Raising the Bar:

How Government Can Use its Economic Leverage to Lift Labour Standards Throughout the Economy

By Dr. Jim Stanford
The Centre for Future Work at the Australia Institute

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Table of Contents

Summary

For at least five years now, Australia's labour market has demonstrated signs of a structural shift that has undermined traditional patterns of wage determination, and eroded the quality and security of work. The economic and social consequences of this sea change in the world of work are severe and far-reaching: flat real wages (the worst labour income growth since the Great Depression), a severing of the traditional relationship between wage and productivity growth, a steady expansion of insecure work in various forms, growing inequality in income distribution (both between factors and across households), and a precipitous decline in collective representation and enterprise bargaining (especially in the private sector). Governments tell Australians to simply be patient, and let "market forces" do their work; wages will pick up and economic benefits will soon "trickle down." But there is no reason to expect these concerning labour market challenges to resolve themselves. Instead, the whole history of Australia's economy reminds us that pro-active policy efforts are always necessary to broadly distribute the fruits of economic growth to workers and their families.

Chief among these policy tools, of course, is the power of government to establish rules and regulations regarding labour market outcomes: everything from minimum wages and penalty rates, to the operation of the awards system, to the National Employment Standards, and the industrial relations and collective bargaining regime. Labour and social advocates are campaigning energetically (led by the ACTU and its "Change the Rules" campaign) to strengthen those rules. However, an important supporting role in a multi-dimensional effort to restore wage growth and stabilize labour standards can also be played by leveraging the enormous economic footprint of government. After all, Australia's government sector (including all levels: federal, state, and local) constitutes by far the largest single part of Australia's economy. This report documents the major dimensions of government's economic footprint:

- Total revenue and expenditures of over $600 billion per year, equal to 35 percent of Australia's GDP.
- Total "consumption" spending (that is, expenditures on current production of public goods and services) of over $330 billion per year (18.5 percent of GDP), and investment spending (on longer-lived capital projects) of over $85 billion (another 5 percent of GDP).
- Direct public sector employment of close to 2 million workers, with millions more jobs indirectly dependent on government injections of spending power into the economy.

- Critical fiscal and policy support for public and community service provision by arms-length non-profit and non-governmental service agencies, which are worth at least another 4 percent of GDP.
- Goods and services procured from private-sector suppliers equivalent to around 10 percent of GDP (or about $175 billion per year).

This enormous economic influence, backed up by the unmatched fiscal capacity of government, has a powerful impact on labour market outcomes in all sectors and regions of the economy. Government expenditure affects wages, employment relationships, and labour standards through at least three distinct channels:

1. Wages and labour standards reflected in direct work and production undertaken within government and its departments and agencies (the public sector).
2. Wages and labour standards prevailing in arms-length service-producing organisations which depend on government funding for much or all of their activities, and whose performance is shaped by government rules regarding service standards and quality (the non-profit sector).
3. Wages and labour standards prevailing in the myriad of private-sector firms which supply government and public agencies with procured goods and services (the private sector).

Moreover, through a "demonstration effect," improved wages and labour standards achieved via any of these three streams can "spill over" into better practices in businesses and sectors that have no direct connection to government spending at all. Consider, for example, important workplace practices and entitlements that were first pioneered in public sector jobs, but eventually spread to many private sector jobs as well: such as superannuation; pay equity; paid family, maternity and domestic violence leave; and others.

Government attitudes and policies regarding the extent to which labour standards are priorised as a goal within each of these major expenditure streams thus exert an important influence on the trajectory of wages, working conditions, and job quality. This report documents numerous ways in which Australian governments have linked their expenditures to the pursuit of particular labour policy goals and standards. In many cases, unfortunately, that practice of "linkage" has been invoked in order to restrict or reduce wages and labour conditions associated with government-funded work: by artificially capping public sector wage growth and restricting normal collective bargaining; by invoking market pressures to reduce compensation costs for public service work; by shifting work from public to private providers; and by demanding changes in work practices or contract provisions (even within privately-owned and operated businesses) that further restrict workers' bargaining power and hence wages and conditions. This perverse invocation of government spending power to restrict wages and working conditions, thus exacerbating the negative labour market trends reviewed above. However, even these perverse examples confirm that governments of *all* political stripes do indeed appreciate the power and influence of government spending power, as a powerful lever to wield in pursuit of labour policy goals.

More encouraging are the numerous examples of governments which have invoked their spending power – directly and indirectly – to support improvement in wages, job security, and employment relationships. So this report also catalogues numerous real-world examples of pro-active efforts to link expenditure decisions (in direct public sector work, arms-length social and community agencies, and private sector procurement) to the overarching effort to improve wages and labour standards. Examples are provided from previous Australian experience at the federal, state and local levels. Valuable experience is also gleaned from efforts by governments and public agencies in other countries, and even from efforts by leading private sector businesses to improve social, ethical, and labour performance within their own supply chains. Together, these examples confirm that a well-meaning government, committed to building a more inclusive economy with rising wages and respect for high-quality labour rights and employment standards, could choose from a wide array of policy levers.

The report concludes with ten specific recommendations which would help Australian governments (at all levels) link their spending power to the attainment and preservation of top-quality labour market outcomes and standards. These recommendations extend from simply clarifying that government is indeed committed to the pursuit of positive labour standards through its spending decisions, to the development of a comprehensive and consistent database of procurement spending, to the integration of labour standards consideration into all aspects of policy design in service delivery.

There can be no debate that government spending power has tremendous influence over observed labour market outcomes in Australia's economy, nor that government has power to leverage its spending power in pursuit of labour policy goals. Ample experience, from governments at all levels and of all political persuasions, has demonstrated both the potential and the legitimacy of these linkages. The bigger question is whether government will commit to using its spending power consistently to strengthen wages and labour standards in the interests of building a fairer, more inclusive economy.

Introduction

Economic and policy experts from across the political spectrum have expressed concern in recent years about worrisome trends in wage determination and income distribution.[1] Since the resource-led investment boom peaked in 2012, Australian labour market outcomes have weakened, labour incomes have stagnated, and income inequality has continued to widen. In fact, measured by growth in total labour incomes, the past five years have been the weakest of any since the Great Depression in the 1930s. Official job-creation and unemployment statistics do not provide an accurate or complete portrait of this profound and lasting labour market weakness: because of the growing proportion of work concentrated in insecure, irregular, and nominally "independent" positions, wages have remained stagnant despite an unemployment rate that seems relatively "low" by historical standards (presently around 5.5 percent). On average, real incomes have not increased measurably since 2012, nominal incomes are growing unusually slowly, and for many Australians (especially those in precarious and non-standard jobs) living standards have actually declined. Meanwhile, the quality and stability of work for millions of Australians has eroded significantly, as evidenced by numerous empirical indicators.

Economists have noted the numerous economic, fiscal and social consequences of these disappointing trends in labour incomes.[2] Macroeconomic growth is held back by weak purchasing power among Australian households. The financial instability of households – already carrying total debt now worth 200 percent of disposable incomes, one of the heaviest personal debt loads in the world – is exacerbated when wages are stagnant and uncertain. Government fiscal performance is held back when wage growth deteriorates (and hence personal income tax and GST revenues fail to meet budgetary targets). And entire communities bear large costs (both monetary and social) arising from widespread unemployment, underemployment and insecurity: including poor education, health, and criminality performance.[3] In response to the accumulating costs of stagnant wages, insecurity and inequality, analysts and policy-makers in many different settings have highlighted the need for stronger wage growth, more secure jobs, and more inclusive economic development. Even conventional

[1] See for example OECD (2015b), Holmes (2013), and Whiteford (2015).

[2] See for example Jacobs and Rush (2015), Bishop and Cassidy (2017), and Department of the Treasury (2017).

[3] A compelling catalogue of the economic, fiscal and social costs of inequality and social exclusion is provided by Wilkinson and Pickett (2009).

economic leaders – like Dr. Philip Lowe, Governor of the Reserve Bank of Australia,[4] and Commonwealth Treasurer Scott Morrison[5] – have acknowledged the unusually weak trajectory of wage growth in the labour market, acknowledged its consequences, and emphasised the need for wage performance to improve.

Government has many tools and policy levers at its disposal to address and ameliorate this observed and persistent weakness in labour incomes. One important set of measures is the collection of labour regulations, minimum standards, and industrial laws that serve to shape wage determination and employment relationships. In general, the effectiveness of those policies and institutions in supporting wage growth and lifting job quality has been eroded over the past generation, due to efforts by successive governments to create a more employer-friendly, "free-wheeling" labour market. Important indicators of this trend include the reduction in the relative "bite" of the minimum wage (which has decreased significantly since the 1980s, measured as a share of median earnings; see ACTU, 2017), the relaxation of various minimum standards and protections (most recently including the reduction of penalty rates for weekend workers in services industries), the reorientation of the awards system since the 1990s into a bottom-line "safety net" (jettisoning its traditional role as an instrument to spur wage growth across the labour market), and the dramatic erosion of collective bargaining across the economy (especially visible in the private sector). Labour and anti-poverty advocates have demanded the revitalisation of those labour standards and practices.[6] Rebuilding the power of minimum wages, the awards system, minimum standards and collective bargaining, would certainly make a major contribution to restoring normal patterns of wage growth and income distribution.

However, there are other policy tools also at the disposal of government that could complement and reinforce stronger labour market regulations and institutions in improving wages, job quality, and employment rights. In addition to directly influencing labour market outcomes through regulations and industrial laws, government can also leverage its enormous economic footprint to lift labour standards, restore normal wage growth, and enhance the quality of work. This paper explores the dimensions and potential benefits of the systematic and sustained use of government's spending power as part of a broader overarching effort to improve work and wages.

After all, government is by far the largest single entity in the economy. It is the largest employer. Its total inflows and outflows represent a very large proportion of economic

[4] Long (2017).

[5] Uren (2017), Dept. of Treasury (2017).

[6] A leading example is the ACTU-led campaign to "Change the Rules" of Australia's labour market; see Australian Council of Trade Unions (2018).

activity: over one-third of total GDP (or over $600 billion per year) in Australia's case.[7] By monitoring the effects of its spending decisions on labour markets, and consistently pursuing opportunities to wield that spending power in pursuit of stronger wages and working conditions, government could help to reestablish positive momentum in incomes and economic security. And by "leading by example," government would send a powerful message to other employers: namely, that respect for fair wages and working conditions, and a commitment to improving labour outcomes over time, is an expected criterion for all business activity.

The economic leverage of government exerts a strong influence on realised labour practices through several complementary channels:

- Government itself is a major employer (Australia's largest), so government's own employment practices and wage policies have a direct impact on overall trends and averages.
- Through its funding and regulation of public service provision by independent or arms-length agencies and institutions, government establishes a fiscal context for wage determination and working conditions in the non-profit sector.
- Government purchases of goods and services from private suppliers and contractors constitute another enormous flow of spending power, with potential implications for labour practices within those supplying businesses.

Moreover, in addition to these explicit points of leverage, the government's approach to wages and labour standards also exerts important indirect influence – both fiscal and moral – that spills over into broader business and employment practices. When governments priorise strong labour standards in all their expenditure decisions (public sector, funded non-profit services, and procurement from the private sector), the more will all employers face pressure to respect similar norms, even in activity not directly dependent on government spending.

Through all of these channels, a government that is committed to restoring normal patterns of wage growth and lifting labour standards could use its purchasing power as a powerful supporting tool – ideally as part of a broader, multidimensional effort to achieve a more inclusive pattern of economic and social development. On the other hand, a government that actually aimed to *suppress* wage growth and *weaken* overall labour standards, could invoke its economic leverage toward that end goal, as well. Indeed, there are numerous unfortunate examples in Australia of this perverse invocation of government's spending power to restrict wage growth and undermine

[7] Author's calculations from ABS Catalogue 5206.0, Tables 3 and 17.

labour practices. The issue is not, therefore, whether government has the capacity to leverage changes in labour practices through its own spending decisions: it clearly does. Instead, the true question is to what end, and in whose interests, will that power be directed.

This report will explore the various channels through which government expenditure can influence realised employment practices and wage outcomes in Australia, both directly and indirectly. The goal is to provide an initial catalogue of strategies through which a government – assuming it is committed to boosting wage growth and lifting labour standards – could support those goals through the pro-active linkage of spending decisions to labour practices.

The report is organised as follows. Part I will provide an overview of the current failures of wage determination and employment security in Australia's labour market: describing the nature and scope of the problem that we propose can be at least partially addressed through the strategic use of government spending power. Part II describes the economic footprint of government, presenting a quantitative profile of the scale of government's potential influence. That part also discusses the various channels through which government spending power can influence labour market outcomes, for better or for worse. Part III provides an illustrative catalogue of negative examples, through which previous Australian governments wielded spending power to restrict or undermine wages, job security, and employment standards. This inventory of undesirable measures, while perverse, at least confirms that government spending decisions *do* influence labour standards throughout the economy – and that governments of all stripes regularly recognise and invoke that power. Part IV of the report reviews a representative catalogue of more positive examples (from Australia, from governments in other countries, and even from the private sector) of efforts to successfully link spending and procurement decisions to requirements for better wages, working conditions, and job security. This catalogue is not exhaustive: there are hundreds of different ways in which governments have attempted to link spending decisions to labour standards. Our illustrative review simply confirms the breadth and variety of potential avenues for practicing that linkage in a constructive direction. The conclusion summarises the report's findings, and makes ten specific recommendations for making better use of government spending power as part of a broader effort to improve labour market outcomes in Australia.

Part I: The Scope of the Problem

The slowdown in wages growth in Australia, to the slowest sustained rates in at least a generation, has sparked widespread concern among policy-makers and the public at large.

The stagnation of wages has been accompanied by a striking erosion of traditional norms of job quality and stability: including the expansion of insecure or precarious work in all its forms, and a marked decline in collective representation and enterprise bargaining. This section of the report will review empirical evidence regarding the slowdown in wages, and other indicators of the deterioration of job quality and stability. These trends reinforce the need for governments at all levels to direct the full range of their policy tools – including public spending power – to strengthening wages and job security across the labour market.

WAGE STAGNATION

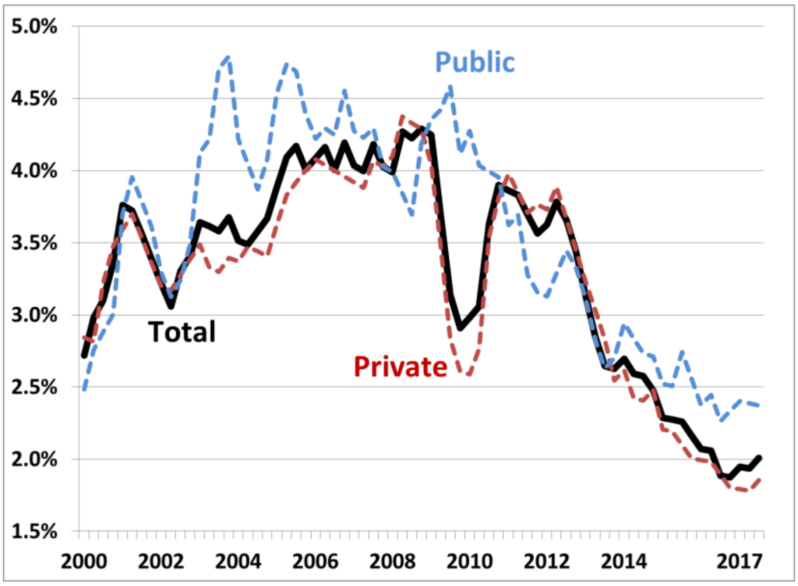
The most common "headline" source of data on hourly earnings is the ABS's quarterly *Wage Price Index* (Catalogue 6302.0). This is an index of wage and salary incomes calculated from a representative sample of jobs. Because it controls for change in the composition of employment, the WPI does not capture the effects (positive or negative) of shifts in the make-up of employment (including changes in the incidence of part-time work, casual jobs, and self-employment). It is intended to provide an indication of "pure" wage pressure for any given basket of jobs; a downside of this approach is that it excludes the impact of changes in the composition and quality of work on overall wages.

The growth of the WPI since the turn of the century is illustrated in Figure 1, including separate series for public-sector and private-sector jobs (annual wage growth was somewhat stronger in the public sector during most of this period[8]). Annual wage growth fluctuated between 3 and 4 percent per year during the first years of the century. Wage growth fell sharply but temporarily during the Global Financial Crisis

[8] The stronger pattern of public sector wage growth immediately attests to the positive potential of government program spending on labour market outcomes: for several reasons (including the relatively strong qualifications of public sector workers, more widespread enterprise bargaining, and higher union presence), wage outcomes in public sector roles have not been as negatively affected by the turmoil in Australia's labour market over the past five years as have private sector occupations.

(GFC), but quickly regained pre-crisis averages from 2011 through 2013. After 2013, however, wage growth decelerated dramatically. Since 2013 WPI increases have averaged about 2 percent per year; since that is approximately equal to the annual growth in consumer prices, this implies a multi-year freeze in average real wages in Australia.

Figure 1. Year-over-year growth in the Wage Price Index, 2000-2017.

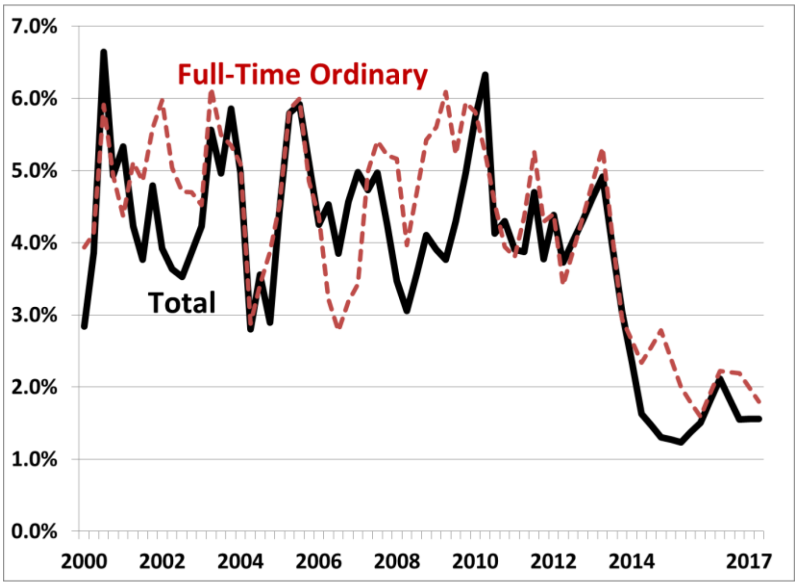


Source: Calculations from ABS Catalogue 6345.0.

However, the Wage Price Index (WPI) is an overly-optimistic measure of the true pace of wage growth, because it uses a fixed "basket" of different jobs in the economy to calculate an average of wage growth across different industries and occupations. But the recent crisis in wages is in large part the result of deterioration in the average quality of work. In particular, the ongoing shift toward part-time, casual, insecure and digital "gig" jobs produces lower (and more unstable) earnings. The WPI does not take into account these changes in the composition of work, and hence it overestimates wage pressures. Other broader measures, that consider the changing composition of jobs, indicate that wage growth is even weaker than reported by the WPI.

For example, the ABS produces another report on labour incomes, its semi-annual Average Weekly Earnings publication (Catalogue 6302.0). Unlike the WPI, this measure does incorporate the effects of changes in the composition of employment, since it reports comprehensive averages of earnings across its whole sample of wage- and salary-earners. The publication separately reports weekly earnings for full-time workers and for all workers (including part-time). The latter measure thus captures the varying importance of part-time work (and changes in average weekly hours of work more generally), along with other changes in average job quality.

Figure 2. Year-over-year Growth in Average Weekly Earnings, 2000-2017.



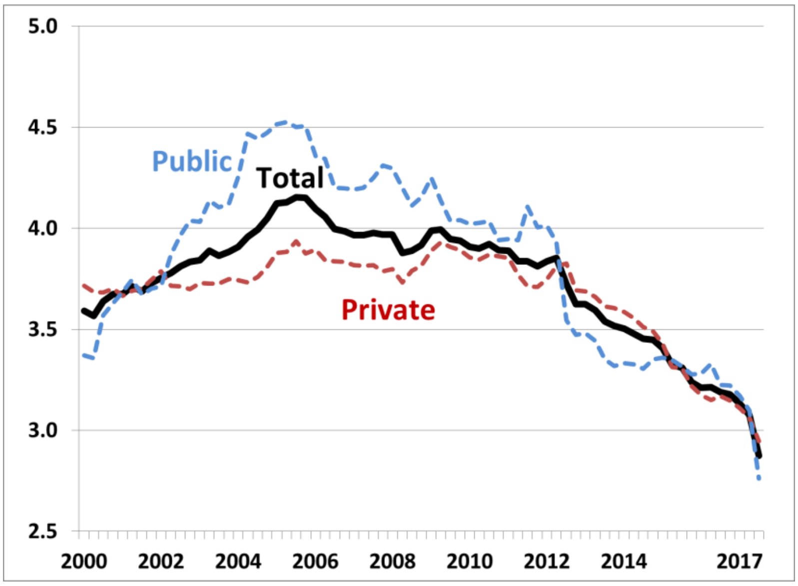
Source: Calculations from ABS Catalogue 6302.0.

As pictured in Figure 2, these data reveal a similar, but more dramatic, deceleration of earnings growth – also beginning after 2012. Annual growth in average weekly earnings prior to the GFC was even stronger than reported in the WPI data: averaging 4-5 percent per year. This is because average earnings were also boosted by improvements in quality of work and longer average hours, thanks to very strong labour demand conditions at the time. By the same token, the slowdown in average weekly earnings since 2012 has been even steeper: average weekly earnings have grown at well under 2 percent per year since 2014 (significantly behind CPI inflation).

A significant (but shrinking) share of workers in Australia has earnings determined in accordance with enterprise agreements, and the terms of those agreements provide another useful perspective on wages growth. The Commonwealth Department of Jobs and Small Business (formerly the Department of Employment) surveys all enterprise agreements registered and approved under the federal industrial relations system, and reports aggregate statistics regarding average wage increases specified under current EBAs.[9]

[9] This data excludes EBAs negotiated under state-based industrial relations systems, primarily including EBAs
in state and municipal public services. Not all EBAs have wage provisions that can be quantified (such as those specifying wage increases dependent on performance, CPI growth, or other unpredictable factors).

Figure 3. Average Annual Wage Increases in Enterprise Agreements, 2000-2017



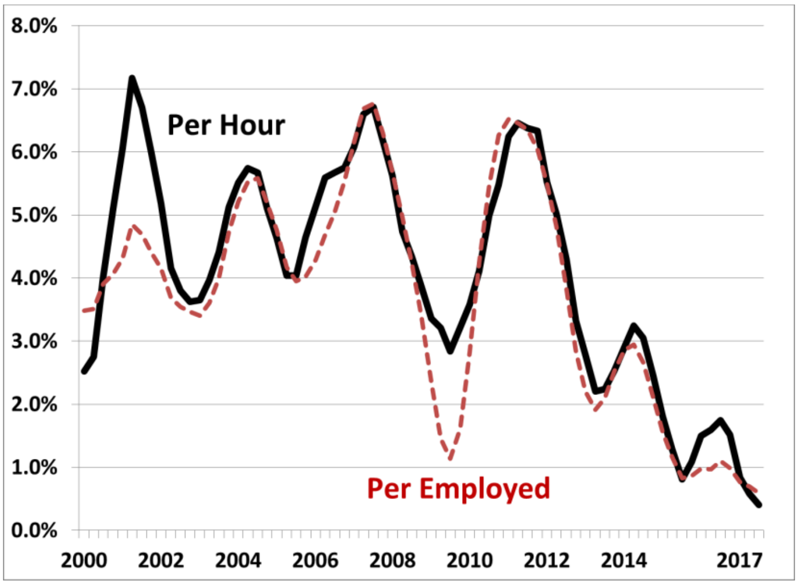
Source: Author's calculations from Dept. of Jobs and Small Business (2018).

Figure 3 illustrates the estimated average annual wage increases embodied in current registered (quantifiable) EBAs monitored by the Department of Jobs and Small Business (2018). Those wage increases remained steady within a relatively narrow band between 3.5 and 4 percent through most of the 2000-13 period (with a slight upsurge around 2005); that steady pace continued despite the effects of the GFC in 2008 and 2009. Indeed, the stability of EBA wage provisions through the GFC affirms the importance of collective bargaining in establishing an effective "floor" for wage increases, even during troubled macroeconomic conditions; the resulting resilience of consumer purchasing power is useful in supporting macroeconomic recovery. Beginning in 2013, however, a pronounced deceleration in negotiated wage gains has occurred, with the average increase falling to below 3 percent per year.[10] Wage increases were somewhat stronger in public sector EBAs between 2002 and 2012 (again reaffirming the positive effect of public programs on labour market outcomes). And since average wage gains for EBA-protected workers have been higher than economy-wide averages reported in Figure 1 (on the basis of the WPI), even slightly exceeding the rate of price inflation in most years, this confirms that collective bargaining is an important and effective support for wage growth.

[10] Another stabilising impact of enterprise agreements is experienced because of the lag times embodied in multi-year agreements; even when the economy slows, the terms of wage agreements specified in previous EBAs will still provide badly-needed wage increases. The Dept. of Jobs and Small Business also reports separate data on average wage gains in *newly-negotiated* wage agreements, and those show a more rapid deceleration than is illustrated in Figure 3.

Perhaps the broadest perspective on the growth of labour incomes is provided by Australia's national income accounts system. The ABS reports all labour income (including wages, salaries, and employer superannuation contributions) as part of its quarterly GDP statistics. These aggregate labour income figures can then be compared to employment data from monthly labour force surveys, to estimate the implicit rate of growth of labour incomes (measured per worker or per hour worked). These data capture all of the forces affecting labour incomes (including changes in the composition of employment, job quality, and average hours of work), and hence can be seen as more comprehensive than other series (especially the WPI).

Figure 4. Year-over-year Growth in Average Labour Compensation from National Accounts Data, 2000-17.



Source: Calculations from ABS Catalogues 5206.0 and 6202.0. Four-quarter moving average.

Figure 4 illustrates the trend in annual labour compensation per hour of work, and per employed person, based on national accounts labour compensation data. The figure separately portrays labour income per hour worked, and labour income per employed person; the two series diverge when average hours worked per person change.[11] It indicates an even more pronounced deceleration of labour incomes: from an average of around 5 percent per year before the GFC (and just as fast after the initial recovery, from 2011 through 2013), to well below 2 percent per year since mid-2014—and averaging below 1 percent per year most recently. This provides an especially dramatic

[11] As occurred, for example, during the GFC, when hours worked declined faster than employment (due to labour hoarding by employers, work-sharing, and other factors), and hence income per employed person declined more dramatically.

perspective on the composite factors that are causing labour incomes to stagnate: not just slower growth in hourly earnings in any particular job, but also negative changes in hours and average quality of work as well.

Despite great differences in methodology, therefore, some clear common conclusions arise from these various measures of wage growth. First, in the decade before the GFC, labour incomes in Australia grew steadily and relatively strongly, at annual rates of 4-5 percent or even higher. Wages slowed during the GFC, but that slowdown was temporary and quickly reversed. However, a more worrisome and lasting shift in wage trends occurred after 2012, when a pronounced and more lasting deceleration of wages and labour costs became visible. Finally, while the Wage Price Index is the most commonly reported "headline" measure of wages, it understates the extent of the wage slowdown because of its assumed fixity of job composition. Other measures of wage growth take into account changes in hours of work and job quality; they suggest that the stagnation of labour incomes since 2013 has been more severe than implied by the WPI series.

WAGE GROWTH: WHAT IS "NORMAL"?

The empirical evidence is clear that wage trends in Australia have diverged dramatically in the last five years from previous historical patterns. It is useful to review the determinants of "normal" wage growth, in order to better appreciate the extent to which current patterns are unusual.

To begin with, it is obviously important that wages "keep up with inflation," simply to preserve the real purchasing power of workers' incomes. According to the WPI, Australian wages have approximately kept pace with inflation: the adjusted index of wages has grown around 2 percent per year since 2013, in line with CPI growth. But by other, more comprehensive measures (such as average weekly earnings and labour compensation per hour worked), nominal wages have lagged well behind consumer prices, producing a decline in real purchasing power.

However, even if wage growth did match consumer price inflation, this alone would not constitute a "normal" wage outcome. Most economists agree that wages should also reflect labour productivity. So long as productivity grows over time (as has been the case in Australia), wages should grow consistently *faster* than consumer price inflation – in order to reflect the enhanced real output of each hour of labour.

A "normal" benchmark for wage growth, therefore, is the sum of long-run consumer price inflation plus average productivity growth. The RBA is charged with maintaining

CPI inflation at around 2.5 percent per year; long-run labour productivity growth has averaged between 1 and 1.5 percent per year over the past three decades. Together, this suggests that a "normal" benchmark for nominal wage growth should be between 3.5 and 4 percent per year. (Of course, wage outcomes in specific industries and regions will deviate from broad averages in line with specific economic and labour market conditions.) RBA Governor Lowe recently confirmed his own view that 3.5 percent is a normal pace of wage growth consistent with his bank's monetary policy.[12]

Australian wage growth in the pre-GFC period generally accorded well with that definition of "normal" labour market behaviour. Average annual growth according to the WPI was slightly under 4 percent; it grew faster than 4 percent by other indicators (such as weekly earnings or compensation per hour). A sharp but temporary deceleration of wages accompanied the GFC, but was quickly followed by a return to "normal." Since 2013, however, wages have followed a significantly slower trend: at odds with traditional assumptions regarding wage determination (target inflation plus average productivity growth).

Table 1 compares the pre- and post-2013 experience of the wage indicators surveyed above, with the corresponding pattern of inflation and productivity growth over the same period. There has been a noted deceleration of consumer price inflation since 2013, falling consistently below the RBA 2.5 percent inflation target. Whether this is a cause or a consequence of the slowdown in nominal wages is debated. The price of labour is the most important and generalised price in the whole economy, and hence anything that suppresses nominal wages will also pull down broader inflation.[13] At the same time, as expectations of slower inflation become ingrained, this can reinforce the trend lower wage payouts – thus helping to "lock" the macroeconomy into a trap of below-target inflation.

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[12] Dr. Lowe told the Standing Committee on Economics of the House of Representatives on February 16, 2018 that "If we're going to deliver average inflation of 2½ per cent we should probably have average wage increases over long periods of time at 3½ per cent." See Hansard at http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=COMMITTEES;id=committees%2Fcommrep%2Faf4a01ce-cf3b-4e4e-a214-3522214a8e01%2F0000;query=Id%3A%22committees%2Fcommrep%2Faf4a01ce-cf3b-4e4e-a214-3522214a8e01%2F0001%22.

[13] In this context, the erosion of wage-supporting institutions is indeed a matter of concern for monetary policy-makers, since it helps to explain their failure to boost inflation back to their target range.

Table 1 Measures of Wage Growth			
	Average Annual Growth		
	2000-13	2013-17	Change
Wage Outcome Measures			
Wage Price Index	3.6%	2.1%	-1.5%
Avg. Weekly Earnings	4.3%	1.6%	-2.7%
Wages in Enterprise Agreements	3.9%	3.2%	-0.7%
Avg. Hourly Compensation (Nat.Accts.)	4.8%	1.5%	-3.3%
Potential Components of Wage Growth			
CPI[1]	2.8%	1.8%	-1.0%
Real Labour Productivity	1.3%	1.1%	-0.2%

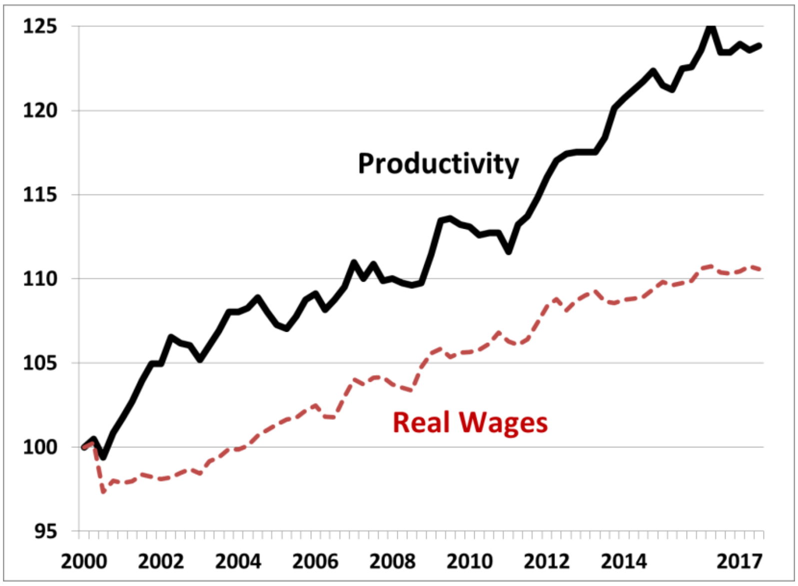
Source: Calculations from ABS Catalogues 5206.0, 6202.0, 6302.0, 6345.0, and 6401.0; RBA Statistical Table H4; and Dept. of Jobs and Small Business, "Trends in Enterprise Bargaining," as described in text.
Totals may not add due to rounding.
1. Excludes effects of changes in GST during 2000-01.

Labour productivity, on the other hand, has not significantly slowed down during this period. Realised labour productivity increased by 1.1 percent per year between 2013 and 2017, broadly comparable to pre-2013 rates. It does not seem convincing, therefore, to attribute the slowdown in wages in Australia to productivity factors.

Even prior to the 2013 downshift in wage growth, real labour compensation in Australia was growing more slowly than productivity. Figure 5 illustrates the long-run trend in real hourly wages (represented by the WPI deflated by CPI growth) compared to the corresponding expansion of hourly productivity growth. From 2000 through 2013, real wages grew less than half as quickly as productivity: by a cumulative total of 10 percent, versus a 20 percent cumulative improvement in productivity.[14] The gap between the two series is now widening at a faster rate, in light of the slowing of real wage gains since 2013 to near-zero.

[14] A similar gap between real wage growth and productivity growth is visible in earlier data, dating back to the 1980s. A shortfall in labour income relative to productivity growth corresponds to a decline in the labour share of total GDP (see "*Labour Share of Australian GDP Hits All-Time Record Low*", by Jim Stanford, Centre for Future Work, 2017).

Figure 5. Real Wages and Real Labour Productivity, 2000-2017.



Source: Calculations from ABS Catalogues 6345.0, 6401.0, and RBA Statistical Table H4.

In sum, it is clear from a range of indicators that traditional patterns of wage determination in Australia have been undermined or broken in recent years. Wage growth has decelerated markedly since 2012, real wages have been effectively frozen, real wages are lagging well behind productivity growth, and workers' share of total national income has shrunk accordingly. The erosion of real wage growth and labour's share of national income has contributed to growing inequality – measured across factors of production (ie. between labour, capital, and other factors) and across households. A structural imbalance of bargaining power between employers and workers is a key factor behind those negative trends. To attain stronger wage growth, and ensure broader distribution of the gains from economic growth, government should support wage growth and strengthen the structural position of workers in the labour market. One obvious approach to this problem is to strengthen wage-supporting institutions and regulations (including minimum wages, awards, and collective bargaining). But complementary efforts can be made to invoke other tools and levers – including government's own spending power – to support wage growth and lift labour standards.

EROSION OF JOB QUALITY

Just as important as the deceleration of wage growth and resulting decline in workers' share of total national income, has been the erosion of the stability and quality of jobs in the Australian economy. Indeed, the two trends are related – since workers' ability to demand and win higher wages evaporates when their jobs are insecure and precarious.

There are many indications of the deterioration in job quality in Australia's labour market. The general phenomenon of insecure work, whereby workers are hired under terms which impose uncertainty in the hours, pay, and tenure of employment, has become ubiquitous. In previous decades, most jobs were permanent, paid positions, whereby a worker could count on both continued, steady employment, and on the income that came with it. That facilitated long-term family decisions regarding home ownership, major consumer purchases, supporting childrens' higher education, and other aspects of quality, stable, inclusive prosperity.

In recent years, a growing share of jobs in Australia's economy has deviated from that traditional, "standard" employment relationship. And those deviations are experienced along many different dimensions: including part-time work, temporary and casual jobs, irregular hours, independent contracting and marginal forms of self-employment, and more recently through "gig" jobs working for digital platforms. No single statistical indicator can capture all of these dimensions of the growth of insecure work. But together, these multi-faceted changes in the quality and stability of work are chipping away at the ability of working people in Australia to reliably support themselves and their families – and to achieve their share of national prosperity.

Table 2 summarises several measures of job quality, and their deterioration over the past five years – the same period when normal wage growth decelerated so markedly.[15] This correspondence in timing confirms that the two trends are driven by similar underlying causes: namely, the growing imbalance of bargaining power between employers and workers.

A growing share of Australian workers work in part-time jobs; Australia now has the third-highest incidence of part-time work of any industrial country. Part-time work is especially acute for Australians who report being "self-employed," including the large number of independent workers who have no employees and are usually not even incorporated; among self-employed people, fully 35 percent now work part-time. A significant portion of part-time workers would prefer to work more hours, and hence the underemployment rate in Australia (which measures the proportion of employed people who desire more hours) is historically high. Similarly, the growing incidence of part-time work (including irregular part-time work) has reduced average working

[15] Most indicators of job quality in Australia have deteriorated during the past several years of weak aggregate labour market conditions; some of the job quality indicators considered here have also demonstrated a longer-term decline (including the relative erosion of full-time work and the long-run decline in union representation).

hours. This would not be a negative development if it reflected voluntary choices by workers, in the context of secure jobs and decent wages, to enjoy more time away from work; but it is clear that average working hours are currently declining mostly because of the involuntary underemployment of so many part-time workers.

Table 2
Indicators of Declining Job Quality

Indicator	**2012**	**2017**
Part-Time Share of Total Employment	29.7%	31.7%
Part-Time Incidence Among Self-Employed Workers	32.0%	35.0%
Underemployment as Share Total Employment	7.6%	9.1%
Average Hours Worked per Month	141.0	139.7
Employees Without Paid Leave Entitlements ("Casual")	23.5%	25.1%
Proportion of Employees Under Industrial Awards	16.6%	23.6%[1]

Source: Author's calculations from ABS Catalogues 6202.0, Tables 1 and 19; 6291.0.55.003, Table 19; 6333.0, Tables 2.3 and 10.1; 6306.0, Table 7 (2012) and Table 1 (2016).

1. 2016 data.

The growth of casual work is another dimension of falling job quality. Over one-quarter of paid employees in Australia[16] now fill positions with no access to traditional leave entitlements (such as paid sick leave and holiday leave).[17] That is a near-record share of employment in casual jobs. The chronically weak labour market conditions which have prevailed over the past five years have facilitated this choice by employers to hire workers on a temporary or casual basis, rather than offering permanent jobs. In fact, Australia now has the highest incidence of temporary work of any OECD country.[18] Finally, Table 2 also documents a startling increase in the proportion of workers in Australia whose wages and conditions are governed according to the

[16] Excluding owner-managers of independent businesses.

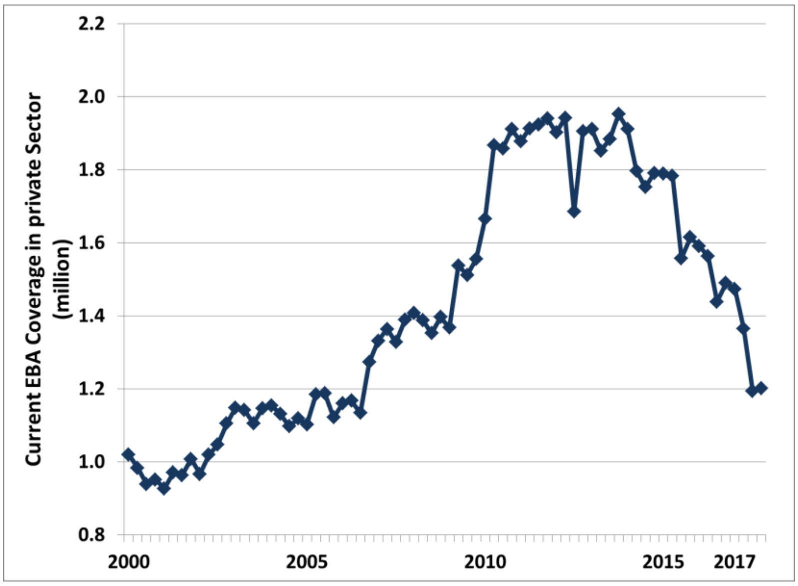
[17] Lack of access to paid leave entitlements is traditionally interpreted as a proxy for casual or temporary employment.

[18] OECD (2015b), Figure 4.1.

minimum terms of industrial awards (as determined by the Fair Work Commission or state industrial commissions).

A key factor behind the growing share of award coverage among Australian workers has been the significant erosion of collective bargaining coverage. This erosion has been experienced most acutely in the private sector – another indication that public sector work is generally associated with superior wages and labour standards (including the right to collective representation and enterprise bargaining). Figure 7 illustrates the rapid decline in the number of workers covered by current enterprise agreements in private sector firms. EBA coverage peaked in late 2013 (at close to 2 million workers), but has plunged almost 40 percent in the years since, to just 1.2 million workers. That decline has effectively resulted in 750,000 Australian workers being shifted onto either individual contracts or else the minimum terms of industrial awards, instead of being protected by the terms of an enterprise agreement. This absolute decline in EBA coverage has occurred despite growth in the overall size of employment – implying an even faster decline in the *proportion* of Australian workers covered by a current EBA. At present, just 11 percent of private sector workers in Australia are covered by a current EBA.[19]

Figure 7: Coverage by Current EBAs in Private Sector Workplaces



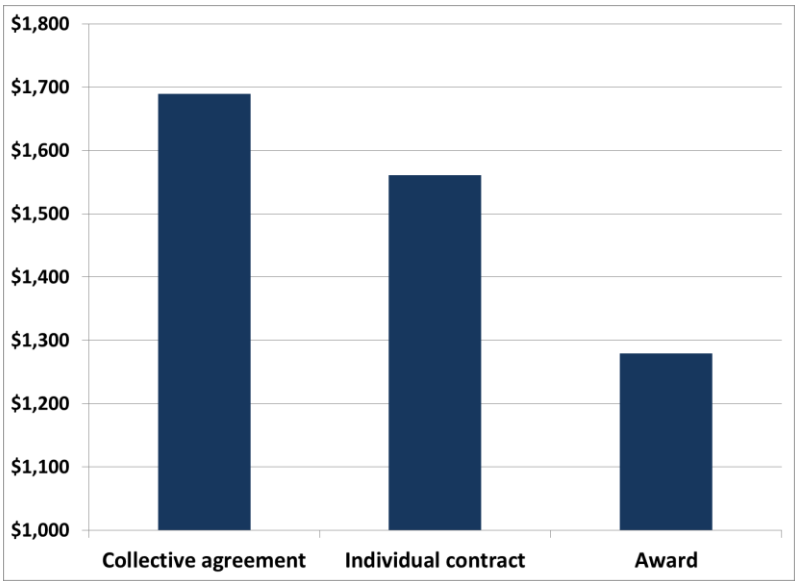
Source: Dept. of Jobs and Small Business, Trends in Federal Enterprise Bargaining.

There are numerous consequences to the erosion of collective bargaining in the economy. An obvious effect is the negative impact on average wage growth. Workers

[19] Author's calculations from Dept. of Jobs and Small Business (2018) and ABS Catalogue 6291.0.55.00, Table 26a.

covered by EBAs enjoy higher average wages and salaries compared to workers paid according to individual contracts or workers paid according to the terms of minimum awards. Figure 8 indicates that EBA-covered workers receive an average of about $130 in incremental weekly earnings above those on individual contracts, and a more than $400 weekly premium over the average earnings of workers on minimum awards. And since average wage growth specified in EBAs has been faster than in the overall labour market (as illustrated in Figure 3), that gap is growing. The decline in EBA coverage (especially in the private sector) and concomitant increase in award coverage is thus an important dimension of the historic weakness in wage growth. Other consequences of the erosion of EBA coverage include the loss of representation and voice mechanisms, and an increase in job turnover (which is typically lower in EBA-covered workplaces).

Figure 8: Weekly Wages by Method of Payment



Source: ABS Catalogue 6306.0, Data Cube 7.

These are just some of the indicators that the average quality of work in Australia is declining, and there is little reason to hope for an autonomous reversal of that trend. More Australians than ever are employed in part-time, irregular, and casual jobs; fewer enjoy the benefits of an enterprise agreement, while more have fallen back onto the minimum terms of industrial awards; a growing share inhabit the particularly precarious world of nominal self-employment and “gigs,” where job security and wage increases are entirely hypothetical.

Many Australians worry about the insecurity of work, the declining opportunities for permanent, stable employment,[20] and in particular what it means for the next generation of Australian workers – many of whom may never find a permanent, regular job. Our review of current trends confirms that this worry is well-founded. Proposals for regulatory changes to improve the stability of employment, and reduce the incidence of insecure work (such as by giving long-time casual workers an option to shift to permanent work with paid entitlements), are now being advanced by labour and community advocates (including through the trade union movement's "Change the Rules" campaign). But just as with the goal of accelerating wage growth, improvements in job quality can also be supported – both directly and indirectly – through the active linkage of government's purchasing power to goals of stronger wages and labour standards. Potential avenues for achieving this linkage will be explored in the rest of this paper.

[20] As documented, for example, in ME Bank (2018) and Rohde et al. (2014).

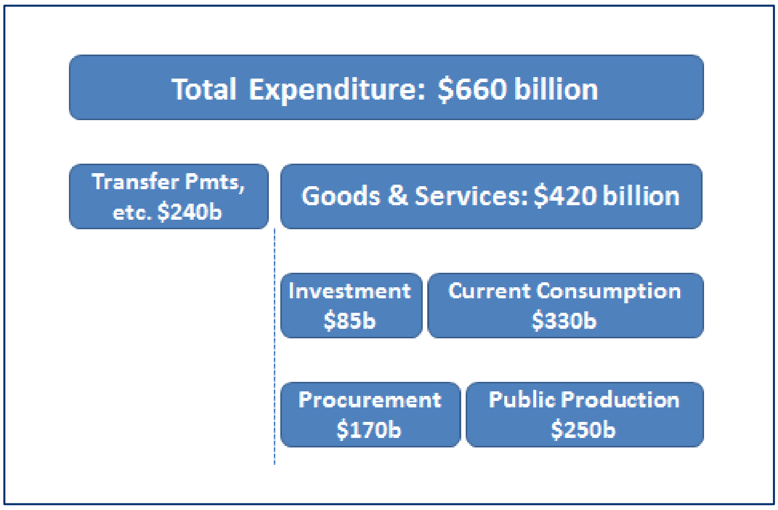
Part II: Mapping Government's Economic Footprint

To investigate the potential for leveraging government purchasing power as part of a comprehensive strategy to lift wages and working conditions, it is necessary to begin by mapping the size, composition, and linkages associated with public expenditure in Australia's economy. This section of the report will describe the main parameters of government spending, identify its major categories, and compare Australia's experience in this regard with other industrialised countries. This will set the stage for contemplating the various ways in which government's economic footprint can be utilised as part of a broader effort to reverse negative labour market trends (such as wage stagnation, deteriorating job quality, and the erosion of collective bargaining).

MAJOR FISCAL PARAMETERS

Australia's government sector exerts a powerful and far-reaching impact on the nature of production and work across the national economy – both directly through its own activity, and indirectly via its interactions with non-governmental and private producers. The major fiscal dimensions of Australia's government sector are reported in Table 3, and summarised graphically in Figure 9.

Figure 9: Composition of Government Expenditure



Source: Author's estimates from ABS data as described in Table 3.

Table 3
Government's Economic Footprint, 2017

	Annual	% of National Total
Aggregate Revenue and Spending		
Total Revenue		
Commonwealth	$437.9	24.4%
State and Local	$276.0	15.4%
Total	$605.4	33.7%
Total Expenditure[1]		
Commonwealth	$454.7	25.3%
State and Local	$312.4	17.4%
Total	$658.0	36.6%
Government and Public Employment		
Direct Government Employment		
Commonwealth	240	2.0%
State	1,528	12.5%
Local	190	1.5%
Total	1,957	16.0%
All Public Sector Employment	1,686	13.8%
Employment in Major Public Service Industries		
Health Care and Social Services	1,627	13.3%
Education and Training	1,004	8.2%
Public Administration and Safety	761	6.2%
Total: 3 sectors	3,391	27.7%
Government Spending on Goods and Services by Category		
Government Consumption		
Commonwealth	$134.1	7.5%
State and Local	$198.3	11.0%
Total	$332.5	18.5%
Government Investment		
Commonwealth	$18.5	1.0%
State and Local	$44.1	2.5%
Public Corporations	$23.8	1.3%
Total	$86.4	4.8%
Total on Goods & Services	**$418.9**	**23.3%**

Source: Author's calculations from ABS Catalogues 5206.0, Tables 3, 6, 17-19; 6291.0.55.003, Tables 4 and 26a; and 6248.055.002.

1. Equal to gross income less saving plus gross capital investment.

Considering all levels of government, total government revenues exceed $600 billion per year, or over 35 percent of national GDP. Expenditures exceed revenues, equaling about $660 billion (a gap of $55 billion in 2017). The gap reflects the fact that most governments (including the Commonwealth) are presently incurring fiscal deficits.[21]

The government sector constitutes Australia's largest single employer. Data regarding the total employment of Australian governments are published in a variety of forms; these sources differ in terms of definition and scope. ABS data on government employment (published in ABS Catalogue 6248.055.002, based on a survey of major public employers) indicate a total of almost 2 million employed people across the three major levels of government (national, state, and local); this includes people working in the full range of government-delivered programs and services. That represents close to 18 percent of all employment in Australia. The largest share of these government workers (over three-quarters) is employed through programs and services at the state level. After all, state governments are entrusted with the broadest responsibility for public service delivery (including labour-intensive essential services like health care, most social services, and education), and hence they require the biggest workforces. For example, with total employment (according to this source) of 469,000 workers in fiscal 2016-17, the NSW state government is the largest single employer in Australia – with a workforce almost twice as large as the Commonwealth government's.

A secondary source of data on public sector employment is provided by the ABS's monthly labour force survey, which is based on a survey of individuals (ABS Catalogue 6291.0.55.003, Table 26a). It suggests a somewhat smaller level of total public sector employment: just under 1.7 million on average during 2017 (or about 14 percent of all employment). Individual respondents to ABS surveys may not always know whether they work in the public or private sector (particularly in specialised agencies which may not be clearly identified as being part of government), and hence the first set of data (based on employer responses) is likely more reliable.

Another perspective on the importance of public sector employment can be gleaned from ABS data regarding employment in the most important public service sectors. The three major industrial groupings traditionally considered to constitute the "non-market" sector of Australia's economy include health care and social services, education and training, and public administration and safety. Specific employment totals for these three sectors are also reported in Table 3. Health care and social

[21] Moreover, in accrual accounting methodology, capital expenditures are not recorded as "expenses" in their entirety; instead, the government's annual budget is charged a portion of capital charges through estimated depreciation costs.

services are the largest of the three, employing some 1.6 million workers; education and training employs another 1 million, while public administration and safety employ over 750,000. Because of the existence of arms-length non-profit and also private suppliers in all of these sectors, the combined total employment in these three industries (3.4 million Australians in 2017) is bigger than the direct workforce of government itself. Nevertheless, this large number – equivalent to over one-quarter of total employment – attests to the tremendous potential reach of government policies regarding wages and labour standards in these three critical components of public services. Whether workers in these sectors are employed directly by government, or employed indirectly by non-profit or private agencies which depend on government funding, government's policies regarding wages and labour standards will have a strong influence on the working lives of millions of Australians.

While the numbers regarding public sector employment (and, more broadly, total employment in public services) are impressive, it should be noted that the relative role of public employment in the overall labour market has generally declined over recent decades. Policies of fiscal restraint, privatisation, outsourcing, and other austerity measures have caused a decline in total public sector employment for Australia: from 30 percent of all employees in 1987, to 22 percent in 1997, to present levels of 14-16 percent.[22] However this longer-run decline in the relative importance of public sector employment has reversed itself more recently. Public services, led by health care and education, have been among the strongest job-creators in recent years. For example, over the past five years, the three leading public service industries (health care and social services, education and training, and public administration and safety) together produced over 450,000 new jobs (over half in health care alone). That represents 37 percent of all jobs created over that period, underwriting a small but significant rebound in the share of public sector work in the overall labour market. Government forecasts suggest this disproportionate importance of public-funded services will continue in coming years (including disability services, led by the roll-out of the National Disability Insurance Scheme). Department of Jobs and Small Business employment forecasts suggest that an even larger share – 47 percent – of new jobs in the next five years will be concentrated in the same three sectors.[23] Without the strengthening role of these new public sector jobs in Australia's underperforming labour market, the negative trends in wages and job security documented above would clearly have been worse.

[22] ABS. (1998). 'Paid Work: Public sector employment', *ABS Cat. 4102.0 - Australian Social Trends*, Canberra: Australian Bureau of Statistics, ABS. (2017). *2016 Census*, Canberra: Australia Bureau of Statistics.

[23] Author's calculations from Dept. of Jobs and Small Business (2017).

The third and final panel of Table 3 provides a breakdown of government expenditure between spending devoted to current consumption versus incremental investment. Government "consumption" is defined as resources allocated to the production and use of publicly-delivered goods and services. This category of spending is economically analogous to personal consumption, in that it represents the consumption of current production to meet a human need. Of course, public consumption is delivered through very different channels (public institutions and agencies rather than private retail channels), and is also distributed much more equally across society than private consumption (which is naturally concentrated among the higher-income private households that enjoy higher disposable incomes). Government consumption includes goods and services produced within government itself, by arms-length agencies (such as non-profit institutions), and/or procured from private suppliers. Government consumption is reported in the quarterly national income accounts, and constitutes an important source of purchasing power in the overall economy. In 2017 government consumption (at all levels) exceeded $330 billion, or some 18.5 percent of GDP. About 60 percent of that total was accounted for by state and local governments.[24]

However, in addition to currently produced and consumed services, governments also allocate real resources (and considerable expenditure) toward investments in longer-lived capital assets. This is another important channel through which government's purchasing power influences the nature of work and labour standards in the broader economy. Capital assets included in government investment include facilities associated with public service delivery (such as hospitals and schools), transportation infrastructure, utilities, and cultural facilities. The ABS identifies three different categories of this public investment activity: national government, state and local government, and capital investments undertaken by public corporations. Together, these three sources accounted for a total of $86 billion in investment spending in 2017 – equivalent to about 5 percent of GDP. Public capital spending has increased in recent years on the strength of new commitments to infrastructure. This new spending has been especially important to overall economic and employment conditions in light of the persistent weakness of private business capital spending since the peak of the mining investment boom in 2012.

Note that the total expenditures represented by government consumption and investment (equal to about $420 billion in 2017, or close to one-quarter of GDP), is still significantly smaller than the total of government revenue or expenditures for that year (over $600 billion). The difference (illustrated in Figure 9) consists of government transfer payments, paid primarily to individuals through Australia's network of income

[24] Unlike employment data, the national income accounts do not distinguish between the state and local levels of government (since the latter operate under the authority of the former).

and social programs (some transfers are also paid to companies, other organisations, and foreigners). Those transfer payments, while making a crucial difference to the quality and stability of life for Australians, have a less direct connection to conditions of work and production than government consumption or investment activities. Even that expenditure, however, can have affect work and labour standards in indirect ways. For example, consider government's choice regarding how to support Australians' access to services such as disability services, child care services, or aged care. If government chooses to address those needs through unconditional transfer payments to individuals (who can then choose to purchase services with those funds through a market), that will have different impacts on conditions of work than if government paid for the direct provision of those services through public agencies. In all of these ways, therefore, government expenditure decisions exert a profound and far-reaching impact on the nature of work across Australia's labour market.

NON-PROFIT INSTITUTIONS

Another important dimension of government's overall economic footprint is experienced through the activities of organisations which are not strictly part of government, but which depend on government for their mandate and authority, and necessary fiscal resources, to provide various services to the broader community. Examples of this arms-length role of government in backstopping service provision include child care, aged care, and disability services: most of which are not provided through direct government agencies, but delivered by non-profit and community organisations partly or wholly on the basis of fiscal transfers from government. Some service provision in these areas is also undertaken by private for-profit firms, also on the basis of government fiscal transfers (whether to the supplying organisations or to individuals who use their services). Through their regulation and direct or indirect funding of these arms-length service-providing organisations, government has further potential to influence the terms and conditions of work in those industries – since wages and working conditions in government-supported non-profit organisations will naturally be influenced by their level of financial support, the requirements posed by government regulations (such as those regarding staffing levels, qualifications, and other aspects of work), and other government measures.

Aggregate statistics regarding government's role in service provision by arms-length organisations are difficult to assemble, in part because of extensive overlap between that funding and reported expenditures for government consumption and procurement from private suppliers. Some data is available regarding the activities of non-profit institutions, most of which receive government funding for at least some of their activities. Most recent statistics on the scale of noon-profit production are summarised in Table 4. They indicate that value-added in the non-profit sector equaled approximately $55 billion in 2012-13.[25] In nominal dollar terms, that figure will have increased to approximately $65 million in 2017 – or around 4 percent of GDP. Again, as a result of a lack of comprehensive data, this figure likely underestimates the total economic footprint of government-funded but arms-length service delivery organisations.

Table 4 Value Added by Non-Profit Institutions 2012-13		
	Gross Value Added (2012-13)	% Total GDP
Education & research	16.9	1.1%
Social services	10.7	0.7%
Culture & recreation	7.3	0.5%
Health (excl. hospitals)	5.7	0.4%
Hospitals	4.2	0.3%
Other	14.2	0.9%
Total	54.8	3.6%
Source: Author's calculations from ABS Catalogue 5256.0, Table 3.		

GOVERNMENT PROCUREMENT

In addition to its direct production of goods and services, and its fiscal support for arms-length and non-profit organisations to provide publicly-subsidised services, governments also purchase large quantities of goods and services directly from private-sector suppliers. This constitutes another channel of important potential influence by government over labour practices across the economy.

Comprehensive and consistent data regarding the size and composition of procurement are also difficult to obtain, given the very broad portfolio of purchases undertaken by different levels of government, different program departments, and different expenditure streams.[26] AusTender, the Commonwealth government's

[25] The ABS publishes statistics from its satellite accounts for non-profit organisations only once every few years; see ABS Catalogue 5256.0.

[26] Indeed, one of our concluding recommendations is precisely to assemble a consistent multi-government database regarding procurement spending.

procurement agency, annually reports total procurement contracts for the federal government (Department of Finance, 2017). Its most recent report cited total spending of $47.4 billion (for fiscal 2016-17), two-thirds of which was defense-related.[27] Some state governments also publish aggregate data,[28] but these sources vary in terms of consistency and comprehensiveness.

The Organization for Economic Cooperation and Development reports procurement data for the general government sector (considering all levels of government) for different member states (OECD, 2017). Because of the inconsistent nature of government reporting on procurement by state and Commonwealth levels, the OECD figure for Australia is based on a hybrid estimate constructed from a combination of explicit government reporting and national accounts data. For 2015 (most recent data), the OECD estimates general government procurement equal to 13.1 percent of GDP that year – implying total procurement spending (by all levels of government, for both current consumption and capital projects) of around $215 billion (as indicated in Table 5). It is likely, however, that this figure overestimates total external procurement, as a result of the inconsistent data sources used in constructing the estimate – and hence we will consider it a "high" estimate of the value of total procurement. Recall that Table 3 reported total spending by all levels of government on both current programs and capital projects to equal around $420 billion. It is unlikely that more than half of that total is sourced from external suppliers – especially in light of the substantial value of direct public sector production reviewed above.

Another approach to estimating the aggregate value of external procurement is to deduct an estimate of direct public sector production from the combined value of government consumption and investment spending. By that approach, procurement can be estimated as a "residual": the amount of money spent by government on goods and services, but which are not produced directly by government and its various agencies. We roughly estimate the share of GDP produced within public agencies on the basis of the share of workers in Australia's economy employed in the public sector,[29] which was 13.75% in 2017. After deducting that production from the total value of government consumption and investment expenditure, we are left with a residual estimate of total procurement equal to some $172 billion in 2017. This is equivalent to just under 10 percent of national GDP.

A final estimate of general government procurement can be constructed by "grossing up" the AusTender estimate of Commonwealth-level procurement spending, by a

[27] A more detailed breakdown of procurement contracts by government department and purpose is provided by Australian National Audit Office (2017).

[28] See, for example, Victorian Government Purchasing Board (2017).

[29] Reported in ABS Catalogue 6291.0.55.003, Table 26a.

factor which reflects the ratio of total state and local consumption and investment spending (along with investment spending by public corporations) to its Commonwealth counterparts. The data in Table 3 indicated that together, state and local governments and public corporations spent 1.75 times as much as the Commonwealth government. If that ratio also applies to the AusTrade estimate of external federal procurement,[30] then this implies general government procurement spending of about $130 billion per year – or over 7 percent of national GDP. We will consider this a "low" estimate of procurement since the AusTrade catalogue does not provide an exhaustive accounting of all external purchases by government or government-funded agencies at the federal level; and state practices may not be proportional to Commonwealth procurement patterns.

Table 5
Estimates of Government Procurement

	$Billion	%GDP
Estimate 1 (High): OECD "Government at a Glance"		
2015 Estimate	$214.5	13.1%
Estimate #2 (Mid): Residual from National Accounts Data		
2017 Estimate	$171.8	9.6%
Estimate #3 (Low): Grossed-Up AusTender Estimate		
2016-17 Estimate	$130.1	7.2%

Source: Author's calculations from OECD (2017) and ABS Catalogue 5206.0, Tables 3 and 17-19, as described in text.

In conclusion, these three estimates of government's external procurement spending differ because of the different methodologies they embody (given the lack of comprehensive and consistent data). But together they provide a more robust indication of the order of magnitude of purchased government procurement: which is likely around 10 percent of national GDP. This confirms the importance of procurement decisions – not just as a powerful source of demand for goods and services produced in many sectors, but also as a lever for influencing the conditions of that production (for better or for worse).

[30] The implicit assumption in this approach is that state and local governments, on average, are just as likely to "outsource" their consumption and investment spending as is the Commonwealth.

Keep in mind that the overall impact of procurement purchases on labour standards may be proportionately greater than the share of procurement revenue in total GDP. This is because few private firms rely solely on government contracts for all of their revenue; instead that procurement business usually constitutes just a subset of the total activity of any firm which sells to government. However, it is difficult for private employers to "sequester" compensation and labour relations practices – such that workers would be paid one rate for work performed on government contracts, but another (presumably lower) rate for other work. For this reason, successfully linking procurement business to employment practices is likely to influence wages and working conditions for most or all of the work done by those firms – including work performed for private-sector customers. Hiltonsmith and Ley (2014) estimated, in the U.S. context, the total workforce employed by "federally-supported" businesses: firms receiving a significant portion of total revenue from federal government contracts. On average, those federally-supported firms received about one-third of their total revenue from procurement. The total level of activity (and presumably employment) in those firms would thus be about three times the share of federal spending in their total revenue.[31] This is a strong indicator of the extent to which public procurement spending can exert a magnified impact on wages and labour standards across a much broader swathe of the economy.

AUSTRALIA'S GOVERNMENT PURCHASES IN INTERNATIONAL PERSPECTIVE

To conclude our mapping of the dimensions and composition of government's economic footprint, it is useful to compare the scale of government expenditure in Australia with the experience of other industrialised countries. Several indicators of the relative size of Australian government expenditure are provided in Table 6.

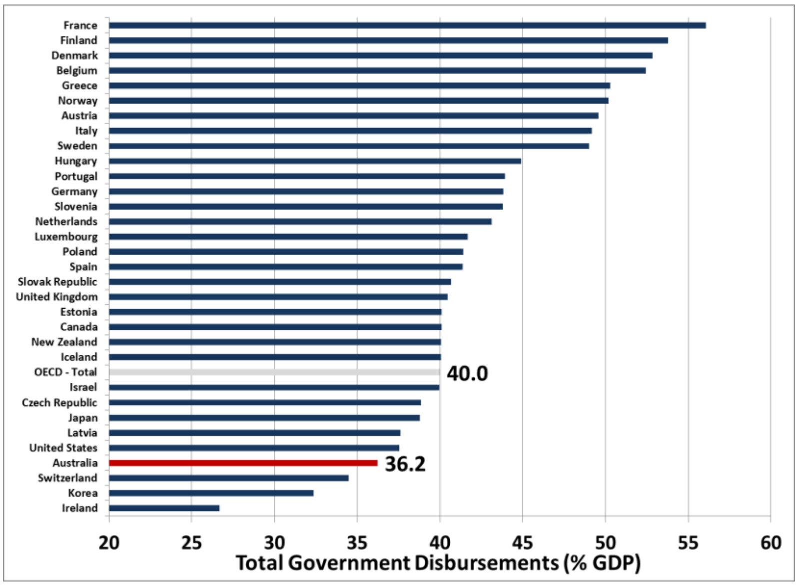
Relative to comparable peers, the overall level of government expenditure in Australia (measured as a proportion of national GDP) is surprisingly small – and in fact smaller than in the U.S. (which is often portrayed as the prototype of "small government"). As illustrated in Figure 10, Australia has the fourth smallest level of total government spending relative to GDP of all countries reported by the OECD (ahead of only Ireland,

[31] Hiltonsmith and Ley estimate that 14 percent of all U.S. workers are employed by firms which receive at least 10 percent of total revenue from just two major streams of federal spending: direct federal contracts and Medicare spending.

Korea, and Switzerland).[32] At just over 36 percent of GDP, Australian government disbursements were 4 percentage points smaller than the weighted average for the OECD.

Table 6 Australia's International Ranking Measures of Government Expenditure		
	Percent of GDP	**Rank in OECD[1]**
Total Government Disbursements (2017)	36.2%	29/32
General Government Consumption (2016)	18.5%	23/35
General Government Procurement (2015)	13.1%	21/34
Source: Author's calculations from OECD Government at a Glance; Economic Outlook Database; and National Accounts Database. All levels of government. **1.** Ranking among OECD countries with comparable data.		

Figure 10: Total Government Disbursements as a Share of GDP (2017)



Source: OECD Economic Outlook Database.

[32] The OECD database on government disbursements does not cover the entire set of OECD member countries, due to inadequacies in national income reporting by some members. Some of the missing countries likely have less government spending as a share of GDP than Australia, in which case Australia's ranking within the OECD would be somewhat higher. But Australia's government spending nevertheless ranks well below the US and almost all other higher-income countries.

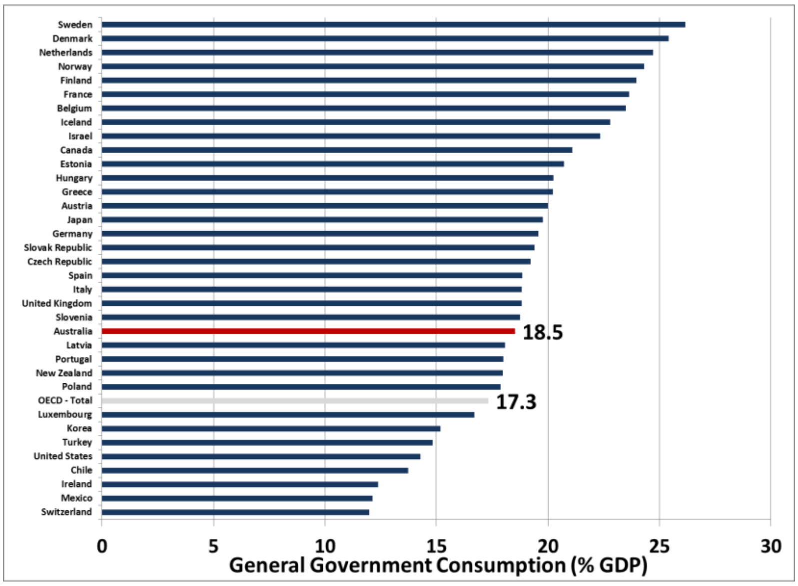
The main reason for Australia's relatively small government spending profile is an unusually small level of transfer payments to individuals for income security programs and other measures. As discussed above, since transfer payments do not directly involve production, they are not so directly connected to production, and hence to issues of work and working conditions. If we exclude transfer payments, and focus instead on public consumption and public procurement – streams of expenditure that have more direct relevance to work and production – then Australia's government expenditure falls more within the mainstream of international practice.

For example, Figure 11 provides a ranking of OECD countries according to the level of current public consumption relative to GDP. Australia ranks 23rd out of 35 countries with consistent data for this measure, with an expenditure level that is actually slightly higher than the (weighted) OECD average.[33] And Australia's relative ranking improves further when we focus on procurement purchases from outside suppliers. As illustrated in Figure 12, the OECD estimate of Australia's procurement (at 13.1 percent of GDP) places it 21st out of 34 countries with comparable data (and once again exceeding the OECD weighted average). It is interesting that Australia's procurement spending is fairly typical of other OECD countries, even though its overall level of government spending is well below typical. This reflects both Australia's relatively modest transfer payment systems, as well as its relatively heavy reliance on privatised and outsourced services. This is confirmed by Australia's relatively large share of total government spending that is allocated to external procurement: over 35 percent according to OECD data, 7th highest in the OECD.

So while Australia's overall government spending profile is unusually small for an industrial country, it is more typical when measured in terms of government consumption and especially in terms of procurement from outside suppliers. It is those forms of government expenditure that would likely have the most impact on work and production (both within government, and among arms-length or private suppliers). It is clear, therefore, that even by international standards, Australia enjoys considerable scope for the sorts of pro-active measures discussed in this report to leverage government spending power into sustained improvement in wages and working conditions.

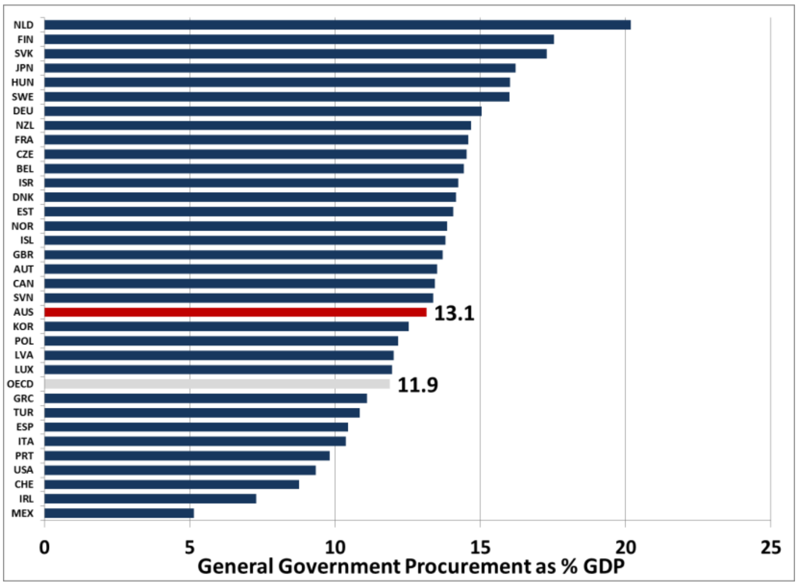
[33] Australia is above the OECD weighted average, despite falling well within the lower half of countries reporting, because of the disproportionate impact of the U.S. (with low government consumption) on the overall average.

Figure 11: General Government Consumption (% of GDP), 2016



Source: OECD National Accounts Database.

Figure 12: General Government Procurement Spending (% of GDP), 2015



Source: OECD (2017b), Figure 9.1.

AGGREGATE ECONOMIC EFFECTS OF PUBLIC EXPENDITURE

The previous discussion has described various channels through which government spending translates into real work and production in the Australian economy. These channels include:

- Direct public sector service delivery (accounting for around 18.5 percent of total GDP, and around 14-16 percent of total employment).
- Public capital investments (worth another 5 percent of GDP).
- Fiscal and policy support for public and community service provision undertaken by arms-length and non-profit agencies (equivalent to at least 4 percent of GDP).
- Procurement purchases from private sector businesses, for both current government programs (government "consumption") and public investment projects (likely worth around 10 percent of GDP in total).[34]

Together, hese injections of spending power by government and related agencies account for well over one-quarter of Australia's total economic activity.

But the overall economic importance of government spending extends even further than implied by those numbers. This is because public expenditure on goods and services production (whether for consumption or investment) generates positive spillover effects that extend into other sectors, for a number of reasons. "Upstream" linkages are experienced via the extended supply chain which feeds into government procurement purchases. We considered first-order government procurement in Table 6: purchases made directly by governments from private suppliers. But those firms also have inputs and supplies that they purchase from their own respective supply chains. Those second-order supply chain purchases magnify the overall impact of the initial government investment.

At the same time, there are also important "downstream" effects resulting from government expenditure on goods and services. When public sector workers spend their own incomes, this generates incremental demand for the whole range of consumer goods and service-producing industries – everything from home-building to hospitality services to retail trade to personal services. And the new business

[34] Recall that those procurement purchases can form part of any of the previous indicated flows (government consumption, public investment, and non-profit activity), and hence cannot be simply added to the previous totals.

experienced in those industries translates into subsequent demand for workers, inputs, and supplies, further magnifying the stimulative impact of the initial government purchase.

Finally, it is clear that high-quality public services and investments play an important role facilitating private sector activity, by providing private firms with the infrastructure, skilled workers, and stable and secure economic environment in which to pursue their respective business opportunities. Economists refer to these spillover benefits as a “crowding in” effect: the functions of an effective public sector enhance the profitability and growth of private activity.[35]

All of these spillover benefits are especially important during times of economic weakness, when idle resources (including unemployed and underemployed labour) can be productivity occupied as a result of the direct and indirect stimulus coming from public expenditure. This has been the case in Australia in recent years, as evidenced by widespread underutilisation of labour and persistent excess capacity at the macroeconomic level. Economic models estimate that government expenditure multipliers under conditions of unemployment are typically in the order of 1.5: that is, changes in government purchases affect final GDP by a factor of $1.50 for every additional dollar in expenditure.[36] Multiplier effects will be stronger for purchases (like labour-intensive public services) which generate greater flows of direct income for domestic residents, as compared to more capital- or import-intensive purchases (for which more of the expenditure’s stimulative effect is dissipated away from the domestic economy).

Finally, keep in mind that revenue flows collected by national and state governments are also very sensitive to overall macroeconomic conditions. As noted in Table 3, governments at all levels collect around 33 cents in incremental revenues from each dollar in GDP, through the full portfolio of taxes and other revenue sources.[37] So among the broader economic benefits resulting from robust government expenditure is an enhanced flowback into government’s own economic coffers – which rise directly thanks to the new GDP stimulated by government spending (both public sector activity

[35] This is the exact opposite of the “crowding out” hypothesis advanced by neoclassical economists, according to which any government activity is offset by foregone private sector activity “squeezed out” by the government’s intervention.

[36] Weber (2012) uses 1.5 as his benchmark of multiplier effects from government expenditure. Other similar multiplier estimates are discussed in Spoehr (2006), Cook and Mitchell (2009), and Australian Treasury (2009-10).

[37] Tax collections as a share of GDP are slightly smaller than the total government sector revenue flows reported in Table 3, due to the existence of non-tax revenue sources (such as investment income and profits from public corporations).

and private procurement). These indirect effects of government spending reinforce the importance of government policies to lift wages and labour standards; workers will have a stronger bargaining position in dealing with their employers over these matters, thanks to stronger employment conditions resulting from the multiplied effects of government spending.

Part III: Perverse Use of Government Spending Power to Repress Labour Standards

The discussion above has described the enormous impact of government's spending power on the size and shape of Australia's economy. All levels of government together spend close to one quarter of total GDP on direct goods and services (not counting transfer payments to individuals and businesses), used for both consumption and investment purposes. That represents the production or purchase of goods and services worth around $420 billion per year. Governments also support and shape the production of additional public and community services that is undertaken by arms-length non-government agencies. Governments purchase about one tenth of GDP in the form of procurement purchases from private firms. And even transfer payments paid by government to individuals, businesses, and other recipients can affect the pattern of work and production (depending on how those transfer payments are ultimately spent). Altogether, these powerful flows of public purchasing power hold significant potential to shape employment relationships, influence norms regarding fair and reasonable labour practices, and affect wage growth and employment standards over time.

The key question is to what end that potential influence will be directed. It may seem perverse, but in practice many governments have invoked their spending power to leverage *downward* change in working conditions, and employment practices – motivated by the goal of suppressing wages and labour costs. This section of the report will summarise several counterproductive examples of the use of government economic leverage to restrict or undermine labour market outcomes. The examples cut across all three of the channels of influence identified above, namely:

- Direct employment and production by government agencies.
- Fiscal and regulatory parameters established to guide public and community service provision by arms-length and non-profit organisations.
- Purchases of goods and services from private firms.

The examples listed here can be interpreted as a cautionary catalogue: actions that should be *avoided* by governments concerned with lifting labour standards. And these examples at least confirm that policy-makers of all political persuasions do agree that government spending power can be used in ways that support broader labour market policy agendas. Debate will occur over the direction of that policy agenda: should it lift wages and enhance employment conditions, or reduce labour costs and reaffirm the power and freedoms of employers over work and production. But there can be no disagreement over whether government's spending power is a relevant and legitimate tool to be invoked in the pursuit of those priorities: governments of all persuasions have repeatedly done so.

DIRECT PUBLIC SECTOR ACTIVITY

One obvious factor which has reduced the impact of public purchasing power on overall labour markets has been the long-term erosion of public sector employment relative to the overall population and labour market. As noted above, policies of downsizing, outsourcing, and privatisation have all served to reduce total public sector employment in Australia by about half, measured as a share of total employment: from 30 percent in the mid-1980s to just 14-16 percent today. This erosion of public sector employment has automatically undermined the extent to which the better labour standards typically observed in public sector jobs (including somewhat higher wages, more stable job security and schedules, and significantly stronger collective representation and EBA coverage) can lift up overall labour market averages. Converesly, more recently employment in several public services (led by the health care and education sectors) has grown more quickly than overall employment, in response to growing public demand for those services. This is an encouraging sign, and will reinforce the beneficial impact of government spending on employment outcomes and labour standards. Nevertheless, relative to longer-term norms, Australia's public sector employment has declined considerably; this has exposed a larger share of Australian workers to the more unforgiving pressures of precarious work, downward wage pressure, and fragmentation experienced in the private sector.

Unfortunately, governments at all levels persist with misguided efforts to downsize public employment, shift work from public agencies to private contractors, and undermine the quality of public sector work (through expanded use of part-time, temporary, and casual workers). These ongoing efforts, purportedly motivated by a desire to "save taxpayers' money," often translate into higher costs, not lower – despite their negative impact on wages and working conditions. Consider, for example, governments' over-use of private consultants, contractors, and outsourced suppliers. The shift to external provision of many key administrative functions by governments is motivated by politicians' desire to be seen as "frugal" – yet in many cases outsourcing increases the ultimate cost to government (due to the overhead, duplication, and profit margins associated with private provision), even though the workers are usually paid less. For example, a recent Australian National Audit Office found widespread under-reporting of consulting in Australian government departments; this sparked a Parliamentary Inquiry on the matter which is still ongoing.[38] Recent Commonwealth programs which have been negatively affected by downsizing and outsourcing, sometimes with catastrophic effects on the quality of public service delivery, include the Australian Bureau of Statistics (and the major problems its private contractors experienced during the 2016 census) and the Department of Human Services – whose staff complement has been repeatedly downsized, while at the same having many functions outsourced to private suppliers (including private consulting firms who oversaw the Department's infamous "robo-debt" fiasco).[39]

Even within the relatively smaller public sector workforce that remains (in the wake of misguided downsizing), governments at both the national and state levels have aggressively repressed normal wage determination processes – with negative consequences for wages and working conditions that are felt across the broader labour market. Sadly, governments preoccupied with deficits typically turn to their own workforces as a fiscally and politically convenient source of savings. The fiscal deficits encountered by Commonwealth and state governments during the past decade (since the Global Financial Crisis in 2008) have sparked many governments to impose simplistic austerity measures on their own employees. The Commonwealth government and most states have imposed arbitrary caps on wage increases for public sector workers, typically limiting compensation growth to 2 percent per year or even lower. Table 7 summarises wage caps in several jurisdictions; these wage caps are typically backed up with legislative measures which eliminate normal collective bargaining processes and labour rights, in contradiction of both traditional practice and international norms.[40] While they are typically implemented during times of budget deficits, justified as a fiscal necessity, wage caps usually remain in effect even as fiscal pressures eased. In New South Wales, for example, binding wage caps were implemented in 2011 to supposedly help fix state budget deficits. But years later the wage cap is routinely rolled over with each annual state budget – even though the state government now enjoys multi-billion dollar budget surpluses.

[38] Parliament of Australia (2018).
[39] See Taylor (2017) and Community and Public Sector Union (2018) for more details.
[40] See, for example, Parliament of Australia (2002).

Table 7 Public Sector Wage Caps	
Jurisdiction (Effective Date)	**Annual Wage Cap**
Commonwealth (2014): Wage Bargaining Policy	4.5 percent over 3 years; replaced by 2 percent per year
New South Wales (2011): Public Sector Wages Policy	2.5 percent per year
Western Australia (2014, 2017): Public Sector Wages Policy Statement	Wages capped at change in Perth CPI; replaced by maximum increase of $1000 per worker
South Australia (2016): State Budget	1.5 percent per year for 3 years
Tasmania (2013, 2016): Public Sector Union Wages Agreements	2 percent per year
Northern Territory (2017, 2018): Public Sector Wages Policy	2.5 percent per year; replaced by 2 percent in 2018.
Source: Author's compilation from budget documents and media reports.	

Legislated wage caps are a violation of free collective bargaining, and inhibit more efficient and flexible compensation and management practices. Ideally, wages and other components of compensation should be tailoured to the needs of specific workplaces, rather than being universally determined by blunt sector-wide parameters.

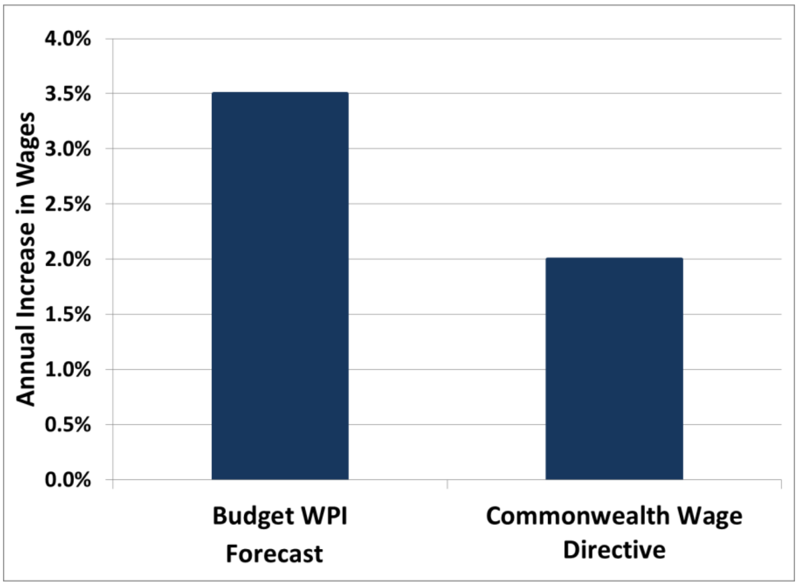
But perhaps the most damaging, if unintended, consequence of the arbitrary suppression of public sector compensation is its spillover impact on wage trends across the broader labour market – including among private sector employers. There are several channels through which this spillover impact is experienced. Public sector wage caps establish a highly visible benchmark for wage determination elsewhere in the economy, automatically influential since they are implemented by the largest employers in the country. Private firms which supply government will invoke the government's wage cap as justification for their own wage restraint measures, in order to "stay competitive" with their biggest customer. Finally, by suppressing wage growth and hence undermining consumer spending within a significant section (around 15 percent) of the total workforce, public sector wage caps undermine aggregate demand conditions and the vitality of private-sector activity (in retail trade and other consumer-sensitive "downstream" industries). For all these reasons, it is not a coincidence that public sector wage restrictions have been paralleled by corresponding wage slowdowns within the private sector. Figure 13 illustrates the case of New South Wales, one of the first jurisdictions to introduce a binding wage cap. Within months of the imposition of that state government's 2.5 percent wage cap, overall wage trends across the broader state labour market had been pulled back to the same level – to the detriment of consumer spending, economic growth, and the government's own revenue growth.

Figure 13: Unintended Consequences of the NSW Public Sector Wage Cap

Source: Author's calculations from ABS Catalogue 6345.0, Table 2a, excl. bonuses.

Treasurers in Commonwealth and state governments continue to hope for an acceleration of wage growth – knowing how important that will be to future government revenues. Yet they still continue to ignore the contradiction between their own wage policies (limiting wage growth in the public sector well below the levels hoped for in their own budget forecasts) and the need to restore wage growth. For example, in his most recent Commonwealth budget, the federal Treasurer projected an acceleration of wage growth in the broader economy from around 2 percent at present to 3.5 percent by the third year of his forecast; this assumed acceleration is important to the budget's optimistic revenue assumptions. Yet the government at the same time extended its internal 2 percent cap on wage growth for public servants (Figure 14). The Treasurer must hope that other major employers in the economy do not follow his own leading in suppressing compensation growth at such a low level.

Figure 14: Commonwealth Wage Projects vs. Internal Wage Policies



Source: Author's compilation from Budget 2018 and Workplace Bargaining Policy.

With these forceful interventions to neutralise traditional wage determination practices (including eliminating normal collective bargaining rights), Australian governments have shown their willingness and ability to pro-actively control wages and other compensation features. Unfortunately, in recent years, these interventions have been more often motivated by a desire to *suppress* wage trends – rather than providing a badly-needed boost to wages and working conditions.

FISCAL AND REGULATORY PARAMETERS FOR NON-GOVERNMENTAL SERVICES

Government also defines a powerful context for the determination of wages and working conditions across community services industries through policies regarding funding for those sectors, quality standards, and related matters. Government-funded but independently-delivered services constitute several percentage points of total output and employment in the economy. Unfortunately, this sector also provides several troubling examples of how Australian governments have tended to drive down wages and working conditions – instead of lifting them. And in these sectors, the consequences of poor labour standards are shared by service consumers, not just those performing the work. Research has demonstrated that the realised quality of human and caring services is linked closely to the quality and stability of jobs for those performing the services. Poor pay, high turnover, and inadequate training badly undermine the quality of public and community services, regardless of how committed and dedicated the service providers may be.[41]

Here are some examples of government policies in the area of arms-length service delivery which have paid inadequate attention to the resulting effects on work, compensation and working conditions:

School cleaning in Victoria: In the early 1990s, the Victoria state government led by Premier Jeff Kennett implemented new regulations requiring all public schools in the state to outsource cleaning services to private suppliers (prohibiting them from engaging their own cleaners as direct school employees).[42] School administrators had no power to make alternative arrangements for school cleaning; they were all required to tender the services to competitive bids. This intrusive and top-down directive was supposed to reduce the cost of cleaning services across the public school system, but clearly this could only be achieved by pushing down labour costs through competitive bidding and re-bidding of cleaning contracts. The policy had several negative consequences, including inferior cleanliness, wasted administrative effort (to oversee the tendering process and supervise external suppliers), and widespread failure of private cleaning firms to meet minimum labour standards (such as minimum wages, leave entitlements, and more).[43]

National Disability Insurance Scheme: The introduction of the NDIS represents the most significant expansion of social services in Australia since the advent of Medicare a generation ago. However, the positive potential of the program (to meet the needs of people with disabilities in a more flexible and individualised manner) is being hampered in practice by the use of a competitive voucher-based system for delivering disability services. Individual participants have considerable discretion in "spending" their allotted budgets for services, and the administration of the system has not adequately provided for decent labour standards within the "unit prices" decreed for various services.[44] As a consequence of this delivery model, wages and job stability are suffering badly; most workers providing NDIS services are casual and part-time workers, with little opportunity for skills acquisition, and constantly scrambling to piece together enough work to survive. The quality of service delivery (which depends

[41] Meagher et al. (2016), Macdonald et al. (2018).
[42] Liquor Hospitality and Miscellaneous Workers Union (2010).
[43] See Howe and Landau (2016).
[44] Including adequate margins for overhead, staff training, and other indirect labour costs; see Ryan and Stanford (2018) and Macdonald et al. (2018).

critically on the stability, skills, and compensation of service providers[45]) will inevitably suffer, too.

Other Marketised Public Services: The consequences of market-based delivery models for wages and working conditions in human services which are funded by government but delivered by arms-length organisations and agencies, are visible in numerous other sectors, as well. Leading examples of once-public services which are now delivered through market-based systems include employment services,[46] vocational education, and electricity generation and transmission. In these sectors, too, inadequate public funding and oversight, combined with the relentless pressure of market competition, has produced downward shifts in realised wages and labour standards.

PROCUREMENT FROM PRIVATE SUPPLIERS

Market-oriented political leaders often speak of the desirability of minimising government interference in private commercial matters, allowing market forces and private business judgment to determine optimal production and marketing practices. This predisposition in favour of *laissez faire*, however, is not always realised in practice. There are numerous examples of circumstances in which supposedly market-friendly governments have invoked the spending power associated with government procurement to decree the adoption of employer-friendly labour practices within private businesses:

Howard Labour Reforms: In the late 1990s and 2000s, the federal Coalition government of John Howard implemented a series of labour law reforms that restricted union activity, prohibited preferences for union membership, and restricted opportunities for industrial action. To accelerate the adoption of these new processes, the government pressured private firms and other external bodies to comply with the new labour practices, on threat of loss of government funding or access to government procurement contracts (Howe, 2006). Sectors targeted by this very interventionist approach included the construction industry (building firms were required to demonstrate compliance with new industrial relations rules in order to win government contracts; see Hill, 2005) and universities (which were forced to restructure their enterprise bargaining system, setting aside provisions regarding casual employment and other controversial matters; see Rosewarne, 2005). It is interesting that this government did not let its stated philosophical opposition to

[45] See Meagher et al. (2016) and Rosati et al. (2009).
[46] See Bacon (2002).

government interference in the affairs of private business stand in the way of its efforts to wield the clout of spending power in support of its labour law objectives.

Australian Building Code: More recently, the current Coalition Commonwealth government has likewise attempted to enforce specified labour practices within private-sector workplaces, through a far-reaching code of practice governing industrial relations in the construction industry. Under the "Code for the Tendering and Performance of Commonwealth Funded Building Work," implemented in conjunction with the reestablished Australian Building and Construction Commission (ABCC) in 2017, private construction contractors must meet a number of specific tests regarding the nature of their workplace practices and EBA provisions. Companies which do not meet these conditions can be prevented from bidding on work associated with Commonwealth-funded construction and infrastructure projects. The following provisions are all considered non-code-compliant, and firms which agree to them within EBAs can therefore be restricted from bidding on government projects (CFMEU 2017):

- Limits on ordinary and overtime hours of work.
- Limits on the use of labour hire firms to supply labour.
- Limits on the use of casual workers.
- Fixed rostered days off for employees.
- Limits on the number and use of temporary visa workers.
- Minimum apprentice ratios on construction sites.
- Union representation structures and procedures.
- Clauses to encourage hiring of youth, women, older workers, or workers from targeted communities.
- Allowed use of union stickers, posters, clothing, and flags.

The code thus prevents unions in the construction industry from trying to limit some of the same practices – such as casual, part-time, and labour-hire work – that have undermined wage growth and job security throughout the labour market. In this manner, government is using its purchasing power to actually *reinforce* the trends which are so damaging to the traditional conception of inclusive economic growth.

State-Level Interventions: The intrusive and wage-suppressing strategies of the ABCC's Building Code have been mimicked by some state governments, which have also tied procurement contracts to specified, anti-union industrial relations practices. An example is the NSW government's "Industrial Relations Guidelines" for contractors in building and construction (New South Wales Government, 2017). It lists numerous practices which can disqualify firms from consideration for state-funded projects, all with an aim to undermining union activity, limiting over-award payments for labour, and generally reducing labour costs. The policy is publicly as an effort to obtain better "value for money" for construction procurement, but the anti-union bias of the guidelines is clear.

Offshoring Procurement: In addition to these various pro-active interventions in the internal labour practices of private suppliers, Commonwealth and state governments have simply foregone the potential value of procurement spending for labour markets, through their decisions (again justified in the name of cost-saving) to allocate major procurement purchases to offshore suppliers (rather than sourcing them domestically).[47] Australia has incurred large trade deficits in several high-technology sectors where government procurement is important (such as transportation equipment, electronics and computers, telecommunications equipment, defense equipment, and scientific machinery and equipment). These are sectors where the more determined allocation of procurement to domestic producers would strengthen employment outcomes, by virtue of their positive impacts on both the quantity and quality of work.

[47] A recent example of this approach was the 2016 decision by the NSW government to allocate a $1.3 billion contract for construction of passenger railway equipment to a Korean supplier, despite the existence of unutilised railway manufacturing capabilities within the state. See Stanford (2016) for a detailed quantitative analysis of the economic and fiscal consequences of that decision.

Part IV: Using Government Spending Power to Lift Labour Standards

The previous section reviewed several negative examples of Australian governments which failed to use the leverage associated with their economic footprint to lift labour standards – or, worse yet, actually used their spending power to *suppress* wage growth, job security, and labour rights. Let us assume instead that government is committed to using its economic power to raise wages and labour standards over time. There are numerous channels through which this more positive goal could be achieved. As noted earlier, the primary way for government to influence labour standards is through direct regulation of employment standards, minimum wages, and industrial laws. But government's fiscal power can certainly play an important supporting role, too: reinforcing an agenda of labour reform, directly improving labour market outcomes within the sphere of government production, and indirectly pushing private sector and non-profit producers to attain higher standards.

This section will review and catalogue several positive real-world examples of ways in which government's economic footprint has been successfully marshalled in the service of attaining better labour outcomes: higher wages, more secure jobs, and more consistent respect for fundamental labour rights and standards (including the right to organise and bargain collectively). The section considers several categories of positive experiences. First, we review innovative domestic case studies, whereby Australian governments (at the Commonwealth, state, and municipal levels) have leveraged spending power in pursuit of better labour standards. Second, we note that many private businesses have considerable experience with ethical procurement practices, including disclosure, auditing, and supply chain regulation techniques. We consider whether these private-sector strategies could also be utilised by governments. Finally, we review several international examples of governments which actively and deliberately mobilised their spending power in support of better labour outcomes.

AUSTRALIAN EXAMPLES

In contrast to the negative examples reviewed in Part III (in which Australian governments wielded spending power to suppress wages and labour standards), there are also many examples of more enlightened interventions by governments to support stronger labour standards through their fiscal interventions. We cannot provide an exhaustive inventory of such interventions, but we do provide representative examples covering the three broad channels of influence highlighted earlier: direct public sector work and production, indirect influence over the activity of arms-length service providers, and government procurement from private firms.

Minimum Labour Standards and Working Conditions in Commonwealth Government Procurement Policies: The previous Labor Commonwealth government implemented several innovative measures to ensure that private companies working on federal contracts complied with minimum labour standards and fair practices. The "Fair Work Principles," implemented in 2010, required government contractors (for any regular projects over $80,000, and any construction projects over $9 million) to certify through mandatory declaration that their operations complied with the terms of the Fair Work Act (which had been implemented the previous year). Additional provisions were applied to two sectors considered at high risk of labour standards violations: cleaning services, and purchases of textiles, clothing and footwear. In the former case, new "Commonwealth Cleaning Services Guidelines" required government cleaning contractors to pay wages consistent with the "Clean Start" principles, superior to minimum award wages. In the latter case, providers of clothing and footwear had to be accredited under the "Home Workers Code of Practice" (a voluntary code administered by Ethical Clothing Australia[48]). Unfortunately, all of these provisions were revoked by the new Coalition government led by Tony Abbott in 2014 (Bargar, 2014).

Minimum Labour Standards and Working Conditions in State Government Procurement Policies: Several state governments have also implemented procurement policies which require adherence by contractors to specified minimum labour standards, award conditions, and industrial relations practices. As indicated above, this linkage between procurement and labour standards has occasionally been used in negative ways – but there are several promising positive precedents, as well. Some state governments began to leverage their procurement purchases to achieve stronger labour standards in the mid-2000s, in part as a response to the centralisation of industrial relations policies by the Howard federal government at the time (Howe and Landau, 2007). For example, the NSW government implemented new guidelines, piloted in the courier and delivery industries, whereby contractors were required to ensure that their workers, regardless of specific employment status, experienced no net disadvantage relative to the terms of a relevant industrial award (New South Wales

[48] Ethical Clothing Australia is a tripartite initiative involving clothing manufacturers, the government, and the Textile Clothing and Footwear Union.

Government, 2006). The policy was weakened, however, by subsequent state governments. The Victoria government also implemented an "Ethical Purchasing Policy" in 2007 (Victorian Government, 2007; Victorian Government Procurement Board, 2007, p.13), which required commitment by government suppliers in four identified "at-risk" sectors (security; cleaning; catering; and textiles, clothing and footwear) to minimum employment standards as a condition of winning government business. More recently, the government of Queensland adopted a new procurement policy (Government of Queensland, 2017) with an ambitious commitment to the "advancement of economic, environmental and social objectives." This broad goal is defined to include stable jobs, commitment to apprenticeships, hiring of young workers and workers from disadvantaged groups, and the provision of selected employment entitlements (such as the right to paid leave for victims of domestic violence).

Commonwealth Support for Better Qualifications and Better Wages in Early Childhood Education: Governments establish the basic economic framework governing the production of state-subsidised public and community services by arms-length or non-profit agencies, through the fiscal and regulatory parameters governing that work. The level of state funding provided to those services, and the nature of minimum quality and working condition regulations, have direct impact on the quality of jobs. An example of how government influences standards in arms-length service delivery (for better or for worse) is provided by the Commonwealth government's evolving approach to qualifications, quality standards, and work practices in early childhood education (see OECD, 2015a; and Krieg, 2013). In 2010 the Commonwealth government established the Australian Children's Education and Care Quality Authority to work with state governments and child care providers to establish and implement minimum qualification standards for early childhood education. That effort was strengthened in 2012 with the creation of a National Quality Framework for the sector, to ensure consistent standards across states and oversee compliance and inspection efforts. The strategy was premised on the belief that to enhance qualifications and provide better services, early childhood education work had to become better regulated and better compensated; as a transitional measure to that end, the Commonwealth also established an Early Years Quality Fund to subsidise high-quality group care facilities in boosting wages for early childhood workers (in line with their growing qualifications). By simultaneously supporting both stronger regulations and better compensation, the goal was to lift standards for both care and work – in a sector which depends on massive government subsidies for its viability. However, under pressure from private care operators who opposed the program, the new Coalition government of Tony Abbott redirected Quality Fund resources away from supporting higher wages in 2013. Advocates continue to press for expanded government fiscal support, and stronger quality regulations, to ensure that work in this growing, publicly-supported industry reflects optimal qualifications and standards.

Protecting Jobs, Rates and Conditions in Solid Waste Services: One consequence of market-based procurement models is the negative impact of re-bidding for contracts on wages and working conditions for the relevant workers. Every few years, re-bidding for contracts accentuates downward pressure on wages and conditions (as contractors suppress their labour costs in hopes of winning the bid). This makes it very difficult for workers and their unions to win sustained improvements in wages and conditions (above statutory or award minimums), since other companies would then likely win the bids on the basis of lower wage costs. One solution to this problem is for tendering governments to require the maintenance of existing employment rights, wages and conditions for existing workers performing the service in question, as a condition of bids in the next round of competition. A recent example is provided by the experience of several NSW municipalities which recently re-issued waste collection contracts. Under pressure from union and community advocates, municipal councils in Central Coast, Penrith and Randwick agreed to require all service bidders to protect the job security, wages, and conditions of existing waste collection workers – as a condition of bidding on the re-tendered contracts (Way, 2017; Olsen, 2018). In this manner, competition among potential suppliers is channeled in more productive directions (such as trying to win contracts on the basis of efficiency and quality of service), rather than competition to reduce wages and working conditions.

Provisions to Establish Minimum Rates and Other Entitlements for School Cleaners: We discussed above the negative history of one Victoria state government that ordered the contracting out of school cleaning to competitive tendering, in hopes of reducing state education outlays. This policy led to unsatisfactory cleaning outcomes, as well as unsatisfactory wages and working conditions for many cleaners. A subsequent Victoria state government moved to redress these failures with a very different procurement strategy. Under the Victoria Government Schools Contract Cleaning Program, contractors must demonstrate their satisfactory performance on a number of criteria (including key labour standards indicators) before being allowed to bid on school cleaning contracts. Research indicates that the system has facilitated improvements in both cleaning quality and on working conditions for cleaners (Howe and Landau, 2016). Education cleaners in New South Wales recently achieved a renewal of similar provisions in that state that guarantee continuity of positions, minimum hours of work, and limits on sub-contracting (Patty, 2018; United Voice, 2017). The government of the ACT also recently implemented policies governing cleaning contracts in public schools, including the consolidation of bids into larger regional contracts, limits on sub-contracting, and guaranteed access to safety training for cleaners (Burgess, 2017).

These positive developments provide a good example of the ability of government to promote stronger labour standards through its purchasing – so long as it places an appropriate emphasis on labour standards in its overall tendering process.

Victoria Government Youth Cadetship Scheme: The state government in Victoria has recently implemented an innovative program to match young workers (especially from communities which face traditional barriers to employment) with entry-level opportunities in state public sector jobs (Jobs Victoria, 2017). In contrast to many youth employment programs which provide sub-standard compensation and working conditions (like the Commonwealth government's current PaTH program, which pays participants as little as $4 per hour; Barlow, 2017), the Victoria Youth Cadetship scheme pays normal salaries, offers a two-year program of employment, and was developed in partnership with the state branch of the Community and Public Sector Union. The goal is to ensure that future recruits to the state public service better reflect the diversity of the state's labour force; the scheme also aims to assist young workers from disadvantaged communities to obtain lasting high-quality jobs. It is a good example of how government can utilise its direct employment to better address the employment needs of disadvantaged communities, in a manner which lifts labour standards rather than offering sub-standard wages and conditions to desperate workers. There are many other positive examples of governments successfully targeting new hiring to recruit workers from disadvantaged communities.

Indigenous Procurement Policy: Nother example of using spending power to support disadvantaged communities is provided by a new Commonwealth government Indigenous Procurement Policy, implemented in 2015, and aimed at enhancing opportunities for Aboriginal and Torres Strait Islander communities and businesses through federal procurement purchases (Australia Department of Prime Minister and Cabinet, 2017). The policy establishes targets for the number of contracts awarded to Indigenous businesses. It also requires mandatory minimum Indigenous participation in contracts above a $7.5 million threshold in specified industries. The policy has recorded encouraging results in its first years in operation, and provides a useful precedent for the targeted use of procurement spending to enhance economic opportunities for other disadvantaged groups. [49]

Attaching Labour Standards Conditions to Industrial Assistance: A novel approach to utilising government's economic leverage to lift labour standards involves attaching labour conditions to companies which receive industrial assistance grants or

[49] A similar international example of targeting government procurement at indigenous communities is the experience of the government of British Columbia, Canada, which successfully recruited large numbers of First nations and women workers to work on the construction of a major new highway; see Cohen and Braid (2000).

investment subsidies. The idea is to ensure that companies which benefit from public assistance in their business development, make a reciprocal commitment to respect strong labour standards and industrial practices in their (publicly supported) businesses. Howe and Landau (2009) survey examples of this strategy from three states (NSW, Victoria, and Queensland). Data regarding the nature of such conditions is neither consistent nor comprehensive (in part because of commercial-in-confidence provisions of most industrial assistance contracts). State governments routinely attach conditions regarding job-creation to these grants; conditions can also be specified regarding job quality, and access to job opportunities for people from targeted or disadvantaged communities, but this has occurred less frequently. Howe and Landau (2009) cite precedents from the U.S. and other international jurisdictions to highlight the untapped potential for using industrial assistance as a lever for lifting labour standards.

Payment Systems and Minimum Rates for Tip Truck Services in Victoria: Another example from Victoria highlights the impact of government regulations on observed labour standards in private industries. The state government there recently changed the payment system for tip truck services working on government-funded infrastructure projects; those services will now pay drivers on a minimum hourly rate basis, rather than a fixed fee-per-load system (as is used widely by private tip truck providers; see White, 2017). The fee-per-load system has been associated with poor safety outcomes, overly long hours, and other negative consequences. A fair hourly rate system will stabilise driver incomes, promote safer driving practices, and create an incentive for more efficient management of truck scheduling and logistics. Moreover, by leveraging its economic power as a major purchaser of these services, the state government will likely influence payment practices across the broader tip truck industry.

Wage Harmonisation and Prevailing Rates for Drivers of Contracted Bus Services: Public transportation services are another important service that is frequently contracted out by state governments to private suppliers. Where this occurs, it is important to challenge governments to ensure that workers in the private service contractors are treated fairly, and that decent wages and working conditions are a requirement of private operations. One example of pushing governments to guarantee better labour conditions in contracted out transportation services is a recent announcement by the government of Queensland to require wage harmonisation for drivers in all state-funded public transit bus contracts. Under the new policy, drivers in private firms will be paid wages comparable ages to their counterparts in publicly-run transit divisions (Bateman, 2017).

Linking Procurement Bids to ATO Compliance: Another new Commonwealth government initiative also establishes an important precedent regarding conditional access to procurement bidding processes. The government is implementing a new system through which prospective bidders on federal procurement projects valued at over $4 million must first demonstrate compliance with ATO tax obligations before being allowed to submit bids on new procurement contracts (Australia Department of Revenue and Financial Services, 2018). The system is motivated by a desire to crack down on firms operating in the underground economy; the idea is that firms which meet their tax obligations should not be placed at a "competitive disadvantage" relative to companies which try to evade those responsibilities. The demands of the policy are modest, requiring only that contracting firms follow the terms of existing tax laws and regulations. But the principle involved, whereby additional compliance tests are established for firms seeking federally-funded work, could be easily extended to requiring that bidders also demonstrate compliance with strong labour practices and standards prior to being allowed to bid on public contracts.

Training Objectives Specified in Commonwealth Procurement of Naval Construction: The Commonwealth government's coming purchases of offshore patrol vessels and submarines represent some of the largest single procurement contracts ever let by an Australian government. To enhance the benefits of those purchases for domestic employment (as well as to minimise the risk of project delays arising from a lack of skilled labour), the government is establishing guidelines for participating contractors regarding investments in skills, training, and apprenticeships. In this manner the procurement opportunities are tied to commitments by the bidding companies to longer-term upgrading of their Australian workforce (Jean, 2017). This also establishes an interesting precedent regarding the attachment of labour practice conditions to procurement opportunities, that could be replicated in many other sectors of procurement.

This listing of initiatives at both the Commonwealth and state levels of government in Australia, while not exhaustive, confirms there is great potential for policy-makers to utilise public spending power in support of better wages and working conditions.

EXPERIENCE FROM PRIVATE SECTOR SUPPLY CHAIN REGULATION

Major global businesses (especially in the clothing, security, and mining sectors) have faced increasing public and regulatory scrutiny in recent years regarding ethical and labour issues arising in their own procurement purchases. In response, most well-managed global firms have implemented comprehensive management systems and codes of conduct regarding ethical behavior in their procurement and supply chain relationships.[50] These codes typically include procedures for gathering information, auditing labour and ethical practices among suppliers, and effectively regulating supplying firms which sell goods and services to higher-tier brand-name companies. They often incorporate standard benchmarks and guidelines codified in international standards (such as Core Conventions of the International Labour Organisation, the UN Declaration on Human Rights, and the SA8000 and ISO 26000 standards for business social accountability).

This experience differs fundamentally from government policy-making, in that private firms do not have the power to make or enforce legislation or regulation; private supply chain management initiatives are a form of self-regulation, adopted by companies fearing damage to their brand-names – and also potentially to forestall the threat of more binding government rules. Nevertheless, these private sector experiences are insightful for our consideration of potential actions by governments to enforce higher labour standards throughout their own supply chains. Indeed, the economic power of these large businesses (such as top-level retail brands, which effectively control the access of suppliers to final consumers) endows them with considerable power to shape the practices of the various companies which supply them (and the companies which supply the suppliers, and so on). Therefore, some of the techniques developed by these firms hold potential for application by governments – assuming, of course, that governments are motivated by a desire to improve labour market outcomes.

There is a great variety of experience with private-sector supply chain management initiatives in different industries and different parts of the world. Industries which have been especially active in developing codes of practice, monitoring and reporting mechanisms, and collaborative stakeholder engagement structures include clothing, mining, electronics, and security. Giving further strength to these non-governmental initiatives, the United Nations has adopted a statement of "Guiding Principles on Business and Human Rights" which commits signatory governments to preventing abuses of human rights by businesses operating within their territories (Methven o'Brien et al., 2016). Some individual countries have also legislated corporate responsibility under pain of fines and other sanctions to monitor and prevent human rights abuses in their

[50] For useful surveys of this experience, see Bell and Usher (2007); Chartered Institute of Purchasing and Supply (2012); Martin-Ortega and Davies (2017); Methven O'brien et al. (2016); Nossar, Johnstone, and Quinlan (2004); and Nossar et al. (2017).

respective supply chains – even if those suppliers are located outside of the country which implemented the legislation.[51]

We list below several common principles which are widely used in these private sector initiatives, and which could be easily replicated within pro-active public procurement strategies by government:

Transparency and Reporting: The first step in most private-sector supply chain codes is for suppliers to register information regarding their own operations, and their links with various sub-contractors and lower-tier suppliers. This establishes a comprehensive information base, from which additional supply chain regulation actions can be extended.

Pre-Qualification and Preferred Suppliers: To lift the quality of labour standards in suppliers and sub-contractors, many supply chain systems require a pre-qualification system, whereby potential suppliers must complete a more intensive audit and screening of their operations before being allowed to bid on potential contracts. This establishes a population of pre-approved suppliers, reducing the risk of rogue practices. It also creates a mechanism for rapid and effective enforcement of supplier codes of practice, since companies which are removed from the list of pre-approved suppliers (for violating standards or provisions of the code) lose their ability to compete for future business.

Auditing and Fast Enforcement: In addition to the ability to remove suppliers from these lists of pre-approved bidders, many supply chain regulation systems establish other provisions for regular auditing and quick enforcement of codes of conduct, with potential for financial penalties, contract revocation, or other penalties as compliance tools.

Top-Down Supply Chain Regulation: One of the most interesting aspects of these private-sector supply chain regulation initiatives is the energetic commitment which the large firms at the peak of the supply chains are willing to invest in the meaningful enforcement of the specified codes of conduct. This enforcement effort contrasts with the typical response of private firms to government regulation: which is often to evade their effect, or take only what actions are required to meet the minimal letter of the law. In this case, the firms themselves have decided that supply chain regulation is in their private interests (in order to preserve brand value, avoid consumer protests, and

[51] The U.K.'s Modern Slavery Act of 2015, for example, requires U.K. companies above a certain threshold to either disclose what actions they take to monitor their international operations for slavery and other human rights abuses, or else to state explicitly that they do not conduct such monitoring (thus exposing their corporate reputation to public criticism); see http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted.

forestall government regulation), so the peak firms often enforce these regulations with gusto. As Nossar et al. (2017) suggest, by thus enlisting the information and power of business controllers within the peak firms, these supply chain regulations can often be surprisingly effective, despite their voluntary nature:

> "By harnessing the power of business controllers, mandatory [supply chain] regulation can operate to empower those business controllers to police their supply chains for ethical as well as commercial reasons; if mandatory regulation can encourage business controllers to become the most ethical or responsible parties in the supply chain, the role of addressing supply chain labour issues might be partially assumed by the business controllers themselves." (Nossar et al., 2017, p.17)

Some of these private-sector supply chain initiatives have even been adopted by public agencies and public corporations. For example, Australia Post adopted a supply chain "deed" governing its purchases of textile and clothing products, similar to those pioneered among private retail companies, to ensure that legal and minimum standards are respected for outworkers and other segments of its own supply chain (Nossar et al., 2004, pp. 149-150).

INTERNATIONAL EXAMPLES

The opportunity to utilise government's economic purchasing power to lift wages and labour standards has been recognised by labour and social advocates in many countries. It is beyond the scope of the present project to prepare a comprehensive inventory of these measures, but we summarise here the motivation for and broad effects of several international examples. They attest to both the broad degree of global interest in leveraging government spending power to lift wages and labour standards – as well as the rich variety of potential tools and levers available to governments which are committed to the pursuit of high-wage, inclusive, respectful work environments. Here are several examples of positive fiscal and procurement policies aimed at enhancing labour market outcomes in other countries:

Executive Order on Minimum Wage for Workers on U.S. Federal Contracts: In 2014, then-U.S. President Obama signed an executive order establishing a higher hourly minimum wage for workers employed under U.S. federal procurement contracts. The policy was a response to the repeated failure by the Obama government to win Congressional approval for proposed increases in the general U.S. federal minimum wage (which has been fixed at $7.25 U.S. per hour since 2009). The U.S. President is allowed to establish terms of federal contracts through executive order (without having them passed through Congress), and so Obama set a $10.15 minimum wage (indexed to inflation) for federal contracts as a partial alternative to raising the general minimum (U.S. Department of Labour, 2018, and Good Jobs Nation, 2014). This is an example of applying stronger minimum standards to public procurement, than apply to the overall labour market.

Living Wage Ordinances, North American Cities: Another response to the stagnation in the general U.S. federal minimum wage has been the emergence of local campaigns to set higher minimum wages or "living wages" in specific cities and counties in the U.S. (Luce, 2004). Minimum wages of up to $15 have been established in several major U.S. cities (including Seattle, Los Angeles, and new York City); by 2022 about one-sixth of Americans are expected to live in cities with a minimum wage of $15 or higher (more than twice the general federal minimum: see Donnelly, 2017). The level of the living wage is determined with reference to analyses of budgetary components for basic living standards in each community. Living wage measures have also been passed in several Canadian cities, including Vancouver, New Westminster, and Hamilton (Ivanova et al., 2017). Of particular interest to the present topic, in some cases cities do not have the power to impose a minimum wage on all employers operating in the city. Instead, they have specified that all work performed by city agencies, and (in more far-reaching ordinances) by private firms supplying city agencies, must be paid at least the living wage.

Living Wage Policy at LAX Airport: Another strategy for local or regional governments to lift wages is by establishing minimum or living wage regulations tied to the use of key public facilities or infrastructure. Like municipal living wage ordinances, this approach is a way for lower levels of government, which may not possess the power to establish economy-wide minimum wages, to instead leverage better wages on the strength of the strategic economic power of publicly-owned assets. A good example of this strategy is the implementation by the City of Los Angeles of a specific minimum wage for work performed at the Los Angeles airport, LAX; coverage of the measure was recently expanded to include food service workers (United Service Workers West, 2017). This strategy leverages the concentrated economic importance of the airport to lift wages and certain conditions for those workers; it predated the implementation of a city-wide minimum wage by the Los Angeles City Council.

Community Benefits Agreements: Another strategy utilised by governments at the local or state level has been to tie commitments to superior wages and labour standards to participation in government-funded construction and infrastructure projects. The idea is that these projects will generate higher net community benefits if contractors are required to negotiate with representatives of affected or marginalized communities, and formalize specific community undertakings (sometimes in the form of binding contracts) that will be undertaken during the course of construction. Glasgow City Council in Scotland is a leading example of a municipality which has required that construction contractors develop binding agreements regarding hiring, labour standards, and community amenities (Glasgow City Council, 2016). The government of Ontario (Canada's most populous province) also recently implemented a new model for maximising the community economic and social benefits arising from major publicly-funded infrastructure projects. Its legislation requires major contractors to negotiate with representative community bodies to establish binding targets for outcomes such as local hiring, affirmative action employment of young people and disadvantaged workers, and provision of training and recruitment supports to assist local residents in attaining work on the projects (Galley, 2015).

U.S. Responsible Contractor Provisions: To reinforce the impact of these government-led initiatives to enhance the social benefits of public projects (such as major infrastructure investments), several pension fund investment agencies in the U.S. have specified conditions regarding labour practices in the construction of infrastructure projects in which they have invested some of their funds. In some cases, these agreements require the funded contractor to deal only with unionised building trades associations and hiring halls (such as Ullico Investment Advisors, 2015). In other cases, contractors are merely required to maintain strict neutrality around union activity, and meet prevailing wage benchmarks and other minimum standards (California Public Employees' Retirement System, 2015).

Community Workforce Agreements: Community Workforce Agreements are a similar approach to tying public investment projects to targeted benefits for disadvantaged communities. They have been implemented in several U.S. cities, including Los Angeles, Oakland, New York City, and Cleveland (Partnership for Working Families, 2016). The agreements include project arrangements with local construction unions to establish terms that prevail for the life of the project (thus avoiding risk of work stoppages). The agreements also include targeted hiring provisions to achieve stronger participation in construction work from local populations, with particular emphasis on marginalised communities.

Cleveland Model of Cooperatives and Public Anchor Institutions: A unique and innovative approach to leveraging the economic power of major public service facilities (such as hospitals and higher education institutions) is represented by the "Evergreen" strategy to establish community-based worker cooperatives to provide ancillary services to public institutions (Democracy Collaborative, 2017). This approach has had several successes in the city of Cleveland, and hence has come to be known as the "Cleveland Model." Worker-owned co-ops are established to provide catering, laundry, cleaning, and other service inputs to the operation of major public "anchor" institutions. Those institutions are directed to give priority to cooperative ventures in fulfilling those functions, rather than tendering them to private suppliers. The co-ops then link their activity to targeted recruitment from disadvantaged groups, training, and related community development activities. In many cases the co-ops, once successfully established, are able to win additional work from other customers. In this manner, the procurement of ancillary services is used as a broader community development strategy, enhancing participation and local capacities.

City of Toronto Fair Wage Policy: A very early example of tying commitment to higher labour standards t public purchasing power is provided by the "Fair Wages Policy" which was first enacted in Toronto, Canada in 1893. The original intent of the policy was to ensure that private construction contractors working on city projects paid their workers at the standard rates set in regional construction union agreements; or where the work was performed by non-union members, at prevailing rates in the broader construction labour market. Later the policy was extended to apply to other types of contracted labour (including clerical and cleaning workers). The policy also requires contractors to ascribe to minimum conditions on hours of work, safety, and other conditions.

European Government Electronics Procurement: A very innovative application of private-sector supply chain regulation strategies to public procurement is provided by the work of the "Electronics Watch" initiative, based in the European Union (Martin-Ortega, 2018). In response to widespread concerns regarding labour and human rights abuses at various points in the supply chain feeding the global electronics industry, European advocates formed a network to expose these abuses, and press brand-name electronics firms for stronger commitments to minimum standards. Governments are major purchasers of electronic, computer and communications products, and these purchases provided some leverage for the Electronics Watch campaign to argue for a strong code of conduct governing the production (direct and indirect) of brand-name firms selling these products to government customers. The campaign leveraged EU policy statements regarding ethical practices in procurement to justify government support for the network. Results so far have included commitments to due diligence in monitoring supply chain behavior by leading firms, and formal participation by several governments in the Electronics Watch consortium.

Again, these vignettes do not constitute an exhaustive catalogue of the rich variety of initiatives that governments in international jurisdictions have adopted in order to enhance the social and labour benefits arising from their expenditure decisions. Like the Australian examples reviewed earlier, however, they confirm that there are ample and diverse opportunities for government to ensure that the allocation of public funds (through direct public provision, support for arms-length services provision, and procurement purchases from private firms) is always managed with an eye to its potential impact on the wages and conditions of work.

Conclusion and Recommendations

This paper has described the tremendous potential that exists for government to use its economic and fiscal power to underpin improvements in wages, working conditions, and basic labour standards, and thus help to reverse the wage stagnation and deterioration in job quality which have marked Australia's labour market performance over the past several years. Government, after all, is the largest single player in the national economy. In Australia the general government sector (including all levels of government) undertakes total expenditure each year in excess of 35 percent of national output. Its expenses on direct public service provision, fiscal support for the activity of arms-length and non-governmental organisations, and procurement purchases from private sector entities, together provide enormous leverage over crucial labour market outcomes. Government spending on goods and services – for both consumption and investment, and whether produced "in-house" or purchased from external suppliers – is equivalent to almost one-quarter of national GDP. And government fiscal support for public and community services provided by arms-length agencies and non-profit institutions increases that total further.

Australian governments of all political stripes have seized that potential in the past, mobilising public spending power in pursuit of labour policy goals in various ways. The issue is not whether a linkage between spending power and labour policy goals is feasible or legitimate. The issue is in what direction that influence will be wielded: in support of higher wages, more secure and decent work, or toward the suppression of labour costs and the reduction of job security.

Our review of recent labour market performance in Australia has confirmed the need for government engagement, through all possible channels, to support better work and rising wages. The sad reality is that the present alignment of labour market forces is not conducive to the traditional Australian vision of "a fair go": inclusive, shared prosperity that allows most members of society to share in the gains of economic growth. Instead, a structural shift in the traditional mechanisms of income distribution has occurred, particularly apparent since 2012. Real wages have flat-lined (and lag far behind labour productivity), precarious work has become ubiquitous, and income is being distributed more unevenly – both between labour and capital, and between higher-income and lower-income households.[52] To some extent these negative

[52] Because financial wealth is distributed very unequally, the shift in factor distribution of income away from labour and toward capital is ultimately reflected in growing inequality in the distribution of personal income across households.

developments reflect broader technological and global forces. But there is no doubt that government policy has contributed to the deterioration of key labour market outcomes in recent years – and that includes the perverse use of government fiscal and procurement leverage to *restrict* wages and working conditions, rather than lifting them. Strict and intrusive limits on public sector wage growth, and continued pressure for outsourcing and privatisation, have undermined overall wage growth and working conditions. So too have the inadequate funding and regulatory supports provided by government for the activities of arms-length and non-governmental service provides (in sectors such as disability services, employment services, and vocational education). Meanwhile, in private sector procurement, governments have failed to grasp the positive potential of its purchases to lift labour standards throughout the supply chain; all too often, government used its purchasing power to leverage wages and labour standards *downward* (either in pursuit of the lowest possible price for procured goods and services, or to reinforce employer-friendly industrial relations practices).

The stagnation of wages, and the visible erosion of job quality and job security, will not fix themselves. Waiting for "market forces" to correct these imbalances, and restore traditional patterns of wage growth and job stability, is a false hope. Governments need to commit to deliberately lifting wages and working conditions throughout the economy – rather than leaving these core labour market outcomes "to the market." The lead role in this effort will naturally be played by the direct regulation of employment relationships and wage determination: including through minimum wage laws, the awards system, national employment standards, and industrial relations laws. Reforms in this area will be essential to achieving more inclusive and socially beneficial labour market outcomes. However, this report has documented several channels through which government could wield its spending power as a complementary lever in support of better labour conditions. This would back up the thrust of direct reforms to labour law, by mobilising government's spending power in pursuit of the same objectives.

To make the most positive use possible of government's spending power to lift labour standards over time, we make the following recommendations:

1. Government should make a clear policy statement that it commits to use its economic resources and spending power to reinforce rising wages and stronger labour standards across Australia's economy. This would resolve the ambiguity of current fiscal and procurement policies – some of which support better wages and labour standards, but many of which have worked in the opposite direction. The goals of government interventions in these areas are often conflicted: influenced by a desire to reduce government expenses and promote more business-friendly workplace practices, rather than committing to lift the conditions of work. Ideally,

this guiding statement of commitment would best be enunciated at the COAG level, thereby indicating a shared commitment of both levels of government to using their spending power in a manner consistent with full respect for labour rights and standards.

2. This broad policy orientation will require commensurate changes in formal guidelines for government procurement (such as the Commonwealth Procurement Rules at the federal level), to provide space for procurement decisions which are consistent with an overarching goal of lifting labour standards. Government purchasers will be directed to take into account labour and employment factors in allocating contracts, including adherence to specified labour standards and practices, suppliers' commitments to training and apprenticeships, OH&S and industrial compliance experience, and others. In this manner, overall economic, employment, and social net benefits from procurement will guide expenditure decisions – not just obtaining the seemingly "cheapest price."

3. Government should commit to free and full enterprise bargaining for its own employees, and renounce the use of legislated wage caps and other repressive limits on normal free association and collective bargaining. Apart from directly violating the core labour rights of affected employees, these measures have had negative spillover impacts on wage trends and collective bargaining across the broader labour market.

4. Government should also commit to avoiding the most negative employment practices which have undermined job stability and wage growth in private-sector workplaces, including excessive use of casual employees, temporary and irregular hours, unpaid internships, sham contracting arrangements, and others. Pressed by a blinkered desire to reduce budgetary outlays regardless of the social consequences, many public sector managers and agencies have aped these unacceptable private sector practices. Government must be held to a higher standard in its employment practices, including strict limits on these unacceptable practices.

5. Through its direct and indirect economic activity, government should commit to "living wage" compensation policies. The concept is that all government employees, as well as those working in arms-length service delivery and the procurement supply chain, must be paid at least enough to cover the

independently defined basic costs of living for a standard household.[53] Of course, where prevailing market wages for a particular occupation exceed a "living wage" threshold, government must meet that higher standard. By requiring that all government-financed work (whether performed within the public sector directly, or contracted indirectly from non-profit or private suppliers) respects the principle of paying at least a living wage, government sends a powerful signal that it will use its spending power to lift standards above legal minimums.

6. In determining the fiscal and regulatory parameters governing the external provision of public and community services by outside agencies (including services provided by arms-length and non-profit agencies), government must incorporate a commitment to improved labour standards into broader fiscal and regulatory policies. This is especially important in sectors (such as the NDIS) where the government uses market-based approaches to deliver government-funded services. Without strong protections for minimum labour standards (including minimum wages, access to leave and training, collective bargaining rights, and more), reinforced through fiscal and/or regulatory supports, these sectors will inevitably experience the same degradation of wages and job quality that has been documented in other marketised services (such as vocational education, child care, and employment services).

7. In conjunction with the Australian Bureau of Statistics, the Commonwealth and state governments should jointly establish a comprehensive and consistent database of public procurement expenditures by governments at all levels (including municipalities), to enhance understanding of the size and composition of public purchases from private businesses. This database would be invaluable in guiding follow-up initiatives by governments to enhance the labour and social effects of procurement decisions.

8. In opening public procurement contracts (above a certain threshold) to bid by private and non-profit suppliers, governments should require in advance a full and transparent reporting by prospective suppliers regarding their adherence to minimum labour standards (including the principle of paying living wages specified above), and the nature of their own sub-contracting and supply chain relationships

[53] See Brennan (2012) for a comprehensive overview of the rationale for and mechanisms of a living wage policy; Saunders and Bedford (2017) quantify the components of a living wage in the Australian context. The "living wage" threshold can be defined in absolute terms (with respect to the cost of a bundle of necessary goods and services), or in relative terms (as a proportion of average or median wages). The ACTU (2017) has recently renewed its call for the minimum wage to be raised to a "living wage" level, which it defines as equivalent to 60 percent of the median wage.

with other suppliers. Prospective suppliers which successfully complete this pre-qualification process would then be entitled to bid on upcoming contracts. In this regard, government would simply be requiring from its own top-tier suppliers a commitment to transparency and reporting no more onerous than is already imposed by leading private companies (including retail, mining, and security firms) through their own supply chain regulations. The pre-qualification process would need to be renewed every five years – sooner in the event that a contractor to government (or one of its own suppliers) is found to have significantly breached minimum labour standards.

9. Firms found to have violated or reneged on commitments to high-quality labour practices specified in their pre-qualification applications, and/or found to have breached other legal and minimum labour standards, would lose their qualifying status and hence be unable to bid on subsequent public contracts. In serious cases, existing contracts could be revoked.

10. Each Commonwealth and state government should establish an office of labour standards within their respective procurement agencies (ie. within AusTender at the Commonwealth level, and within the various state procurement agencies). These offices would be charged with reviewing pre-qualification applications from prospective bidders on public contracts; conducting regular audits; developing relationships with relevant stakeholder organisations (including business associations, unions, human rights advocates, and international supply chain regulation networks); building a positive culture of compliance with labour standards goals; and making recommendations to the respective ministers regarding improvements in reporting, auditing, and compliance processes across the procurement supply chain.

These recommendations are ambitious and comprehensive. They target all three of the major channels through which government expenditure decisions affect wage outcomes and labour standards: direct public provisions, arms-length community service organisations, and procurement from private firms. They would help to ensure that government's spending power is wielded in a manner aligned with an overarching commitment to better wages and working conditions – badly needed at a time when the labour market seems incapable of regaining the traditional vision of inclusive growth. Many of these recommendations signify a higher level of government engagement and intervention; yet they are tools which even conservative, "market-friendly" governments used to promote their own labour policy goals. Indeed, many of the specific measures and strategies recommended here were actually pioneered by private for-profit businesses, to improve the ethical reputation of their own supply chain operations (in the face of public concern regarding unacceptable labour and human rights practices). If private companies can undertake such determined and far-reaching measures to lift labour standards within their own operations, surely governments – which are ultimately accountable to a higher authority than private firms, namely the public interest – can be at least as ambitious.

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