

## **Labour market policy and the future of work**

Submission to Senate Select Committee on the Future of Work and Workers

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## Summary

- \* Job losses and disruptive changes to working life arise from an interaction between technological change and labour market structures. To understand, and more importantly to improve, the future of work and workers it is necessary to understand both of these factors and the way they interact
- \* Technological change has taken place consistently over the 250 years since the beginning of the Industrial Revolution (commonly dated to the invention of the spinning jenny by James Hargreaves in 1764). There is no evidence that the pace of technological progress has accelerated, but technical change is increasingly associated with information and communications technology (ICT)
- \* Technological change has been beneficial on the whole, but there have been many occasions where the interaction of technological change and labour market structures has harmed workers
- \* Changes in the structure of labour markets and in labour market law since the 1970s have predominantly had the effect of weakening unions and reducing protections available to workers
- \* The adverse effects of these changes are not always apparent immediately, but are felt in periods of disruption, such as those arising from rapid technological change. In such periods, the weaker position of workers means that they receive few of the benefits of productivity growth, but rather face the loss of jobs and of established working conditions.
- \* The shift of the balance of bargaining power to employers has contributed to poor work life balance. The period from 1850 to 1980 saw steady reductions in standard working hours and more flexibility in the choices available to workers. Since 1980, the decline in full-time working hours has been halted and partially reversed, while employers have gained flexibility at the expense of workers.
- \* The ‘gig economy’ is not new, and is the predictable outcome of enhanced employer power. Technological disruption simply acts as a catalyst, breaking down existing patterns of work, and facilitating a shift towards arrangements more favorable to employers.
- \* The potential social benefits associated with technological innovations will only be realised if policies are changed so that a fair share of these benefits goes to workers
- \* Full realization of the benefits of technological progress would require a situation where paid work is a free choice rather than, as at present, either a necessity or (in situations of high unemployment) an impossibility. The policies required to achieve this goal should include a Jobs Guarantee and some form of Participation Income. In the longer term, these could be extended to an unconditional Guaranteed Minimum Income or Universal Basic Income.

## **Labour market policy and the future of work**

### **Background**

On 19 October 2017 the Senate established the Select Committee on the Future of Work and Workers to to inquire into and report on the impact of technological and other change on the future of work and workers in Australia, with particular reference to:

- a. the future earnings, job security, employment status and working patterns of Australians;
- b. the different impact of that change on Australians, particularly on regional Australians, depending on their demographic and geographic characteristics;
- c. the wider effects of that change on inequality, the economy, government and society;
- d. the adequacy of Australia's laws, including industrial relations laws and regulations, policies and institutions to prepare Australians for that change;
- e. international efforts to address that change; and
- f. any related matters.

The central point of this submission is that the effects of technological change arise from an interaction with changes in the regulation of labor markets and the stance of public policy. For the last 40 years, changes in labour market regulation have been almost uniformly anti-union and anti-worker, while public policy has been premised on the desirability of reducing wages. Until and unless the stance of public policy changes, technological change will be experienced by workers as harmful disruption. Used in a socially desirable way, however, technological change offers the potential for a radical improvement in work-life balance.

### **Technological change**

Scientific progress and technological change have taken place continuously, and fairly steadily, since the beginnings of the Industrial revolution commonly dated to the invention of the spinning jenny by James Hargreaves in 1764. In the absence of consistent national accounts, it is difficult to give precise estimates of the rate of technological progress in the

19th century. However, the rate of productivity growth in the technological leading countries (first the UK and later the US) appears to have been fairly consistently between 1 and 2 per cent.

There is no evidence

On the contrary, a number of economists have argued that technological progress is slowing down.

One notable characteristic of technological change in recent decades has been the combination of spectacularly rapid progress in information and communications technology (ICT) with relative stagnation in many other areas of the economy. As an illustration, a modern smart watch includes 8GB of main storage, around 1000 times that available in the most powerful computer of the 1960s (the IBM 360 [https://en.wikipedia.org/wiki/IBM\\_System/360](https://en.wikipedia.org/wiki/IBM_System/360)).

This rapid progress contrasts sharply with relative stagnation in transport technology. For example, Boeing 747, first flown in 1969, remains in service today. The most common variant, the 747-400 has been flying for 30 years. [https://en.wikipedia.org/wiki/Boeing\\_747-400](https://en.wikipedia.org/wiki/Boeing_747-400) Progress was similarly limited in road transport until developments in ICT yielded sudden innovations in autonomous vehicles.

### **Social effects of technological change**

Technological change is mostly experienced as beneficial. It makes us more productive as workers, offers us new, improved or cheaper goods as consumers, and allows governments to provide a wide range of services at lower costs.

Nevertheless, there have been important cases when technological change has been seen, often correctly, as a threat to jobs, wages and the living standards of workers. The early phase of the Industrial Revolution, focused on clothing and textile industries, was one such case.

The development of mechanized technologies such as the spinning jenny led to widespread unemployment among craft workers. The new jobs that were created by these technologies forced workers into large factories with long hours of work. The demand for inputs created,

by the growing scale of the industry drove the growth of slavery in the cotton industry in the US, and led to large scale dispossession of tenant farmers to make way for wool production in Scotland (the Highland Clearances).

These outcomes were not inherent in the nature of the new technologies. Rather, they reflected the interaction of those technologies with a social system based on exploitation of white workers and enslavement of blacks. In the case of the United Kingdom, trade unionism was illegal under the Combination Acts, and the law of master and servant (under which wage workers were employed) required 'required the obedience and loyalty from servants to their contracted employer, with infringements of the contract punishable before a court of law, often with a jail sentence of hard labour.' [https://en.wikipedia.org/wiki/Master\\_and\\_Servant\\_Act](https://en.wikipedia.org/wiki/Master_and_Servant_Act) Tenant farmers had similarly limited rights against the aristocrats who owned most agricultural land.

In these circumstances, any form of disruptive technology was bound to be deployed in a way that benefitted masters and harmed workers. Improvements in agricultural technology led to the enclosure of common fields and the displacement of agricultural labourers, rather than to rising wages for farm workers (Clark 2001). Industrial workers received somewhat higher wages, but faced longer hours, higher rents and unsafe living conditions. The benefits of technological progress went primarily to those who were already well off.

Through the course of the 19th century the growing political and industrial power of workers led to improved outcomes. Anti-union laws were repealed or fell into disuse. Working hours were reduced through strike action or regulated by law, beginning with the achievement of the eight hour day by Australian stonemasons in the 1850s. Wages rose strongly although, as Piketty (2014) demonstrates, the distribution of income remained highly unequal and inheritance remained the primary source of wealth.

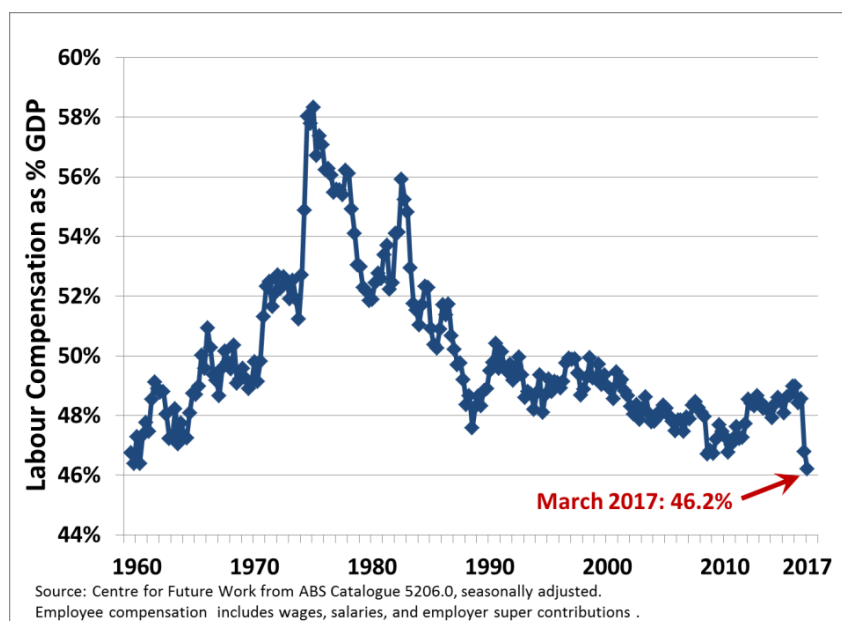
The same pattern has been repeated through the 20th and 21st centuries. In periods when legal, industrial and political conditions favor workers, rapid technological progress has been largely beneficial, even when it implies the decline of some industries. When unions are weak, and policy favors employers over workers, disruptive technological change results in the loss of jobs, wages and working conditions.

Political and economic conditions now are less favorable to workers than at any time since the 19th century, as will be argued below. It is unsurprising then, that technological change is feared and experienced as harmful.

### **Changes in the structure of labour markets and in labour market law since the 1970s**

As is shown in Figure 1 from Stanford (2017), the share of GDP paid out as labour compensation reached its peak in the early 1970s.

**Figure 1. Labour Compensation as a Share of Nominal GDP**



This was also the point at which political and industrial conditions were most favorable to unions and workers. Union density (membership of unions as a proportion of the labour force) was high, and legal restrictions on industrial and on the terms of agreements between unions and employers were limited. Base levels of wages were imposed by the arbitration system. Most notably, the Commonwealth Conciliation and Arbitration Commission decided, in January 1972, that women would receive the same pay as men for work of equal value.

Policy settings were also favorable to workers. The Whitlam government introduced four weeks annual leave for Commonwealth public servants, a condition that rapidly spread

throughout the workforce. Other conditions included maternity leave and shorter working hours.

These achievements were underpinned by decades of full employment achieved under Keynesian economic management. Over the three decades after 1945, the rate of unemployment rarely exceeded 2 per cent, an outcome not matched in any period before or since.

The inflation of the early 1970s combined with growing unemployment (a combination commonly referred to as ‘stagflation’) produced a broadly shared political consensus that the redistribution growth in the wage share was unsustainable and that the power of trade unions was excessive. This consensus has been sustained until the present, even though the wage gains of the 1970s were reversed long ago, and the union movement is weaker than at any time in the past century or more.

Policy changes since the 1970s are sometimes referred to as ‘labour market deregulation’. In reality, these policies involve extensive state intervention, just like the system of conciliation and arbitration they replaced. The difference is that, whereas arbitration-based regulation involved the state seeking to act as a neutral mediator or arbiter, contemporary re-regulation is directed in favour of employers and against workers.

Key policies associated with may be summarized in four main categories

#### *Anti-union laws*

Conservative governments since the 1970s have introduced a series of laws and discretionary policies aimed at weakening unions, and reducing the bargaining power of workers. Labor governments have occasionally modified the most extreme of these laws but have done little to reverse the general trend. A partial list at the Federal level includes

Fraser government; Sections 45D and 45E banning secondary boycotts, creation of Industrial Relations Bureau

Keating government: Abolished general right to strike, introduced concept of “protected industrial action”

Howard government 1996 *Workplace Relations Act* 1996, prohibited closed shop agreements, extended scope for non-union agreements

Howard government *Work Choices*: limited scope of collective bargaining, reduced protections against dismissal created ABCC

Rudd-Gillard government: *Fair Work Act* modification of some *WorkChoices* measures, abolition of ABCC

Abbott-Turnbull government: Little new legislation passed due to hostile Senate. ABCC recreated.

### *Use of state power against unions*

In addition to legislative action, the period since the 1970s has been characterized by the discretionary use of state power against unions. Examples include

- \* Fraser government Royal Commission into Painters and Dockers union, which ended up exposed large scale tax fraud, while revealing little new about criminal involvement with unions
- \* Howard government support for employers during the waterfront lockout of 1998
- \* Abbott government Royal Commission into Trade Union Governance and Corruption. Despite costing tens of millions of dollars, and claiming to find evidence of widespread corruption, the Royal Commission resulted in only one criminal conviction, leading to a suspended sentence and reparations of \$70 000 (a return to the public of approximately 0.1 per cent of the cost of the Commission).
- \* Police raids on union offices ordered by Employment Minister Cash in 2017
- \* Action to outlaw pattern bargaining

### *Downward pressure on wages*

From the 1970s onwards, macroeconomic policy has been dominated by the belief that real wages are excessive and should be reduced. Under the Fraser government, this belief was made explicit with reference to the ‘real wage overhang’, referring to the increase in the wage share in the early 1970s. Between 1983 and 1989, the Accord between the Hawke-Keating



government and the trade union movement was also designed to achieve reductions in real wages, offset by 'social wage' measures such as the introduction of Medicare. Perceived wage pressure in the late 1980s was a major factor in the decision of the Reserve Bank to raise interest rates as high as 18 per cent, thereby precipitating the recession of the early 1990s.

Although the gains of the early 1970s were reversed in the Accord period, reductions in wages remained an implicit or explicit objective of public policy. As recently as 2013, incoming Employment Minister Eric Abetz warned of an impending 'wages explosion' and intervened to support the Toyota Corporation in a bid to cut the entitlements of employees.

It is only in the last couple of years that the adverse economic effects of depressed wage growth have been recognized by policymakers. Notably, Reserve Bank Governor Philip Lowe has deplored the downward pressure on wages being exerted by employers.

<http://www.smh.com.au/business/the-economy/reserve-bank-governor-philip-low-blames-employers-for-low-wage-growth-20171121-gzq126.html>

Unfortunately, this recognition has not extended to an understanding of the role played by decades of anti-worker legislation and policy in pushing wages down.

### *Working hours and 'flexibility'*

For more than 150 years, beginning with the achievement of the eight-hour day (a 48 hour week) by Australian stonemasons in 1856, workers around the world have struggled to claim more leisure, a claim consistently resisted by employers. For more than a century, the workers had the best of it. The standard working week of 48 hours, universal in Australia by the early 20th century was reduced to 44, to 40 and finally in 1983, to 38 hours. Annual leave became a standard condition, along with sick leave and long service leave, and was expanded to four weeks a year by 1973. Maternity leave for public servants was introduced at the same time, and extended on an unpaid basis to the entire workforce by 1979.

Since the early 1980s, the movement has gone entirely in the other direction. Standard working hours have remained unchanged in most respects, but the majority of full-time workers have ended up working additional (often unpaid) hours. The trend towards earlier retirement, which persisted into the 1990s has been reversed, to the extent that workers who

are in their 40s today can expect that the pension age will be 70 or more before they become eligible.

It is sometimes claimed that long working hours reflect the insatiability of human demands for consumption of goods and services. But the history described above, which is typical of developed economies, tells a different story. Even more than paying higher wages, employers have always resisted paying the same wage for fewer hours of work. As long as unions were powerful, and public policy favoured workers, such resistance was ultimately effective. But ever since employers regained the upper hand in the 1980s, they have pushed relentless for longer hours and harder work.

Similarly, until the 1970s, flexibility in workplace arrangements primarily benefitted workers. The most notable example was the introduction of flexitime in the Australian Public Service, a condition which has survived. Since the 1980s, however, 'flexibility' has usually meant the flexibility of employers and managers to require staff to work whatever hours are desired by the employer and to perform a wide range of tasks, unconstrained by 'restrictive work practices'.

### **The 'gig' economy**

The 'gig' economy was initially referred to as a 'sharing economy', and services such as Uber described themselves as offering 'ride sharing', on the model of the co-operative car-pooling services described by writers such as Benkler. This is transparent nonsense and has been widely recognised.

Uber does not, as the phrase 'ride-sharing' would imply, offer an opportunity for a driver going to some destination for their own purposes to share their vehicle with others. It is, quite simply, a taxi service with online booking and (wherever this is legally possible) drivers who are treated as contractors rather than employees. Again, where legally possible, this arrangement is one that can be terminated at will by either party, in the parlance of the music industry, a 'gig'.

The 'gig economy' is not new (the term 'gig' dates back to the 1920s, when it referred to a musical engagement of one night's duration only), and is the predictable outcome of

enhanced employer power. The rise of the 'gig' economy has no necessary link to advanced technology. Technological disruption simply acts as a catalyst, breaking down existing patterns of work, and facilitating a shift towards arrangements more favorable to employers.

Systems of day labour, which may be characterized as a 'gig' economy have prevailed wherever the balance of power between employers and workers has been such as to make it feasible and profitable. The 'Hungry Mile' of the 1930s (the wharf area of Darling Harbour, where waterside workers sought employment on a daily basis) is a classic example.

The rise of the 'gig' economy is, therefore, the culmination of the general pattern that is the subject of this submission. Technological change disrupts existing patterns of work. In an environment where the legal system strongly favors employers, the ultimate outcome is one which wage employment is replaced by casual contracting, with dismissal at will.

### **Sharing the benefits of technological change**

If technological change is to be beneficial to society as whole, the benefits must be shared fairly, on multiple dimensions.

#### *Labour share*

First, it is necessary to ensure that workers share in the benefits of technological change, and that the long decline in the labour share of national income is reversed. This can only be done if the anti-worker and anti-union stance of public policy that has characterized the last forty years is ended.

Once it is conceded that an increase in the wage share is a necessary step towards sustained economic recovery, it is obvious that measures to increase workers' bargaining power should be part of this process. A starting point would be a comprehensive review of anti-worker and anti-union legislation, beginning with Sections 45D and 45E of the Trade Practices Act and continuing to encompass anti-union legislation proposed by the Turnbull government.

The aim of these changes should be to reverse the decline in membership and encourage wage growth and the restoration of worker-friendly working conditions such as penalty rates.

#### *Work-life balance*

The other central aspect of fair sharing of benefits is the use of new technology to facilitate flexible choices for workers and their families in relation to work-life balance.

### *Reduced working hours*

The cumulative effects of technological change have the potential to allow a radical transformation of working life of the kind envisaged nearly a century ago by John Maynard Keynes in his essay, *Economic Possibilities for our Grandchildren*. Keynes argued that technological progress over, say 100 years, would be sufficient, at a rate of 2 per cent per year, to multiply our productive capacity nearly eightfold. Allowing for a doubling of output per person, that would be consistent with a reduction of working hours to fifteen hours a week or even less.

In Quiggin (2012), I argued that Keynes overlooked some crucial issues in making this estimate, notably including the importance of household work and childcare, and the need to take account of the global economy, rather than focusing on developed countries like England. As a result, his timetable was highly optimistic.

Nevertheless, if a more equal distribution of income were combined with a policy program in which reductions in the required hours of work was the primary benefit of increased productivity, it would be possible to reduce annual hours of market work and unavoidable household work very substantially. Australians of all ages would then have freedom to pursue a wide variety of projects of their own choosing, rather than seeking to eke out a modest amount of free time after devoting most of their waking hours to paid work and necessary household duties.

### *In the long term: Participation income and Jobs Guarantee*

The concept of a universal basic income (UBI), has been advanced in a number of different forms, notably including guaranteed minimum income (GMI) and negative income tax (NIT).

The most promising model to focus on is that of a GMI, achieved by reducing and ultimately eliminating the conditionality of existing unemployment and disability benefits. as well as raising these benefits to a level consistent with a decent long-term standard of living. Most

existing experiments with UBI-style schemes are in line with this approach: that is, participation is limited to people who are unemployed, at least at the start of the scheme.

At least initially, a GMI should not be unconditional, but would take the form of a ‘participation income’, allowing people to contribute to society through participation in a range of activities such as volunteering, without being required to take part in imposed activities such as ‘work for the dole’.

A GMI means that people can live decently without paid work and without being required to search for work. However, this leaves open a crucial question: can people choose whether or not to work?

Much recent advocacy of GMI-style schemes takes it for granted that this choice is already unavailable to many, and will become unavailable to most people in the future. The central idea, simply put is that ‘robots will take your job’. More complex and realistic versions of this argument take account of the interaction between technology and labour markets that produces the ‘gig economy’. In this context, a GMI may be seen as easing the path of adjustment towards the replacement of paid work by involuntary unemployment.

An alternative interpretation of technological progress is that it provides us, as a society, with the resources to allow everyone a meaningful choice between paid employment and other activities, including unpaid contributions to society and creative use of leisure. To make such a choice a reality, it is necessary to combine a GMI with some form of employment guarantee and to maintain minimum wages at a level significantly higher than the GMI.

The combination of a GMI and a Jobs Guarantee would greatly improve the bargaining position of workers relative to employers, both individually and in aggregate. For the individual worker, the Jobs Guarantee weakens the ability of any individual employer to threaten unemployment. Moreover, the GMI would provide an ‘outside’ option that could be taken if employers attempted to cut costs through work intensification, removal of working conditions and so on. At the aggregate level, the power of employers as a class depends, to a critical extent, on the belief that ‘business confidence’ is essential to economic prosperity.

The closest approximation to the conditions of a combined GMI and Jobs Guarantee was the thirty-year period of near full employment during and after World War II, which also saw the

establishment of most of the elements of the modern welfare state, including easy access to unemployment and disability benefits for workers (the process varied from country to country – Australia introduced unemployment benefits in 1945). During this period, Australians enjoyed broadly shared prosperity, and the distribution of market income became much less unequal.

### **Concluding comment**

Work is central to our lives. Technological progress offers the opportunity to allow everyone to enjoy a sustainable balance between paid work, family life, leisure time and contributions to civil society. However, this opportunity will only be realised if the policy trends of the past forty years, which have greatly reduced our bargaining powers as workers, are reversed. Under current policies, technological progress will destroy existing jobs and replace them, if at all, with worse ones, at lower wages and with less favorable conditions.

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