

WAGE DECOUPLING REVISITED

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There is a long-standing debate on whether the link between productivity growth and real wage growth has become weaker. International contributions have come from the OECD and the IMF. The evidence on the topic was also considered in a special issue of the *Journal of Australian Political Economy* in 2018. The Productivity Commission attempted to settle the debate with an intervention in 2023, the year after the passage of the *Secure Jobs, Better Pay Act* and around the time the Parliament was debating the *Closing Loopholes Bill*. This article discusses that intervention and seeks a better, more nuanced understanding of the dynamics shaping the changing relationship between productivity and real wages and of the role of workers' bargaining power within those dynamics.

For the purposes of this analysis, wage decoupling will be taken to mean the occurrence of a gap between growth in productivity and growth in real wages that persists over long periods, as measured by the difference between growth of output per hour worked and real compensation per hour worked. In standard economic theory, labour will be utilised up to the point that marginal product of labour is just equal to the real wage and the market for labour clears. On that reasoning, the income shares of capital and labour could be expected to be stable over time, helping to ensure macroeconomic stability and perhaps some sense of fairness in how national income is distributed. Orthodox institutions like the Productivity Commission (2023) regard weakness in the relationship between productivity and real wage growth as problematic and therefore potentially requiring attention from policymakers to design reforms to remedy the underlying causes of that weakness.

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This article considers the relevant evidence and arguments around wage decoupling in Australia. It begins by examining the Productivity Commission's analysis of wage decoupling, followed by a reconsideration of the Commission's analysis, applying its methodology to quarterly and annual national accounting data. It then presents the results of a shift-share analysis to identify the main drivers of the decline in labour's share of Australian national income. Taken together with the survey of explanations for wage decoupling, this analysis shows that fluctuations in the terms of trade are an important feature of wage decoupling but not the main reason for labour's declining income share. Rather, the bigger influence is a reduction in workers' collective bargaining strength. The policy implications of these findings are briefly considered at the end of the article.

The Productivity Commission's view on wage decoupling

In late 2023, the Productivity Commission published a short note in response to a debate that had been going on for some years around the extent to which wages growth had decoupled from productivity growth (Productivity Commission 2023). The note was published in the context of a broader push by the Labor Government to reform the industrial relations system. The rationale for the intervention was that, in the wake of the COVID-19 pandemic, productivity growth had slowed while real wages were falling. The Commission took the view that there was a risk that if the link between wages growth and productivity had indeed weakened, then policy would shift away from facilitating and improving productivity growth and towards measures to support wages growth. The Commission was apparently troubled by the idea that the policy pursued would not align with the underlying causes of the weakening link between productivity and real wages.

The aim of the Commission's note was to settle the question of the actuality and extent of wage decoupling by using a consistent and conceptually sound data series. According to the Commission, debate on the topic had been 'dogged by differences in the methods and data' that could 'lead to different, sometimes misleading conclusions' (Productivity Commission 2023:2). In this context, the Commission mentioned the Australian Council of Trade Unions and research work published by Jim Stanford in this journal (Stanford 2018a).

Attempting to settle the debate, the Commission used data from the Labour Account and the National Accounts to construct aggregate and industry-level measures of productivity and real wages. The measure of real wages taken as most relevant by the Commission was that of the producer wage – *i.e.*, the perspective of the employer. The Commission sought to justify this on the basis that ‘businesses have control over the prices they set and wages they offer; but limited control over the prices people pay for other goods and services’ (Productivity Commission 2023:2). For the Commission, a business is considered to be reliant on the prices it receives for its output, which in turn determines the limits of its capacity to pay wages.¹ The Commission notes that ‘the labour share of income is equivalent to the ratio of real producer wages to labour productivity’ (Productivity Commission 2023:2).

This article similarly adopts the producer real wage as the unit for analysis for two reasons. The first is that if the question to be addressed is why the labour share of national income has declined, the producer real wage is the best approach to interrogate that problem. The second reason is that it is better to test the robustness of the Productivity Commission’s results by adopting its preferred method of analysis, rather than by taking another approach that the Commission could then reject on methodological grounds.

The Commission’s general conclusion from its analysis is that in aggregate, Australia has experienced wage decoupling, but that an aggregate view of the divergence of between productivity and producer real wages is misleading. Instead, the Commission argues that just two of the Australian economy’s major industry sectors – Mining and Agriculture, forestry and fishing – account for the majority of the wage decoupling observed at the national level. This is because each of these sectors is export focused and reliant upon prices set in international commodity markets. As the Commission states: ‘a rising terms of trade depressed real producer wages, but [had] little direct effect on productivity [...] the rising terms of trade also drives a wedge between productivity and producer

¹ The alternative measure is the consumer real wage, which is the average nominal wage deflated by the Consumer Price Index. While consumer prices generally move in line with producer prices, this relationship may be weaker in commodity-exposed economies and can vary because of subsidies or changes in taxation (like childcare being made free during the pandemic or the introduction of the GST in the early 2000s).

wages,’ which is the ‘key feature of the wage decoupling observed in Australia’ (Productivity Commission 2023:3).

Focusing on the rest of the economy (comprising all sectors other than Mining and Agriculture, forestry and fishing), the Commission argues that there is a ‘much smaller gap between growth in labour productivity and growth in real wages’ during the period examined (1994-95 and 2021-22). The Commission concedes that there is a very small amount of wage decoupling, only to then imply that this is not sufficient to trouble policymakers (Productivity Commission 2023:5). The implication is that the minor extent of decoupling is part of normal movements in the aggregate economy and that, broadly, real wages and productivity growth are tracking together.

Moreover, any changes in the labour share arising from increases in the terms of trade are nothing untoward as commodity producers do not control these prices and, so, are simply accidental beneficiaries of international price fluctuations. This gives the outcomes the air of inevitable legitimacy. The Commission concludes that the concern is with lifting productivity, not to be troubled by the wage decoupling it finds when the primary commodity sectors have been stripped out of the analysis.

Assessing the veracity of this view in the main focus of the rest of this article, using the same methodology as the Commission and applying it to both quarterly and annual national accounting data for the Australian economy.

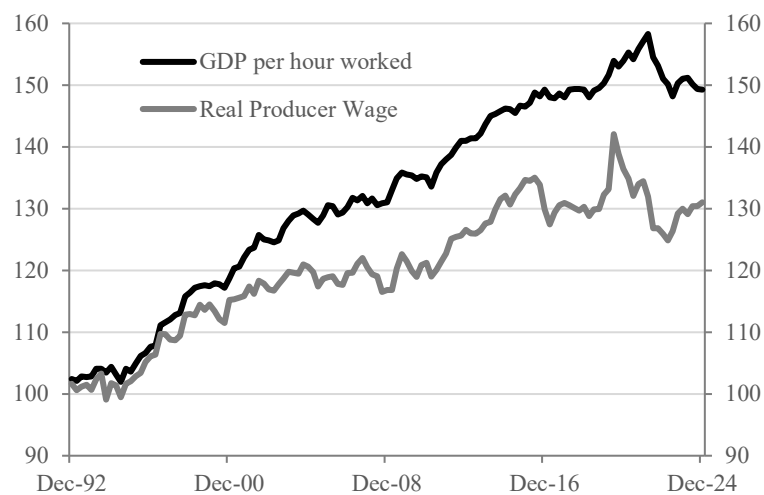
Wage decoupling revisited

There is little dispute that there has been some decoupling of the relationship between productivity and wages in Australia over the decades since the 1990s and that labour’s share of national income has fallen. The matters of contention concern the nature and source of this decoupling, and whether it is widespread across industries.

At the aggregate level, between September 1992 and December 2024, GDP per hour worked increased by 49.2%. Over the same period, the real producer wage increased by 31.0%, showing a notable weakening of the

link between productivity growth and growth in the real producer wage (see Figure 1).²

Figure 1: Index of productivity and real wages (September 1992 = 100)



Source: ABS (2025a) and author's calculations. Note: September 1992 is chosen as the starting point because it was one year after the end of the 1990s recession.

Major structural changes in Australia's economy occurred during those three and a half decades, including ructions in industrial relations policy that began in the mid-1990s and continued through to the 2010s, as well

² It is worth noting that, due to the lockdowns during the pandemic, productivity outcomes became distorted due to shifts in the composition of employment and the relative productivity of those industries that remained open during the lockdowns. The Productivity Commission (2024) says that this led to a productivity bubble that ended in March 2024. But this may be regarded as relatively minor in relation to the longer-term relationship between the growth of productivity and wages prior to the pandemic. Between September 1992 and December 2019, GDP per hour worked rose by 50.3%, while the real producer wage rose by 32.3%. This is almost exactly the same relative difference between productivity growth and real wage growth that occurred over the longer period ending December 2024.

as a significant shift in GDP composition after the commencement of the mining boom in the early 2000s. Canvassing the entire period without considering these structural changes leaves out important drivers of the shifts and changes in the relationship between productivity and real wages.

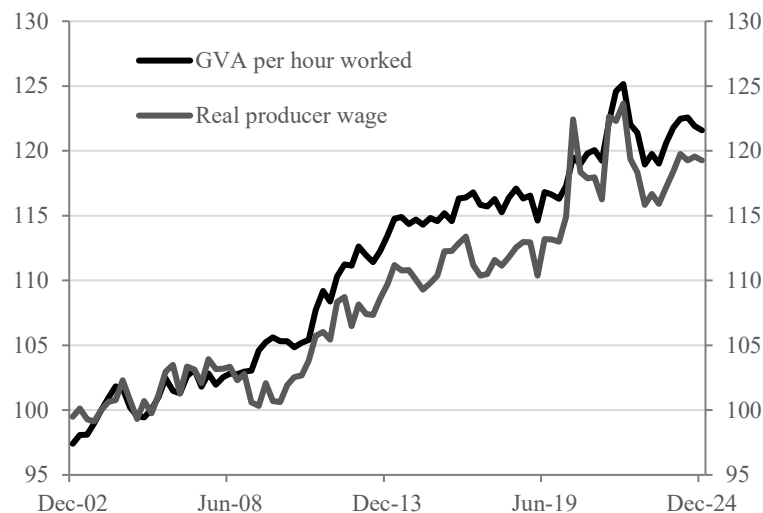
The Productivity Commission's view is that the most important driver was the impact of changes in the terms of trade around the time that mining boom began. From June 2004, annual growth in the terms of trade nearly doubled and remained very high until the sharp declines in March 2012 (ABS 2025f). It is therefore instructive to examine how the relationship between productivity and real wages looked before and after this major turning point. Between September 1992 and December 2003 – the last quarter before growth in the terms of trade accelerated – GDP per hour worked increased by 28.0%, while the real producer wage increased by a much more modest 19.8% over this same period. Subsequently, between December 2003 and December 2019 – covering the mining boom period to just before the onset of the pandemic – GDP per hour worked increased by 17.4% while the real producer wage increased by only 10.4%.

The evidence for these two distinct periods indicates that, at the aggregate level, the relationship between productivity growth and real wage growth had already begun to weaken. This occurred before the terms of trade shifted dramatically, and the structural change of the mining boom reflected a continuation of this trend. In fact, between December 2003 and December 2024, GDP per hour worked increased by 16.6%, while the real producer wage increased by only a little over half that amount, rising by 9.4%. This indicates that wage decoupling in the Australian economy has been longstanding and persistent, despite the ruptures of the pandemic and the tightest labour market in a long time.

Yet it remains pertinent to ask whether fluctuations in the terms of trade, an important feature of Australian economic life, have been a key factor in the weakening of the link in the domestic market sector. Adopting the Commission's approach of excluding the primary commodity industries (Mining and Agriculture, forestry and fishing) and then examining the link between productivity and real wages in the rest of the economy is a useful means of assessing how widespread the weakening of the link between productivity and wages has been. Figure 2 shows the relevant period between December 2003 and December 2024. Real gross value added (GVA) per hour worked in the non-commodity market sector rose by 21.6%, while the real producer wage in the same segment of the economy

rose by 19.3% (see Figure 2). Similar outcomes were prevailing before the pandemic, with real GVA per hour worked in the domestic private sector increasing by 16.3% between December 2003 and December 2019, compared to an increase of 13.0% in the real producer wage over the same period. This indicates wage decoupling in the non-commodity market sector, but significantly less than for the Australian economy as a whole.

Figure 2: Index of non-mining market sector productivity and real wages (December 2003 = 100)



Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations. *Note:* December 2003 is chosen as the base date because it is one quarter before the rapid acceleration in the terms of trade.

Using the quarterly national accounts limits the time period available for study because the data series on nominal gross value added only extends back to September 2002.³ However, using the annual national accounts, as

³ Real gross value added per hour worked in the non-commodity market sector rose by 23.6% between September 2002 and December 2024, while the real producer wage in the same segment of the economy rose only 18.3% over the same period.

the Commission does, yields essentially the same result. Between financial year 1994-95 and 2023-24, real gross value added in the non-commodity market sector rose by 53.0%, while the real producer wage rose only by 46.1%. Between 1994-95 and 2017-18, capturing the pre-pandemic period, GVA per hour worked rose by 46.1%, while the real producer wage rose by only 37.7% in the domestic private sector. The weakening of the relationship was in train during the period of the mining boom as well, with GVA per hour worked up by 18.7% between 2002-03 and 2017-18, while the real producer wage rose only by 11.6% over the same period. These results are summarised in Table 1.

Table 1: Productivity and real wage growth (%), non-commodity market sector

Period	Productivity	Real Wage	Difference
Quarterly			
Sep-02 to Dec-24	23.6	18.3	-5.2
Dec-03 to Dec-19	16.3	13.0	-3.3
Dec-03 to Dec-24	21.6	19.3	-2.3
Financial year			
1994-95 to 2023-24	53.0	46.1	-6.9
1994-95 to 2017-18	46.1	37.7	-8.5
2002-03 to 2017-18	18.7	11.6	-7.1
2002-03 to 2023-24	24.2	18.4	-5.8

Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations. *Note:* Difference is equal to real producer wage growth less productivity growth.

This analysis indicates that there has been wage decoupling in the Australian economy that has not been primarily driven by the gyrations in the terms of trade and structural change arising from the mining boom. It shows that the weakening of the link between productivity and real wages

was well in train before the terms of trade effect in the early 2000s. Moreover, it suggests that wage decoupling has also been occurring in the non-commodity market sector of the economy, *i.e.*, excluding the primary industry sectors that are most exposed to international commodity prices. This outcome is important in the context of the Commission's analysis because it is the terms of trade exposed sectors that are so critical to its understanding of and conclusions around wage decoupling in Australia's economy. It is also the non-commodity market sector that is a significant driver behind the fall in the labour share of income, an issue that will be explored further in the next section.

Shifts in the share: The declining labour share of income

An important consideration is whether the sectors of Australia's economy that have experienced wage decoupling are behind the fall in labour's share of national income. The central question is whether the decoupling of productivity growth from real wage growth has been matched by corresponding shifts in labour's share of national income during the period being examined.

If real wages grow more slowly than productivity, it would be expected that the labour share would decline over time. Indeed, as documented in this journal by Stanford (2018a), over the long stretch of Australia's economic history, the labour share of factor income has declined steadily since its peak in the 1970s. In the Commission's telling, this is primarily due to the outsized contributions of the commodity exporting sectors to Australia's economy.

This section digs deeper into this issue by undertaking a shift-share analysis. The shift-share approach has been used in previous analyses of the decline in the labour share (Cowgill 2012; OECD 2012; IMF 2017; Productivity Commission 2023) and is used here to re-examine the drivers of the decline in the labour share of income.⁴

⁴ One complication in measuring the labour share of income is how to allocate what in the National Accounts is referred to as 'gross mixed income', which is the income of owners of unincorporated enterprises. This income can be considered partly as a payment for the owner-operators' labour and partly as the return on capital from the business. To account for this, both Cowgill and the Productivity Commission use the standard method of imputing the labour income of owners of unincorporated enterprises by assuming the hourly wage received

The shift-share approach decomposes the fall in the labour share into [1] the *within-industry* component which accounts for falls in labour shares within industries; and [2] the *between-industry* component, which results from shifts in output and income to industries with smaller labour shares.⁵

Table 2 reports the contributions to the change in the labour share between September 2002 and December 2024. The direction of travel is shown in Figure 3. As can be observed there, the downward trend in the labour share (and the corresponding rise in the profit share) was most clearly present in the pre-pandemic period, but the tight labour market conditions prevailing since mid-2022 have given rise to a partial reversal of the decline.

Over this period, the labour share declined by 4.4 percentage points, driven by a 3.7 percentage point contribution of within-industry changes and a more modest 0.8 percentage point contribution from the overall structural shift to industries with a lower labour share (see note on Table 2).

Most of the within-industry effect arose from falls in the labour share in the non-commodity market sector, which accounts for around three quarters of the total within-industry change and for just under of two thirds of the total decline in the labour share. The commodities sector makes up only a third of the total within-industry effect, with the non-market sector offsetting this with a small positive contribution – *i.e.*, a shift towards the labour share in these industries.

However, the primary production sector did account for the majority of the decline in the labour share arising from shifts in production towards industries with a lower labour share. As Table 2 shows, the commodity sector's 2.7 percentage point drag on the labour share was only partially offset by a 1.0 percentage point positive contribution by the non-commodity market sector and the 0.9 percentage point contribution arising from shifts in production and income to the non-market sector. That said, the contribution of shifts to industries with a lower labour share accounts

is equal to the average compensation of wage and salary earners and attributing this to labour income. This article follows the Commission's approach as outlined in the Appendixes of the wage decoupling note (Productivity Commission 2023).

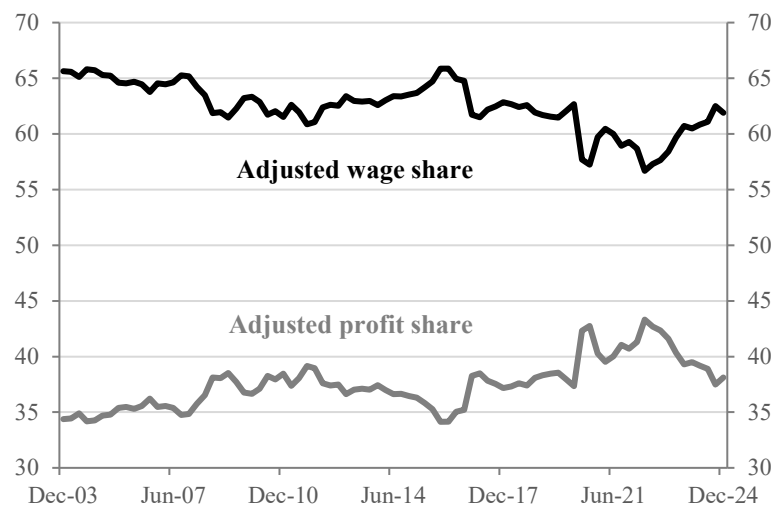
⁵ It is beyond the scope of this paper to interrogate the determinants of lower labour shares in particular industries, which may arise from various social or structural determinants. The relative shares are taken as given without further comment, although it worth noting that gender undervaluation aspects of pay in certain industries have been the subject of review in 2024 and 2025 by the Fair Work Commission (2025).

for less than a fifth of the total decline in the labour share, so the within-industry effect is far more important and, within that component, the non-commodity market sector has been the key sector accounting for the overall decline in the labour share.

Thus, looking at the total effect is misleading, as it would give the impression that the commodities sector has been far more significant. However, as decoupling within the non-commodity market sector has had the largest pull on the downward trend in the labour share in the most significant component – the within-industry effect – to attribute all decoupling to the commodities sector would be lacking in nuance and explanatory power.

Further, even after taking account of the positive contribution of production shifting to industries in the non-commodity market sector with a higher labour share, the overall effect of this sector is a drag of 1.8 percentage points on the labour share, accounting for around 40% of the total decline in workers' share of national income.

Figure 3: Wage and profit shares of factor income (%)



Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations.

Table 2: Contributions to the decline in the labour share, September 2002 to December 2024

	Within-industry	Between-industry	Total effect
Commodities sector	-1.2	-2.7	-3.8
Agriculture	-0.8	0.2	-0.6
Mining	-0.4	-2.8	-3.2
Non-commodity market sector	-2.8	1.0	-1.8
Manufacturing	0.1	0.1	0.2
Utilities	0.2	0.2	0.4
Construction	-0.2	0.1	-0.1
Wholesale trade	-0.3	0.0	-0.3
Retail trade	-0.8	-0.1	-0.9
Accommodation	-0.3	-0.1	-0.4
Transport	-0.5	0.0	-0.5
Media & Telecom	0.6	0.4	1.0
Financial services	-0.6	0.1	-0.5
Real Estate	0.0	0.0	0.0
Prof. & Tech. services	-1.2	0.1	-1.1
Administration	0.0	0.3	0.3
Arts & Recreation	0.0	0.0	0.0
Other services	0.3	-0.1	0.1
Non-market sector	0.3	0.9	1.2
Public admin	0.0	0.0	-0.1
Education	0.1	0.1	0.2
Health care	0.2	0.9	1.1
All industries wage share	-3.7	-0.8	-4.4

Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations. Note: differences due to rounding barriers.

For the period of the mining boom until just before the pandemic, similar results are evident. Between December 2003 and December 2019, the labour share declined 3.6 percentage points, driven by a 1.9 percentage point decline arising from within-industry changes and a 1.7 percentage point drag from the between-industry changes. The decline over this period is more balanced, with a 0.9 percentage point drag arising from within-industry changes in the non-commodity market sector, accounting for just under half of the decline driven by within-industry changes and a quarter of the total decline in the labour share. Alongside this, the commodities sector gave rise to a 1.1 percentage point drag from shifts to profits within that sector of the economy, accounting for just over half of the within-industry drag on the labour share of income and a third of the total decline in the labour share.

During this period, by far the largest effect arose from production shifting to the commodities sector, with the 3.0 percentage point decline accounting for over 80% of the total decline in the labour share over the duration of the mining boom between early 2004 to just before the pandemic (see Table 3). While this latter outcome is hardly surprising, it does not diminish the importance of the domestic private sector in the decline in the labour share, consistent with the earlier explored gap between growth in productivity and growth in real producer wages within this segment of the economy.

Looking more generally at the results of the shift-share analysis for the pre-pandemic period and examining up to September 2019 (Table 3), there is a larger decline in the labour share and a larger share for the non-commodity market sector in driving that decline in the within-industry component than when the analysis ends in December 2019. This is because there was a large fall in the terms of trade in December 2019, driven by sharp quarterly declines in the price of mining export commodities – Metal ores and minerals and Coal, coke and briquettes – that greatly diminished the profitability of mining firms in the quarter and thus had a notable impact on relative shares of income (ABS 2025f). Thus, while the Commission is on firm ground pointing to the importance of the terms of trade for changes in the labour share and the relationship between productivity and real wages, this particular instance throws into sharp relief how important the domestic private sector has been for the decline in the labour share and weakening of the relationship between productivity and real wages.

Table 3: Contributions to the decline in the labour share

	Within- industry effect	Between- industry effect	Total effect
December 2003 to September 2019			
Commodities sector	-1.2	-3.1	-4.3
Non-commodity market sector	-1.2	0.6	-0.6
Non-market sector	0.1	0.6	0.8
<i>All industries wage share</i>	-2.2	-1.9	-4.2
December 2003 to December 2019			
Commodities sector	-1.1	-3.0	-4.1
Non-commodity market sector	-0.9	0.7	-0.2
Non-market sector	0.1	0.6	0.7
<i>All industries wage share</i>	-1.9	-1.7	-3.6

Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations.

The quarterly results are consistent with those derived from the annual data, used by Commission in its note exploring the decoupling issue. Between 1994-95 and 2023-24, the labour share of income declined by 7.0 percentage points, driven by a 6.8 percentage point drag from within-industry effects and a minor 0.2 percentage point detraction by between-industry effects. As with the quarterly data, the non-commodity market sector accounts for the largest share of within-industry effects, pulling the labour share down by 4.1 percentage points, followed by the commodities sector making a smaller but still significant detraction from the labour share of 3.0 percentage points (see Table 4). As with the analysis presented earlier, while the export-oriented commodities sector has been an important driver of the wage decoupling experienced in Australia, the dynamics in the domestic private sector have also been important for explaining the decline in the labour share since the mid-1990s. It is not therefore adequate to claim that the increase in the terms of trade has done all the heavy lifting.

Reinforcing this finding is that between 2002-03 and 2017-18, the non-commodity market sector accounted for 2.9 percentage points of the total

decline in the labour share of income, or four fifths of the within-industry effects that brought the labour share down. (see Table 5). The effect of the non-commodity market sector was to pull the overall labour share down by 1.9 percentage points, which accounts for just under half of the total decline in the labour share.

Table 4: Contributions to the decline in the labour share, 1994-95 to 2023-24

	Within-industry effect	Between-industry effect	Total effect
Commodities sector	-3.0	-3.7	-6.7
Non-commodity market sector	-4.1	2.9	-1.2
Non-market sector	0.3	0.6	0.9
All industries wage share	-6.8	-0.2	-7.0

Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations.

Table 5: Contributions to the decline in the labour share, 2002-03 to 2017-18

	Within-industry effect	Between-industry effect	Total effect
Commodities sector	-1.0	-1.9	-2.9
Non-commodity market sector	-2.9	1.0	-1.9
Non-market sector	0.3	0.5	0.8
All industries wage share	-3.7	-0.4	-4.0

Sources: ABS (2024c, d, 2025a), Productivity Commission (2023) and author's calculations.

As already indicated, it is insufficient to represent the decline in the labour share and the weakened link between productivity and real wages as resulting from the changing terms of trade. The data points to a much more complicated and nuanced processes that include declines in the labour share arising from within the domestic private sector.

Two inferences can be drawn from this analysis. One is that the fall in the labour share within industries is a more significant driver of the decline in the adjusted labour share than the shift in output and income to lower labour share industries. This result is consistent with the findings of the OECD (2012) and the IMF (2017), which both concluded that within-industry changes were more critical in bringing down the labour share in a range of countries than was the effect arising from the structural shift in resources and output to lower labour share industries. The second inference is that an important driver of the declining labour income share in Australia has been the non-commodity market sector, which accounted for a significant part of the fall in the labour share – irrespective of the time periods chosen.

In other words, the fall in labour's overall income has been driven more strongly by declines in the labour share in domestically based industries than by falls in its share within the export-focused commodities industries or the structural shift in production towards those commodity-focused industries.

Together, these two findings point to the need for a fuller and more dynamic explanatory story than the Productivity Commission has provided. The results are more consistent with previous research by the ACTU on the decline in the labour share (Cowgill 2012). This is not to diminish the importance of the shift in production to primary industries that the Commission emphasises, which raises important policy considerations about the taxation of mining companies' high profits and the need to transition to a low carbon economy. But it does suggest that, when trying to understand the dynamics of the link between productivity and wages – and potential policy responses – fuller treatment is required than has been provided by the Productivity Commission's brief note.

Explanations for wage decoupling in Australia

The reasons behind the long-term decline in the wage share, both globally and in Australia, have been the subject of analysis for over a decade. Examining the question at a global level in the early 2010s, the OECD (2012) argued that technical change and the globalisation of production were drivers of the decline in the labour share. The advancements and diffusion of information and communication technology cheapened capital goods and allowed automation of production and the substitution of capital for labour. The OECD also argued that the removal of restrictions on capital and trade across borders led to offshoring and increased pressure on firms to lower labour costs, further contributing to a decline in the labour share. Importantly, the OECD stressed that these factors lowered the bargaining power of workers, exacerbated by declining union membership and a weakening of the institutions of collective bargaining.

The IMF arrived at similar conclusions when the question was re-examined in its April 2017 *World Economic Outlook* (IMF 2017). Its analysis pointed to a strong role for technology and global integration in the decline in the labour share. The IMF argued, in line with the OECD, that the integration of economies within global value chains and capital markets played a role in the decline in the labour share, albeit a smaller one than technology. In advanced economies, offshoring and increased import competition led to declines in middle-skilled occupations and displacement into lower wage jobs for these workers. In this telling, the impact of policy and labour market institutions was quantitatively limited, although the IMF stresses that there were challenges separating trends in global integration from de-unionisation. It noted several channels through which technological advancement and globalisation may have weakened labour's bargaining power, including through offshoring (and the credible threat thereof) and the decline in union density arising from trade integration. Although the Fund stated that it is 'extremely difficult to quantify the distinct effects of each of these drivers' (IMF 2017:128), declining bargaining power looms like a shadow over how the IMF understands the decline in the labour share and it would be implausible to discount it entirely.

In any case, pointing to general factors like the acceleration of technological change and the intensification of globalisation as the main

drivers of the declining labour share are not convincing in and of themselves. As Stanford (2019) notes, in Australia slow business investment over the 2010s led to production becoming more labour intensive, and although productivity growth outran wages growth, productivity growth did not accelerate outside the mining sector. Further, while some trade-exposed industries have been negatively affected, as Stanford (2019) rightly points out, many industries such as resource extraction, some manufacturing, tourism, higher education and finance sectors have benefited from Australia's economy being opened to international trade. While general propositions about technical change and globalisation affecting relative income shares remain unconvincing, their impact on reducing bargaining power, hinted at by the IMF and mentioned explicitly by the OECD, makes for a more compelling explanation of the developments in Australia.

Domestically, several attempts have been made to understand the decline in the labour share of income. Examining the role of financialisation in the declining labour share, Peetz (2018) argues that there has been a shift to 'not there' capitalism, whereby the fragmentation of corporate structures is used to minimise the labour costs and accountability of the central capitalist entity, while still maintaining a high degree of control over the firm. Corporate structuring of this sort has contributed to de-unionisation and an increase in arms-length and non-standard forms of employment that minimise labour costs. Behind this shift to 'not there' capitalism has been the increased focus on shareholder value and greater intervention by finance capitalists to ensure the greatest possible extent of labour cost minimisation. This kind of institutional restructuring diminishes the ability of unions to act on workers' behalf while also fragmenting the workforce, reducing workers' ability to organise and exert influence, contributing to an overall decline in the bargaining power of workers.

In a previous article in this journal, Stanford (2018a) argued that the significant labour market restructuring undertaken in Australia since the early 1980s also contributed to a weakening of the bargaining power of workers and hence a decline in the labour share of income. Stanford pointed to the decline in union density in Australia; the erosion of minimum wages; the restructuring of the awards system away from being a mechanism for spreading improved pay and working conditions across industries and towards a minimum safety net; and the expansion of non-standard and precarious employment. The cumulative impact of these

changes has been to diminish the industrial power of workers and leave them increasingly at the mercy of employers.

Developing this theme, Stanford's work published later in the same year (Stanford 2018b) traced the erosion of workers' bargaining power through the changes in industrial relations legislation over the past few decades. The *Industrial Relations Reform Act 1993*, passed by the Keating Labor Government, introduced collective bargaining (including agreements being implemented without union participation) and shifted industry awards from being at the leading edge of wages and conditions into the role of safety net. The 1993 legislation also recognised the right of workers to strike but put strict boundaries around it.

Deeper changes then came with the Howard Government's *Workplace Relations Act 1996*, which required the provision of conditions in enterprise agreements to apply to all workers at a worksite, whether union members or not – effectively legalising free-riding and weakening incentives to join a union, diminishing both union resources and their role in the process of setting wages and conditions. The 1996 laws also extended the scope of non-union agreements, giving employers the capacity to implement weak agreements with minimal resistance. The right of union officials to enter workplaces were also tightened by the Howard Government, starting with the 1996 laws that restricted unions' capacity to organise and engage with workers.

Going further in its anti-union campaign, the Howard Government introduced new provisions for individual contracts, further undermining collective bargaining. Stringent boundaries were put around what could be discussed during collective bargaining and the rights of employers to dismiss workers were enhanced, further squeezing the bargaining power of workers and their unions.

These legislative interventions during the Howard era provoked a sharp reaction from the unions, but the subsequent Labor Government, elected in 2007, did not do much to reverse the legislative inhibitors to workers' bargaining power. The *Fair Work Act 2009*, while temporarily expanding collective bargaining, continued with the restrictions on union activity, including right of entry and industrial action (Stanford 2018b). Although the *Act* did establish the Fair Work Ombudsman as a regulator, the compliance model was weak and the lack of enforcement of minimum standards remained widespread. Stanford concluded that the impact of industrial relations legislation since the 1990s had been 'a profound shift

in power in favour of employers’ (Stanford 2018b:176) and that the legislative changes acted as a severe drag on labour’s share in national income.

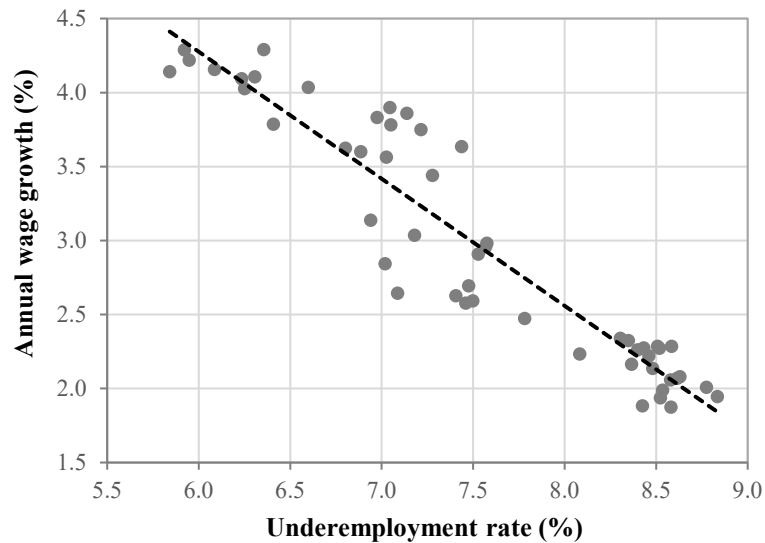
Subsequent publications examined the data around the erosion of collective bargaining after 2010 and the role the decline in collective bargaining in weakening wage growth. Documenting the decline in collective bargaining coverage over the 2010s, Stanford *et al.* (2022b:36) concluded that the erosion ‘reflects a historic shift in relative bargaining power from workers and towards employers.’

Further, and in line with Stanford’s 2018 intervention, Stanford *et al.* (2022a) argued that the slowdown in wages growth during the 2010s was also driven in part by a rise in underemployment, linked to a rise in casual, part-time, ‘gig’ and other non-standard forms of employment. Workers in these jobs, facing tenuous employment conditions and often wanting to work more hours could be activated as a source of labour supply without putting upward pressure on wages growth. Insecurity of work meant their bargaining power was diminished – as they would be more compliant for fear of losing hours or their job – with the result that the link between the growth in labour productivity and growth in real wages was further eroded.

Macroeconomic data provides some support to this argument. Figure 4 below plots annual wage growth (measured by the Wage Price Index) during the period from March 2007 to December 2019 against the quarterly average of the underemployment rate two quarters prior. A strong, inverse association is evident between the underemployment rate and annual wage growth six months later. Employers had been increasingly using variations in hours, instead of layoffs, as their means of adjusting the amount of labour employed while the rise in insecure work and non-standard forms of employment identified in Stanford *et al.* (2022b) continued apace.

The institutional position of weakness for workers in non-standard forms of employment, where they are always seeking greater hours and can be activated without putting any pressure on wages, points towards weakening bargaining power of workers sitting behind the weakening link between productivity and wages, slowing wage growth, and the on-going decline in the labour share of income.

Figure 4: The underemployment rate and annual wages growth, March 2007 to December 2019

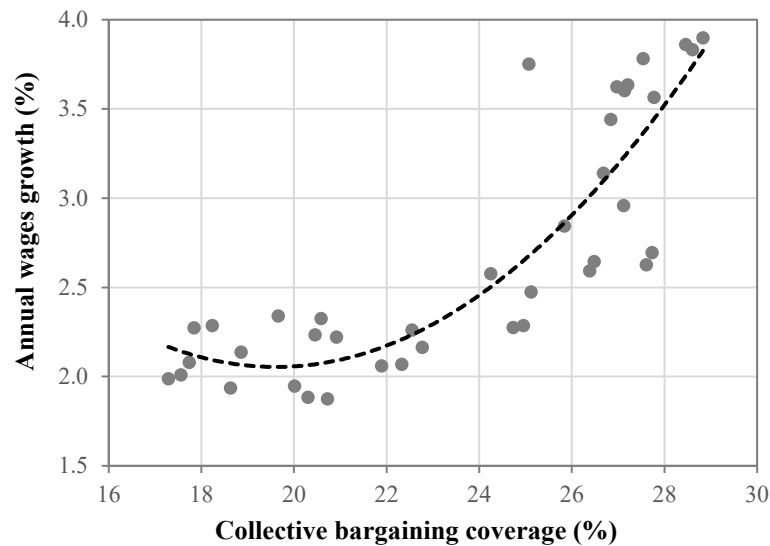


Sources: ABS (2025b, e) and author's calculations. *Note:* The period after December 2019 is excluded due to disruptions and volatility in industry composition of employment arising from COVID-related lockdowns.

Additional support for this proposition can be found in the association between annual wages growth and collective bargaining coverage during the period from March 2010 – one year after the passage of the *Fair Work Act 2009* – and December 2019. Figure 5 plots annual wage growth (again using WPI) against the share of employees on federally registered collective agreements. A strong positive connection is evident between collective bargaining coverage and wages growth. As the coverage ratio of collective agreements began to slide, so did wages growth, with fewer employees on collective agreements and a greater number moving into non-standard forms employment, *i.e.*, being in a weaker position with less certainty around pay, hours and conditions. During the slowdown in wages, when the link between productivity and real wages had already been weakening for some time, workers' bargaining power was further

diminished as fewer workers were on collective agreements that provided consistent wage increases and more certainty in working conditions.

Figure 5: Collective bargaining coverage ratio and annual wages growth, June 2010 to December 2019



Sources: Department of Employment and Workplace Relations (2025), ABS (2025c, e), and author's calculations. *Note:* The horizontal axis shows employees on federally registered enterprise agreements as a share of total employees. Further, the period after December 2019 is excluded due to disruptions and volatility in industry composition of employment arising from COVID-related lockdowns

Yet more support for the view that labour's declining bargaining power is crucial to explaining labour's falling share of national income and the weakening link between productivity growth and real wage growth comes from research published by Guschanski and Onaran (2022). Using industry-level data for 14 OECD countries, including Australia, the authors found that the reduction in labour's bargaining power was the key element in the decline in the wage share between 1970 and 2014. It was a

period of falling unionisation rates; weakening minimum wages; fiscal austerity in the welfare-state structure; and increasing women's employment in sectors with gender pay gaps. Unlike the OECD and IMF, Guschanski and Onaran did not find much support for the role of technological change and ICT capital intensity in explaining the fall in the labour share. That result is more consistent with Stanford's (2019) view that technological change is not a compelling explanation in the Australian case.

While Guschanski and Onaran's (2022) work did not cover the whole period that this article addresses, the argument that a decline in workers' bargaining power was putting downward pressure on wages is consistent with remarks made late-2017 by the then-RBA Governor Philip Lowe on the reasons for subdued wages growth. Lowe (2017) said:

Many workers feel there is more competition out there, sometimes from workers overseas and sometimes because of advances in technology. In the past, the pressure of competition from globalisation and from technology was felt most acutely in the manufacturing industry. Now, these same forces of competition are being felt in an increasingly wide range of service industries. This shift, *together with changes in the nature of work and bargaining arrangements*, mean that many workers feel like they have less bargaining power than they once did [emphasis added].

Lowe's emphasis here is on how the threat of offshoring and the widening range of jobs affected by the integration into global value chains have weakened the position of workers relative to capital. An important component of this weakening in bargaining power, supported by the data but only hinted at in Lowe's comments, has been the rise in underemployment (via the increase in insecure and non-standard forms of employment) alongside a decline in collective bargaining.

This weakening of labour's power helps to explain the decline in labour's share of national income, as well as the subdued wages growth that began in early 2011 and ran through to as late as 2022. These factors compounded the long-run decline in the wages share of national income and further weakened the link between productivity growth and real wages growth that had previously existed. This line of argument is also more consistent with the other analyses examining the decline in the wages share in Australia, including Peetz (2018), Stanford (2018a) and Stanford *et al.* (2022a; 2022b).

It is plausible, then, to conclude that an important factor in the decoupling between real wage growth and productivity growth, and the consequent decline in the labour share of national income in Australia, has been the weakening of workers' bargaining power, with the institutions and non-standard forms of employment that gave rise to this weakening also contributing to a domestic slowdown in wages growth in the period prior to the pandemic. This conclusion indicates the need for measures to shore up workers' bargaining power.

The Labor Government that came to office in 2022 has gone some way towards meeting this need through the introduction of multi-employer bargaining and the limitation of fixed-term contracts in the *Secure Jobs, Better Pay* legislative package (Jericho *et al.* 2023). The introduction of a common-sense definition of casual employment (that also provides casuals with a pathway to permanency), as well as the introduction of minimum standards for gig workers, which were part of the *Closing Loopholes* reforms (Burke 2024) also contributed to shoring up workers' bargaining power.

There are signs these reforms have been relatively successful. The share of total employees covered by a collective agreement reached 22.5% in the second quarter of 2025, up from 15.6% just prior to the passage of *Secure Jobs, Better Pay* (ABS 2025c, DEWR 2025). The proportion of jobs that are casual has declined (ABS 2025c) and union density rose from 12.5% in 2022 to 13.1% in 2024 (ABS 2024b), the first time that union density has increased in over a decade. An independent review of the *Secure Jobs, Better Pay* legislation found that the reforms were 'achieving the Australian Government's intent, operating appropriately and effectively and with minimal unintended consequences' (Bray and Preston 2025). Despite these successes, there is still a way to go to rebalance bargaining power towards Australia's workers, which will require further reform of the industrial relations system and a more expansive restoration of the union movement's ability to organise and collectively bargain.

Conclusion

This article has shown that the Productivity Commission's analysis does not adequately capture the underlying dynamics of wage decoupling in Australia. As this article has demonstrated, fluctuations in the terms of trade and the structural changes of the mining boom have had a significant

impact on the gap between the growth of productivity and real wages in Australia since the early 1990s, but this is far from being the full story. Wage decoupling in the Australian economy was in train before the significant mining boom of the early 2000s and has continued in the domestic private sector during and after the significant lift in the terms of trade that commenced around 2004. The non-commodity market sector has at various times been the largest contributor to the downwards pull on the labour share of national income, particularly arising from within-industry effects. For these reasons, it is misleading to dismiss labour's declining income share and the decoupling of real wages from productivity as a phenomenon arising principally from the terms of trade and the effect this had on the producer wage in certain parts of the economy.

Understanding decoupling requires greater attention to workers' relative bargaining power and the institutions that support it. During the last three decades, changes to industrial relations legislation have hobbled the ability of unions to organise and diminished the coverage and capacity of collective bargaining to secure good wage outcomes. The increased prevalence of non-standard forms of employment and widespread underemployment have also exacerbated the loss of workers' bargaining power. These have combined to weaken the link between productivity and real wages, reflected in labour's declining share of national income and the later slowdown in wages through the 2010s.

While it is easy to agree with the Productivity Commission that restoring productivity growth is an important consideration for living standards and an important policy objective, attention also needs to be given to the institutions that support workers and the forms of employment that undermine workers' bargaining power in the economy. Alongside reviving productivity growth, rebuilding workers' collective power will contribute to restoring the link between productivity growth and real wages, helping to ensure that working people receive their fair share of revived national prosperity.

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