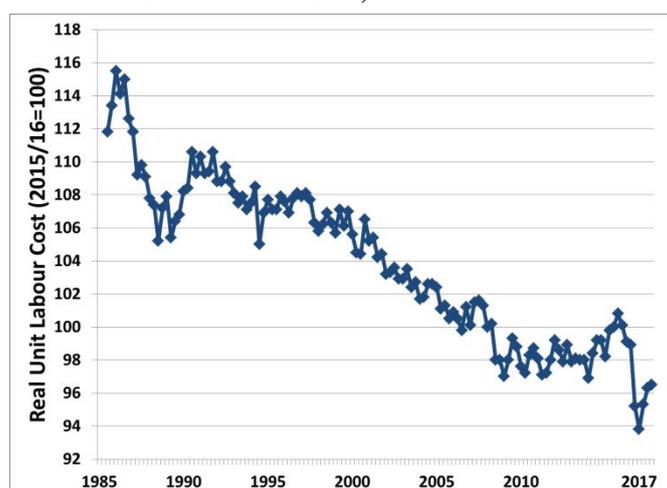


Source: ABS Catalogue 5206.0, Table 24.

As discussed above, there are several alternative ways to portray the labour share of GDP. A second common measure in Australia, often cited by journalists and commentators, is the share of wages in total factor income. This is illustrated in Figure 2. It shows a very similar pattern to the basic labour share of GDP. It differs primarily in that it uses total factor income, rather than GDP, as the denominator. Factor income is smaller than total GDP (since it excludes net indirect taxes less subsidies received by government), so labour's share seems larger (around 53 percent in 2017, 6 percentage points higher than labour's share of GDP). In addition, the decline in the labour share is incrementally muted in this measure, since the total slice of GDP allocated to net indirect taxes has increased slightly since the 1970s (due primarily to the introduction of the national GST in 2000). Opinion differs as to which of these two

measures is preferable. The shift in the incidence of taxation from income taxes (especially business taxes) to more regressive indirect taxes (primarily the GST) represents a secondary cause of growing inequality in final consumption, and in this light the increase in indirect taxes as a share of GDP can rightly be associated with labour's falling share of final output (in which case measuring factor shares relative to GDP, not factor incomes, is more appropriate). In any event, however, the trends depicted in the two series are very similar.

**Figure 3: Real Unit Labour Cost, 1985-2017**



Source: ABS Catalogue 5206.0, Table 42.

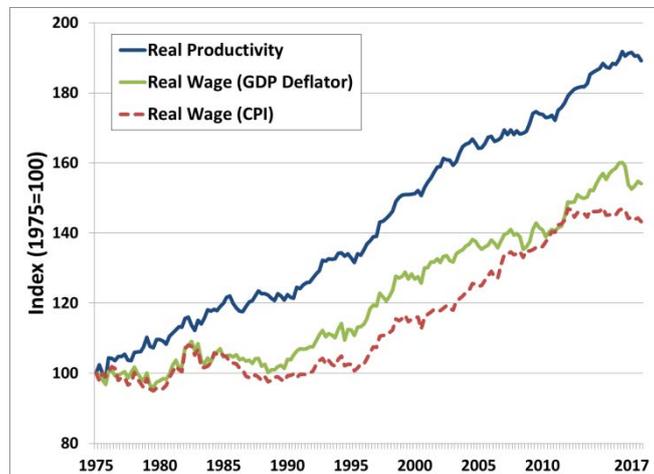
As noted in equation (3) above, the labour share of GDP is the macroeconomic expression of unit labour cost. Unit labour cost can also be measured directly by separately estimating productivity and labour compensation. Again, both components of this ratio should be expressed in comparable terms: either nominal or real (and if the latter is chosen, a consistent deflator should be used).<sup>11</sup> Figure 3 illustrates the evolution of

<sup>11</sup> The ABS also produces a hybrid measure, which it calls 'nominal unit labour cost,' which is an index expressing *nominal* compensation relative to *real* productivity; this

unit labour cost in Australia's aggregate economy, in real terms: it is an index, reflecting growth in real compensation relative to real productivity. If real compensation grows more slowly than real output, then the real unit labour cost will fall. This has been the case almost continuously since 1985 (when the ABS began publishing this series). Over that 30-year period, the unit labour cost declined by close to 20 percent; the decline in unit labour cost was especially rapid during 2016 and early 2017, rebounding somewhat in the last quarters of 2017.

That the evolution of the labour share reflects differential growth rates in wages and productivity can also be highlighted with a separate portrayal of those two components. Figure 4 illustrates the growth of real hourly labour productivity since 1975 – around the time that the labour share of GDP peaked. Productivity is expressed in real terms, relative to the overall GDP price deflator.

**Figure 4: Gap Between Productivity Growth and Wages, 1975-2017**



Source: Author's calculations from ABS Catalogues 5206.0 and 6202.0.

measure is held to be a measure of underlying inflationary pressure. For analysing the distribution of income, however, real unit labour cost is the more appropriate measure.

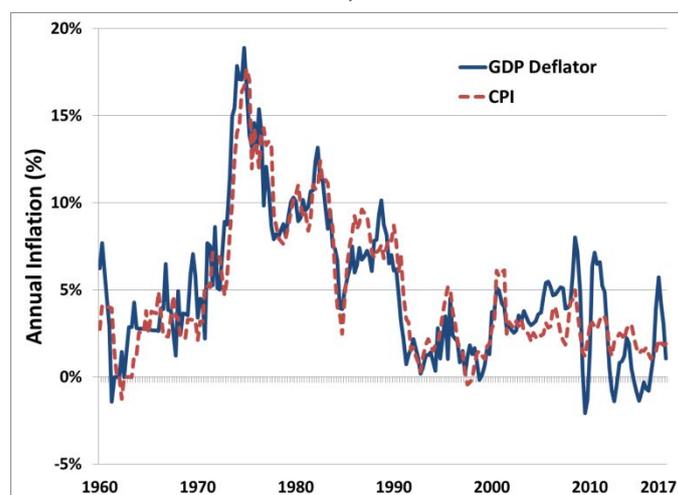
Figure 4 also portrays two separate measures of real labour compensation: one defined relative to the GDP deflator (the same deflator used to measure real productivity), and one relative to the growth of consumer prices (what workers actually buy with their wages). By either definition, real wages have lagged considerably behind labour productivity through the neoliberal era. The gap between productivity and wages is somewhat larger when wages are measured relative to consumer prices (rather than the GDP deflator): the cumulative shortfall in real wages relative to productivity since 1975 is about 30 percentage points when wages are deflated by GDP prices, but over 40 percentage points when the CPI is used.

The difference between these two measures of real wages results from the fact that consumer price inflation has slightly outstripped GDP-wide price inflation over the period considered. However, the comparison between these two deflators can shift rapidly, on the basis of changes in the nominal prices of output. In the case of Australia's resource-oriented economy, this can occur because of fluctuations in world prices for natural resource exports. When commodity prices are high, the nominal price of Australian output rises quickly – and, during those times, real wage growth measured relative to the GDP deflator is suppressed (even though aggregate demand conditions and nominal wage increases may seem vibrant). When commodity prices decline, real wages measured this way may counter-intuitively accelerate; that outcome, however, is an artifact of the importance of resource commodities in Australia's total output, and does not reflect any increase in effective purchasing power for workers (nor any increase in their fundamental economic bargaining power).

The contrast between the two measures of inflation is illustrated in Figure 5, which portrays annual rates of inflation according to both indicators. In general the measures track closely. During periods of sustained boom or bust in global commodity markets, however, they can diverge. For example, during the global commodities boom of the 2000s, GDP inflation was consistently faster than CPI inflation, which served to suppress real wages measured by the GDP deflator at the very time when labour markets were relatively tight. In those years, real wages deflated by the CPI 'caught up' to the other measure (as is visible in the 'closing gap' between the two real wage measures pictured in Figure 4). The subsequent downturn in global commodity prices, however, caused the two series to diverge again. More recently, wild swings in global

commodity prices have caused unprecedented volatility in the rate of GDP inflation – which has swung rapidly from high levels (above 5 percent) to negative deflation several times since the global financial crisis. These rapid shifts in the nominal prices of Australian output cause equally rapid and unpredictable movements in the labour share of GDP. In particular, the decline of the labour share to a 30-year low in early 2017 reflected a sudden but temporary increase in prices for resource exports; as that price spike abated, the labour share rebounded somewhat. Intuitively, the relationship between commodity prices and the labour share can be understood this way: fluctuations in resource prices have a powerful and immediate flow-through impact on profits in Australia’s resource-focused business sector, and hence it is to be expected that the labour share would move opposite to the direction of resource prices.

**Figure 5: Measures of Inflation, 1959-2017**

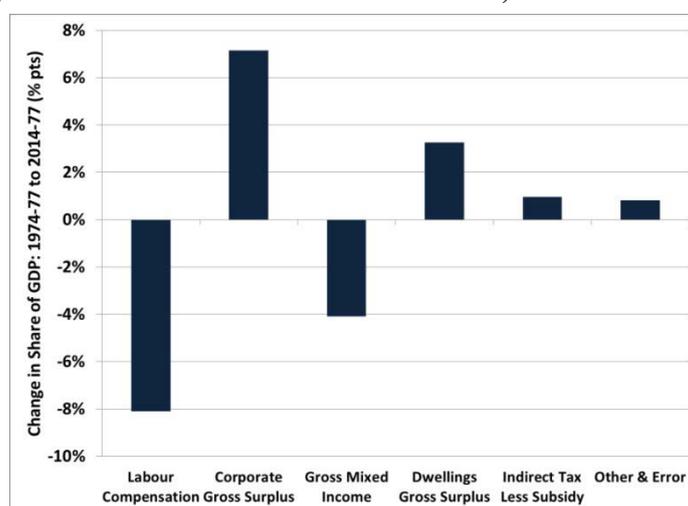


Source: ABS Catalogues 5206.0, Table 5, and 6401.0.

These more fleeting shorter-term movements in the labour share do not alter, however, the obvious long-run trend that has occurred in factor distribution since the early 1980s. Using the four-year period of peak labour share as a starting point (1974 through 1977), we can calculate the

cumulative shift in factor shares that has occurred in the subsequent forty years (using an equivalent four year period, 2014-2017, as the ending point). Over that period the labour share of GDP declined by just over 8 percentage points of GDP. That represents the redistribution away from labour of aggregate output in today's terms of some \$150 billion per year.

**Figure 6: Redistribution of Factor Incomes, 1974-7 to 2014-7**



Source: Author's calculations from ABS Catalogue 5206.0, Table 7.

What other factors increased their share of national income, as labour's share was shrinking? Figure 6 indicates the cumulative change in factor shares experienced by owners of other factors in the economy (following the categorization of factor incomes in the ABS national accounts data). The corporate sector was the primary beneficiary of the decline in the labour share of GDP: gross corporate surplus (before depreciation and taxes) increased by over 7 percentage points of GDP over the same forty-year period. In other words, almost 90 percent of the decline in the labour share over this time, was reflected in an increase in the corporate share. It is interesting to note that, in turn, over half of the corporate gain (more than 4 of the 7 percentage points change) was due to increased operating profits for *financial* companies, attesting to the dramatic

impact of financialisation on income distribution (a relationship explored further in the article by Peetz in this journal). As discussed above, governments have also collected a slightly larger share of GDP in the form of indirect taxes (net of subsidies), primarily due to the introduction of the GST. That shift has not been large: less than 1 percentage point of GDP over the forty year-period.<sup>12</sup> Two other significant shifts in factor distribution round out the picture. Interestingly, mixed income (earned by self-employed proprietors of farms and small businesses<sup>13</sup>) has also declined as a share of GDP, by over 4 percentage points. This has occurred despite the increase in numbers of self-employed individuals in recent years (arising from the trend toward outsourcing, independent contractors, and ‘gig’ workers). This erosion of mixed incomes may reflect similar shifts in market and institutional power, with small businesses facing the same concentrated power of large businesses as confront waged workers. The only other factor to increase its share of GDP is the value ascribed in the national accounts to the operating surplus generated on owner-occupied dwellings, which increased by 3 percentage points. The escalation of real estate prices and residential construction in recent decades has been a clear factor in this shift.

In summary, by a range of statistical indicators, the share of total output received by labour in all forms of compensation (wages, salaries, and employer superannuation contributions) has declined substantially since the peak of the postwar expansion in the mid-1970s. The decline in the labour share was especially rapid in the latter 1980s (associated with the deliberate effort to suppress wage growth implemented as part of the Prices and Incomes Accords). However, the decline in the labour share has continued in subsequent decades. Most of the decline is reflected in a nearly-equal increase in gross corporate surpluses, led especially by the financial sector. While movements in the labour share reflect a complex mixture of cyclical and structural determinants, the long-run trend in the factor distribution of income is clearly away from labour, and this almost certainly reflects epochal shifts in the institutions and regulation of income distribution during the neoliberal era.

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<sup>12</sup> As noted above, this increase in net indirect taxes explains why the decline in the wage share of factor income is slightly smaller than the decline in the labour share of GDP.

<sup>13</sup> This flow is termed ‘mixed income’ because it is held to be a return both to the work of those individuals, and to their invested personal capital.

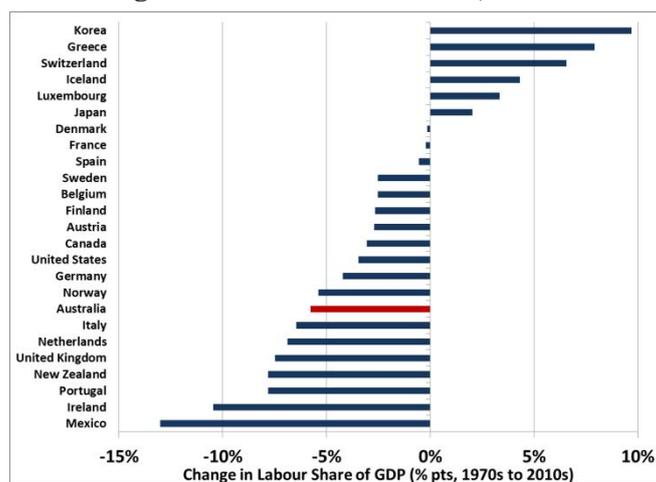
## **Australia's Experience in International Perspective**

It is often suggested that the erosion of labour incomes is a universal phenomenon across industrialised countries, resulting from common underlying factors such as technological change and globalisation. To be sure, Australia is not the only country experiencing a substantial redistribution of factor income from labour to capital over the neoliberal era; in fact, it could be argued that achieving such a redistribution was precisely the point of neoliberalism.<sup>14</sup> However, it would be wrong to assume that Australia's experience simply reflects an overarching and hence inevitable global trend. In fact, there is surprising diversity across OECD countries in both the extent and even the direction of factor income redistribution over the neoliberal era (Bentolila and Saint-Paul, 2003; Ugucioni and Sharpe, 2016). This suggests that considerable influence is still wielded by factors (including institutional and policy factors) specific to particular nations.

Figure 7 on the next page summarises, on the basis of consistent OECD national accounts data, the cumulative decline in the labour share of GDP in 25 industrialised countries during the neoliberal era. To reduce the impact of specific events, it compares the average labour share over the entire 1970s (prior to the advent of neoliberal policies in most countries) to the average share experienced in the present decade (from 2010 through 2015, the most recent consistent data available). In one-third of the countries considered, the labour share was stable or actually increased. This immediately contradicts the assumption that this trend is universal. In the other two-thirds of countries, the labour share declined, but to very different extents. In some cases (including Sweden, Belgium, Finland, Austria, and Canada), the decline was modest (2-3 percentage points of GDP). The most dramatic erosion of the labour share was experienced in Mexico (13 points) and Ireland (over 10 points).

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<sup>14</sup> Duménil and Lévy (2011: 8), make this point aptly: 'The overall dynamics of capitalism under neoliberalism, both nationally and internationally, were determined by new class objectives that worked to the benefit of the highest income brackets: capitalist owners and the upper fractions of management.'

**Figure 7: Change in Labour Share of GDP, 1970s to 2010s**

*Source:* Author's calculations from OECD; current prices, national currencies.

The decline in the labour share of GDP was relatively severe in Australia: falling by close to 6 percentage points, or more than twice the (unweighted) average for the entire sample. Australia ranks 18<sup>th</sup> out of the 25 countries considered, thus falling within the bottom third of OECD countries. Not coincidentally, this is similar to Australia's rank among OECD countries in terms of personal income distribution;<sup>15</sup> this attests once again to the importance of factor income shares in determining personal income distribution.

The large redistribution of factor income in Australia likely reflects the equally dramatic shift in institutional arrangements and labour market structures that was concurrently experienced. In the 1970s, Australia's labour market was shaped by ambitious and comprehensive regulatory interventions aimed deliberately at fostering ongoing wage growth, the payment of 'living wages,' and a more equal distribution of income. At that time Australia ranked as one of the most egalitarian economies in the world. So when the implementation of neoliberal labour market policies

<sup>15</sup> According to OECD data on the Gini coefficient (OECD, 2017), Australia now ranks 23rd in the OECD according to the Gini coefficient of disposable household income.

began, Australia's starting point was unusual – and hence the 'distance traveled' under neoliberalism has been relatively larger.<sup>16</sup>

The relatively dramatic restructuring of labour market policy in Australia is evidenced by clear trends in several important institutional determinants of factor income distribution:<sup>17</sup>

- A steep decline in trade union density in Australia (falling from over 50 percent in the 1950s to under 15 percent at present) – one of the most dramatic declines of any OECD country.
- The erosion of minimum wage policy, measured by a large decline in Australian minimum wages as a share of median earnings.
- The restructuring of Australia's unique 'awards system' for regulating and arbitrating wages and working conditions on a sector-wide basis, which beginning in the 1990s became a network of minimum 'safety net' protections (no longer used to set the pace for general labour compensation).
- The expansion of non-standard and precarious employment, including casual work, irregular part-time positions, and various forms of marginal self-employment (such as 'gig' jobs with digital platform businesses).

While the sustained reduction in the labour share of Australian GDP certainly reflects the impact of the broader global shift toward neoliberal policy, therefore, the relatively severe extent of that shift also reflects the unique and relatively extreme history of neoliberalism here.

## Conclusion

The rise and fall of the labour share of GDP in Australia is an empirical symbol of the corresponding rise and fall of the postwar vision of managed, inclusive growth – and its replacement by a less forgiving

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<sup>16</sup> New Zealand has also experienced one of the most dramatic shifts away from labour in the factor distribution of income, reflecting a similar shift from relatively interventionist and egalitarian labour policies to a more typical neoliberal approach.

<sup>17</sup> The extent of the historical shift in these and other Australian labour market policies under neoliberalism is described in more detail in the article by Mackenzie in this journal; see also Stanford (forthcoming).

capitalist political economy. The steady expansion of the labour share of GDP through the first three decades after the Second World War reflected the spillover benefits of vibrant accumulation and growth, combined with efforts to distribute the gains of that growth through egalitarian labour policies, a growing network of public services, and a redistributive tax and transfer system. That regime reached its limits in the 1970s, in Australia and elsewhere, as evidenced by inflation, slowing growth, and financial and political instability. Corporate elites and their political allies began to push back fiercely with a multidimensional strategy to restore business dominance of the economy, politics, and society. A fundamental restructuring of power balances in the labour market was a core component of that effort. Both the extent and the timing of the subsequent decline in labour's share of GDP reflect the unique characteristics of neoliberalism in Australia: including the bipartisan consensus around its major features that has prevailed through most of this time.<sup>18</sup> By 2017, the labour share of GDP had reached its lowest level in almost 60 years, reflecting both the longer-run structural shift in factor distribution (away from labour, and toward profits) and more cyclical and immediate factors (such as continuing fluctuations in prices for Australia's resource exports).

This observed experience suggests two important conclusions. First, the traditional expectation that an expanding GDP will automatically lift labour incomes is no longer valid. Wages no longer rise in tandem with either aggregate economic output or with labour productivity. Second, the redistributive institutions which helped to create and maintain a correlation (evident in the initial postwar decades) between growth, productivity, and wages, have been dramatically weakened by successive labour market 'reforms.' To restore growth in real wages as a normal economic outcome, and to rebuild labour's share of the economic pie, will require an ambitious effort to modernise and strengthen those redistributive institutions.

In sum, there is no reason to believe (indeed, there never was) that economic growth alone will 'lift all boats' and automatically 'trickle down' into material improvements for working Australians. Australian

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<sup>18</sup> This consensus may be breaking down at present due to growing discontent with inequality and wage stagnation, and resulting space for political leaders to break with fundamental neoliberal precepts.

workers are certainly more productive, and the economy is larger than ever. But workers need pro-active supports (including stronger and more comprehensive minimum wages, stronger employment standards, and a resuscitation of collective bargaining) to defend and rebuild their share of that pie.

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