

Collective Bargaining and Wage Growth in Australia

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Summary

Wage growth in Australia has decelerated over the past decade to a pace roughly half of the rates normally experienced before 2013. This sustained weakness in wages has produced long-run stagnation in real living standards – which has now tipped over into rapid real wage declines, following the post-COVID surge in inflation. Wage growth in this period has been the weakest in Australia’s postwar history, and among the weakest of any industrial country. It cannot be explained on the basis of labour market imbalances (such as unemployment or underemployment), productivity growth, or other conventional wage determinants. Institutional and structural factors have clearly been important in the sustained failure of Australian wage growth.

In particular, the deceleration of wages since 2013 is strongly correlated with the rapid erosion of collective bargaining coverage. In the federal industrial relations sphere, coverage of current enterprise agreements has fallen by almost half since 2013. Coverage of state-registered collective agreements has also declined. That erosion of bargaining coverage statistically explains over half of the changes in nominal wage growth since 2010. Each one percentage point loss of bargaining coverage has been associated with a reduction in annual wage growth of 0.15 percentage points.

The erosion of collective bargaining coverage in Australia has been the fourth worst of any OECD country in this period. International evidence suggests strongly that efforts to rebuild coverage must include measures to facilitate collective bargaining at a multi-employer level. Many different models of such broader bargaining practices are visible across industrial countries. But the general finding that stronger coverage requires multi-employer and coordinated bargaining of some kind is irrefutable. There is an almost monotonic relationship between countries which support broader multi-employer bargaining, and the level of bargaining coverage which they achieve.

The reforms contemplated in the *Secure Jobs, Better Wages* legislation proposed by the Commonwealth government would incrementally restore collective bargaining coverage in Australia: by relaxing current restrictions on multi-employer bargaining, and supporting bargaining through other measures (such as limitations on employer termination of enterprise agreements, stronger dispute settlement provisions, and streamlined processes for approving new agreements). It is reasonable to expect that these reforms, after some years, would elevate bargaining coverage in Australia toward a level typical of other countries where most bargaining still occurs at the enterprise level (as would be true under these reforms), but supplemented by some multi-employer bargaining and broader coordination.

Elevating bargaining coverage in Australia to this intermediate level would imply a reversal of most (but not all) of the loss in coverage experienced over the past decade. It is anticipated that coverage would grow by slightly over 10 percentage points on this basis. Considering the observed correlation between bargaining coverage and wage growth in recent years, this in turn would lead to an improvement in nominal wage growth of some 1.6 percentage points per year. Just one year of faster wage growth would boost annual earnings for a worker with average full-time wages by \$1473. That increment would expand to almost \$8300 by the fifth year of (compounded) faster wage growth. On a cumulative basis over the first five years alone, the average worker would receive additional income of almost \$24,000. By restoring bargaining coverage and hence more traditional wage growth, these reforms would underpin a significant improvement in household incomes.

In macroeconomic terms, the faster wage growth resulting from the strengthening of collective bargaining would also have important benefits. It would help protect workers' real wages against the current negative effects of inflation, support consumer spending and household financial stability (especially in light of an expected imminent economic slowdown or recession), and halt (but not yet reverse) the ongoing decline in workers' aggregate share of GDP (which hit an all-time record low in 2022). The 1.6-percentage-point increment in annual wage growth would boost aggregate wage incomes by \$15 billion in the first year, and \$75 billion in the fifth year.

For all these reasons, the effort to strengthen collective bargaining through the suite of reforms described in the *Secure Jobs, Better Wages* bill is likely to have a significant impact in restoring normal wage growth and a more balanced, sustainable pattern of national income distribution.

The Failure of Wage Growth in Australia

A worrisome feature of Australia’s recent macroeconomic performance has been a dramatic deceleration in wage growth which first became apparent about a decade ago, and continues to the present period.¹ Beginning in 2013, the rate of growth in average nominal wages in Australia fell by half: from around 4% per year previously, to around 2% per year on average since then. This deceleration is visible across various measures of wage growth (including the ABS Wage Price Index, average weekly earnings, and average compensation per employee from national accounts data).

Table 1			
Alternative Measures of Wage Growth, 2000–2021			
	Avg. annual growth 2000–2013 (%)	Avg. annual growth 2013–2021 (%)	Change in avg. growth (% pts)
Wage Price Index	3.65%	2.11%	-1.54%
Average Weekly Earnings	4.36%	2.17%	-2.19%
Compensation per Employee	4.03%	2.03%	-2.00%

Source: Authors’ calculations from ABS data.

Table 1 reports several measures of the deceleration of wage growth in Australia. Most commonly reported is the change in the Wage Price Index, an ABS measure which adjusts data for changes in the composition of employment – to try to attain a ‘pure’ measure of wage inflation (unaffected by the evolving make-up of employment patterns). WPI growth fell to an average annual rate of 2.11% from 2013 through 2021, down from 3.65% from 2000 through 2013. Other measures of wage growth, based on actual earnings received by Australian workers, include average weekly earnings and total labour compensation (measured by the national accounts system) per worker. They both indicate a slightly greater decline in wage growth, from over 4% per year prior to 2013 to just over 2% since 2013. At around 2% per year, nominal wage growth

¹ See Stewart, Stanford and Hardy (2022) for a comprehensive analysis of the wages crisis in Australia, its causes, and potential solutions.

in this period was barely sufficient to keep up with the pace of consumer price increases. As a result, real wage changes (adjusted for inflation) were very weak.

More recently, however, that nominal wage stagnation has tipped over into significant declines in real wages, due to the acceleration of inflation after the COVID pandemic. This is causing a painful decline in the purchasing power of workers' incomes. In the last two years average real wages in Australia have fallen by over 5%, erasing all of the real wage growth of the past decade. And more real wage declines are in store, since wages are still lagging far behind the growth of consumer prices. A decade of wage stagnation set the stage for this more dramatic and painful current crisis in wages. In both nominal and real terms, therefore, wage growth in the past decade has been the slowest of any period in Australia's postwar history.

Table 2			
Australian Wage Growth in International Perspective			
	Australia	OECD average¹	Australia rank
Nominal wage growth			
2000–13 (%/yr)	3.99%	3.87%	14
2013–20 (%/yr)	1.84%	2.63%	21
Change (% pts)	-2.15%	-1.23%	26
Real wage growth			
2000–13 (%/yr)	1.33%	1.38%	14
2013–20 (%/yr)	0.40%	1.37%	22
Change (% pts)	-0.93%	-0.01%	30
1. Unweighted average of 35 OECD countries reporting data. <i>Source: Calculations from OECD Employment and Labour Market Statistics, 'Annual Average Wages.'</i>			

The stagnation of Australian wages in the last decade has been severe by international standards, as well. Table 2 provides several indicators of Australia's relative performance in wage growth compared to the pattern in other industrial countries, using consistent OECD data.² As noted above, average nominal wage growth fell in half, from around 4% to 2% per year after 2013. Australia thus sank from wage growth near the OECD average, to rates well below OECD benchmarks. The deceleration of wage growth in Australia in this period ranks in the worst third of OECD countries.

² This OECD data is derived from national accounts of the member countries, and this is most comparable to the 'Compensation per Employee' measure of wage growth reported in Table 1.

In real terms, the deceleration of wages in Australia was even worse: falling by over two-thirds, to just 0.4% per year on average. That ranks near the bottom of the OECD according to the size of the deceleration of real wages after 2013. (In contrast, real wage growth in the OECD as a whole hardly changed after 2013, and picked up speed in many countries – including Germany, Japan, and the U.S.) Australia’s poor wage performance cannot be ascribed, therefore, to any universal trend in industrial countries. Australia’s experience must be attributable in large part to domestic causes.

All these indicators confirm that Australia faces a serious and continuing crisis in its system of wage determination – one that cannot be resolved by normal labour market or macroeconomic adjustments. For a decade, wage growth has fallen well below historic norms, and well below a pace consistent with macroeconomic and social objectives (such as maintaining target inflation, which fell consistently below the RBA’s target for much of this period, and preserving a balanced distribution of national income). This worrisome pattern persisted regardless of whether unemployment was relatively low or high, or whether economic conditions were uncertain or exuberant. Even with the unemployment rate falling to a multi-decade low as the economy re-opened after COVID lockdowns, wage growth has remained stubbornly slow. Then, as the global economy reopened after COVID lockdowns and related disruptions, and inflation increased, real wages in Australia began to fall rapidly.

Some commentators assume that wages should grow naturally in line with labour productivity, and hence have ascribed the stagnation of wages in Australia over the past decade to weak productivity performance. The empirical evidence for this proposition, however, is non-existent. While labour productivity growth since the turn of the century in Australia has been unimpressive by historical or international standards,³ it has nevertheless been positive. But real wages lagged far behind the productivity growth that was achieved, especially after the slowdown in nominal wage growth that became apparent around 2013 (as illustrated in Figure 1). Now, with real wages falling (and despite a modest acceleration in productivity growth since the pandemic), the gap between real wages and productivity has widened even further.

³ The extremely weak pace of business investment in capital and innovation, and the reconcentration of Australian economic activity around resource extraction and export, have been key causes for this poor productivity performance.

Figure 1. Real Wages and Labour Productivity, 2000–2021



Source: Calculations from ABS Wage Price Index, Consumer Price Index, and National Accounts data

This gap between labour productivity and real wage growth is also reflected in the continued erosion of the share of labour compensation in total GDP. The labour share reached its lowest point in the history of ABS national accounts data in the June quarter of 2022: just 44% (see Figure 2). At the same time, the share of corporate profits in Australian GDP has increased strongly over the last decade, reaching almost 30% of GDP – the highest in history (other than for a short period during the COVID lockdowns). The suppression of normal wage growth has contributed importantly to an expansion of corporate profits to record levels. This context must be kept in mind in evaluating the strident opposition of business lobbyists to the proposed industrial relations reforms being considered by Parliament: it is not surprising they would strongly oppose changes in an industrial relations regime which has boosted their profits to record levels.

Figure 2. Labour Compensation as Share GDP, 1960–2022



Source: Calculations from ABS National Accounts data.

There can be no confidence that improved labour productivity could somehow ‘fix’ the wages crisis in Australia. Higher productivity allows higher wages to be paid, without impinging on profit margins. But that does not assure that higher wages *will* be paid. Wages are not determined by the working of automatic market forces. Instead, wages depend on a wide range of institutional, regulatory, and cultural factors which influence the relative bargaining power of employers and workers. There is a fundamental asymmetry in bargaining power between workers (each of whom depends on their employer for their livelihood) and employers (who depend on their workforce in aggregate, but rarely to any significant degree on any *individual* employee). Given this inherent imbalance, in the absence of collective and institutional supports for wages (including minimum wages, strong Awards, collective bargaining, pay equity policies, etc.), wages will be naturally suppressed, and income distribution will shift continually in favour of business and capital. Institutional measures – including supports for collective bargaining – are necessary to achieve living wages, and a more economically and socially sustainable distribution of income.

In summary, Australian wages have endured a decade of sustained weakness. The consequences of this wage stagnation are felt in numerous ways across the economy: including household financial pressures, restrained consumer spending, slower

government revenue growth, and a shift in national income distribution away from labour and toward capital. The failure of Australian wage determination requires active policy measures and institutional supports for workers, to restore normal patterns of wage growth. This sustained crisis in Australian wage growth is an obvious and understandable motivation for the industrial relations reforms presently being considered by the Australian Parliament.

Wage Stagnation and the Erosion of Collective Bargaining

An obvious factor correlated with the historical deceleration of wage growth in Australia since 2013 has been the rapid decline of collective bargaining in most sectors of the economy – particularly among private sector businesses. The most timely source of data on this worrisome trend are the quarterly reports on collective bargaining activity in the federal industrial relations sphere published by the Commonwealth Department of Employment and Workplace Relations.⁴ According to this data, the number of current (ie. in-term) federally-registered enterprise agreements (EAs) plunged by over half since end-2013, to around 11,000 current agreements at present. And the proportion of employed workers covered in Australia covered by a current federal EA has fallen almost as much: from 22-23% in 2013, to just 12% in most recent data (see Figure 3).

Figure 3. Federal Collective Bargaining Coverage, 2000-2022



Source: Calculations from DEWR and ABS data.

⁴ See Department of Employment and Workplace Relations, *Trends in Federal Enterprise Bargaining*, <https://www.dewr.gov.au/enterprise-agreements-data/trends-federal-enterprise-bargaining>.

The federal data illustrated in Figure 3 does not include all collective bargaining in Australia. In most states (other than Victoria), state industrial relations commissions still oversee a segment of collective bargaining activity – consisting almost entirely of state-level public service employment. Most recent estimates indicate that 7.4% of employed workers in Australia were covered under a state-based collective agreement in 2018.⁵ State-based collective bargaining coverage has also declined in recent years, falling from an estimated 11.9% of total employment in 2010. Moreover, this estimate of coverage in the state-based system overstates the true extent of wage bargaining: it includes expired agreements, and because many state governments (such as NSW) have imposed binding pay caps on workers in the broader public sector, this collective agreement coverage does not fully translate into genuine collective bargaining.⁶

Combined, therefore, collective bargaining coverage declined to about 22% of employed Australians in 2018 (the latest year for which data is available for state-based coverage), about two-thirds of which consists of agreements registered at the federal level, and one-third at the state level. Coverage has declined by another 2 percentage points since then at the federal level, and effective bargaining at the state level continues to be hamstrung by arbitrary pay caps imposed by many state governments. So the current bargaining situation is even worse than this 2018 estimate suggests.

The decline of collective bargaining coverage has been especially evident in the private sector. Coverage by current enterprise agreements in private businesses is now below 11%, from close to 20% in 2013.⁷ Coverage is higher and has been more stable in the public sector; counting state-level agreements (which are concentrated in public sector workplaces), bargaining coverage in the public sector is around 70% – although, once again, the effective ability of public sector workers to negotiate higher wages has been curtailed by government pay caps.

Previous research has documented the numerous factors contributing to this rapid decline of collective bargaining coverage in Australia.⁸ These include the expiration and non-renewal of thousands of enterprise agreements, the faster pace of terminations of EAs, restrictions on union activity and industrial action, and harsh restrictions imposed on bargaining in many public sector agencies.

⁵ See Department of Employment and Workplace Relations (2022), Technical Notes Table, p. 46. This is a survey-based estimate, and includes expired agreements; it is thus not fully comparable to federal coverage data.

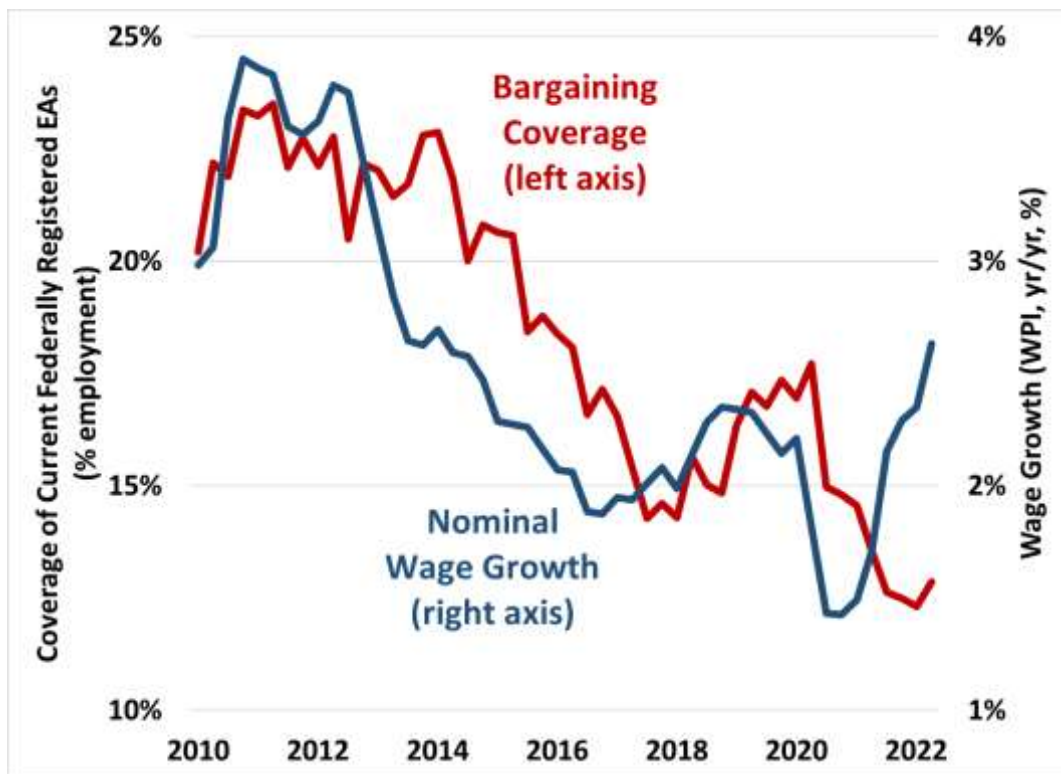
⁶ For a review of the consequences of pay caps in the NSW setting, see Stanford (2022).

⁷ See Pennington (2018), pp. 23-25.

⁸ See Pennington (2018, 2020).

This rapid erosion of collective agreement coverage in Australia over the last decade is closely correlated with the painful deceleration of wage growth during the same period. As illustrated in Figure 4, the downward trend of year-over-year nominal wage growth (as measured by the ABS's Wage Price Index) closely follows the decline in coverage of current federally-registered enterprise agreements.

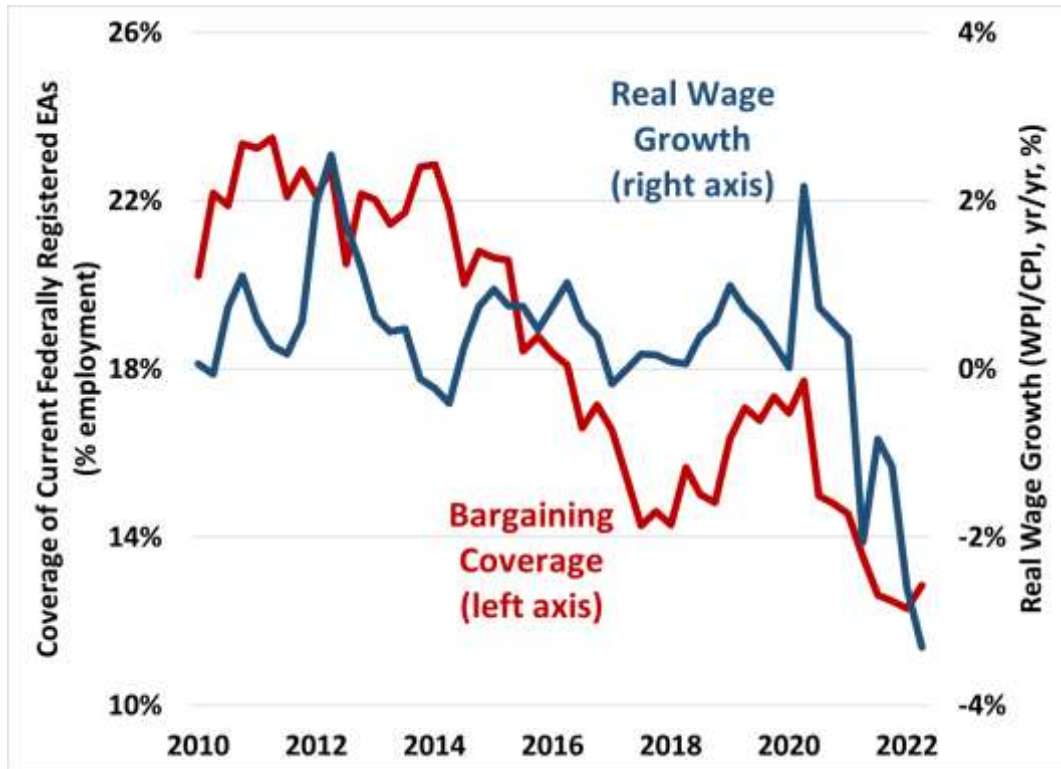
Figure 4. Collective Bargaining Coverage and Nominal Wage Growth, 2010-2022



Source: Authors' calculations from ABS, Wage Price Index and Labour Force Survey, and DEWR, Trends in Federal Enterprise Bargaining.

A similar correlation is evident between the erosion of bargaining coverage and the trajectory of real wages in Australia. In Figure 5, real wages are measured by the growth of average earnings (reported in the ABS WPI) deflated by growth in the Consumer Price Index. Real wage growth was near zero for several years after 2013, as slowly growing nominal wages barely kept up with consumer prices. Since the reopening of the economy after COVID lockdowns, however, and the subsequent acceleration in inflation (reflecting a mix of global and domestic factors), real wages in Australia have begun to decline rapidly. Like nominal wages, the downturn in real wages closely tracks the erosion of collective bargaining coverage, and for similar reasons: without the ability to collectively negotiate wage increases to match accelerating consumer prices, workers without collective bargaining protection will see a more rapid erosion of real wages and hence their real standard of living.

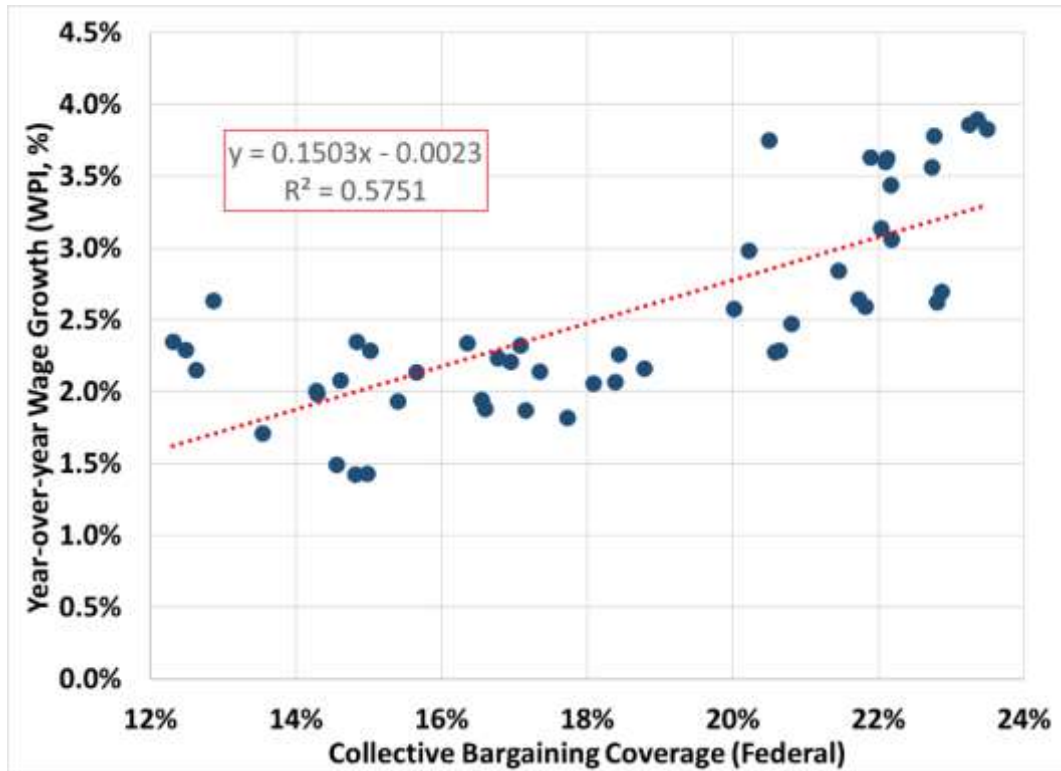
Figure 5. Collective Bargaining Coverage and Real Wage Growth, 2010-2022



Source: Authors' calculations from ABS, Wage Price Index, Consumer Price Index, and Labour Force Survey, and DEWR, Trends in Federal Enterprise Bargaining.

The relationship between bargaining coverage and wage growth can be considered more formally, by testing for the degree of correlation between the two variables. Figure 6 illustrates this correlation for bargaining coverage and nominal wage growth. The figure plots the share of employed workers covered by current federally registered enterprise agreements along the horizontal axis, against the rate of change of nominal wages (measured by the WPI) along the vertical axis. A linear trend is included in the figure. The relationship is very close, and suggests that for every one percentage point increase in coverage, nominal wage growth accelerates by just over 0.15 percentage points. The correlation is highly statistically significant: changes in bargaining coverage explain 57% of the change in nominal wage growth over the sampled period (2010 to 2022), with a correlation coefficient of 0.758.

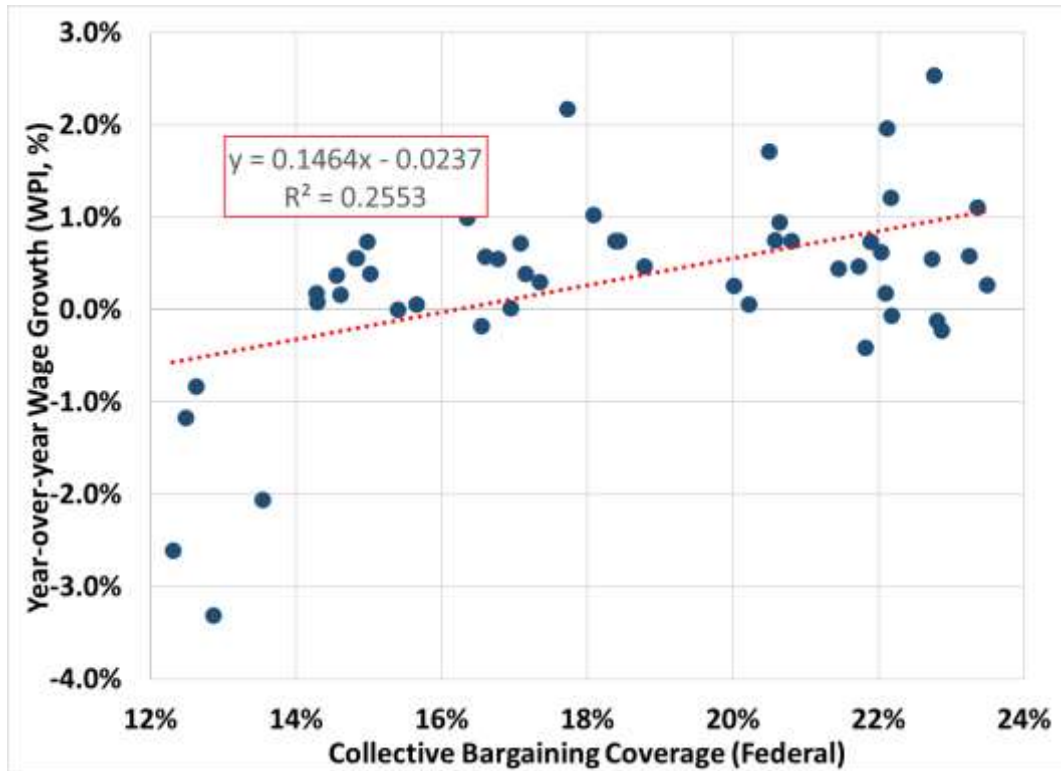
Figure 6. Correlation Between Bargaining Coverage and Nominal Wages



Sources: Authors' calculations from ABS, Wage Price Index and Labour Force Survey, and DEWR, Trends in Federal Enterprise Bargaining.

A similar correlation can be quantified between collective bargaining coverage and real wage growth. Figure 7 compares quarterly data on the coverage of current federally registered enterprise agreements against the year-over-year change in real wages (with nominal WPI growth deflated by changes in consumer prices). Once again, the positive impact of coverage on wage growth is clear and strong. The relationship between changes in coverage and real wage growth is similar to that for nominal wages: each 1 percentage point change in coverage corresponds with a gain of about 0.15 percentage points in real wage growth. Due to greater volatility in the real wage series (arising from the additional fluctuations in CPI inflation), the correlation coefficient is smaller than for nominal wages – 0.505 – but nevertheless strongly statistically significant. The data points at lower left of Figure 7 represent the most recent quarters, when real wages started declining due to the acceleration in inflation.

Figure 7. Correlation Between Bargaining Coverage and Real Wages



Sources: Authors' calculations from ABS, Wage Price Index, Consumer Price Index, and Labour Force Survey, and DEWR, Trends in Federal Enterprise Bargaining.

Clearly, rebuilding the capacity for Australian workers to negotiate with their employers on a collective basis, and thus enhancing their bargaining power to win a proportionate share of the gains of economic and productivity growth, will be an essential element of any strategy to strengthen wage growth and household incomes in the future. Measured by either nominal and real wage trends, Australia's recent history suggests that each percentage point increase in collective bargaining coverage should be associated with an increase in wage growth of 0.15 percentage points.

International Industrial Relations Systems and Bargaining Coverage

Collective bargaining systems differ greatly across countries, reflecting national economic conditions, history, and legal arrangements. In an exhaustive study of detailed practices in industrial countries,⁹ the OECD developed a complex categorisation of collective bargaining systems. This categorisation captures the extent to which collective bargaining occurs mostly at the enterprise level (decentralised) versus various forms of multi-employer bargaining (centralised), and the extent to which bargaining is coordinated across occupations, industries, or broader portions of the labour force. On the basis of this research, the following categories of collective bargaining systems were proposed by the OECD:

1. ***Coordinated Centralised Systems***: Nine countries in Europe have very structured, centralised collective bargaining systems, in which major negotiations occur at a centralised level (for entire industries and occupations), involving participation by multiple unions and employer associations, and often government representatives. The OECD recognises that the form and intensity of coordination in these centralised systems varies considerably, but all attempt to coordinate bargaining at the sectoral or national levels.¹⁰
2. ***Coordinated Decentralised Systems***: Six countries (also in Europe) possess highly coordinated collective bargaining systems, but which operate in a more decentralised manner. They combine sector-wide provisions with considerable flexibility at the level of individual firms or workplaces.
3. ***Partial Sectoral Bargaining or Coordination***: In five identified countries, collective bargaining occurs primarily at the firm level, but is supplemented by opportunities to negotiate on a sector-wide basis in certain circumstances, negotiate pattern contracts, and/or to undertake wage coordination by peak-level union and employer organisations.
4. ***Firm-Level Collective Bargaining***: In this category, collective bargaining occurs mostly at the firm level, with less capacity to coordinate bargaining or set

⁹ See OECD (2019).

¹⁰ The OECD report notes two countries (Belgium and Finland) which embody especially strong centralised coordination, and could be considered their own category; for simplicity, Table 3 includes them with the others in the larger group of “coordinated centralised” systems. See OECD (2019), pp. 143-144.

broader conditions and benchmarks. Even within many of these countries, however, more opportunity exists for multi-employer bargaining than currently exists in Australia: including pattern, sectoral, and occupational arrangements extending across many employers.¹¹

Australia represents a special case in this international categorisation, because of the unique history and institutional structure of our labour relations system. Specifically, under the Modern Awards system, minimum wages and conditions are established across defined industries, under the authority of the Fair Work Commission. The OECD suggests the Awards system could be considered an *alternative* to sectoral coverage for collective bargaining.¹² The Awards system is undeniably important in establishing industry-wide minimum standards, but awards (with rare exceptions) are no longer actively negotiated between employers and unions, and are constrained by law to set only minimum ‘safety-net’ standards. In terms of actual collective bargaining, Australia is better placed in the fourth category identified above (since bargaining occurs almost exclusively at the firm level). Table 3 reports the membership of each of these four broad categories of industrial relations systems.

Table 3	
Major Categories of Industrial Relations Systems	
Category	Members
Coordinated Centralised¹	Belgium, Finland, France, Iceland, Italy, Portugal, Slovenia, Spain, Switzerland
Coordinated Decentralised	Austria, Denmark, Germany, Netherlands, Norway, Sweden
Some Sectoral Bargaining or Coordination	Greece, Ireland ² , Japan, Luxembourg, Slovak. Rep.
Decentralised	Australia, Canada, Chile, Czech Rep., Estonia, Hungary, Korea, Latvia, Lithuania, Mexico, New Zealand, Poland, Turkey, U.K., U.S.
Source: Adapted from OECD (2019).	
1. Includes two sub-groups: weakly and strongly coordinated centralised systems.	
2. Ireland appears in two categories in the OECD taxonomy; we have placed it in this category on the basis of its system of system of sectoral employment orders and joint labour committees.	

¹¹ For example, multi-employer bargaining is common in Canada in the construction, manufacturing, education, and health sectors. Industry-wide or multi-workplace bargaining occurs in several U.K. industries (including construction, arts, and manufacturing). Industry-level collective bargaining has become common in the Czech Republic following a 2004 labour law reform. These countries are still categorised by the OECD as relying mostly on enterprise-level bargaining, but they all have widespread multi-employer practices – and they all report collective bargaining coverage higher than Australia.

¹² See OECD (2019), Box 3.5, p. 130.

Given the diversity of specific institutional forms and practices in different countries across these differing categories of industrial relations systems, it is complicated to consider the impacts of differences in bargaining systems on labour market and macroeconomic outcomes. However, the OECD report explores these impacts, by applying a multivariate analysis to comparative labour market outcomes, and concludes that strongly coordinated multi-employer systems achieve better employment and unemployment outcomes than decentralised firm-level systems. And all systems with stronger multi-employer options achieve greater equality and economic inclusion than decentralised systems. As the OECD summarises:

“Co-ordinated systems are shown to be associated with higher employment, lower unemployment, a better integration of vulnerable groups and less wage inequality than fully decentralised systems. Weakly co-ordinated, centralised systems and largely decentralised systems hold an intermediate position, performing similarly in terms of unemployment to fully decentralised systems, but sharing many of the positive effects on other outcomes with co-ordinated systems.” (OECD 2019, p. 113)

Multi-employer bargaining systems of all sorts, therefore, are associated with greater equality and reductions in the incidence of low-wage work. There seems to be no trade-off in aggregate employment and unemployment outcomes; in fact, strongly coordinated forms of multi-employer bargaining are associated with better employment outcomes.

One very strong conclusion from this international comparison is that multi-employer bargaining systems of all kinds are clearly associated with higher collective bargaining coverage: that is, with a higher proportion of workers in each country whose pay and conditions are determined by the terms of collective agreements. There is a strong and almost monotonic relationship between the availability of multi-employer bargaining systems, and the scope of bargaining coverage. With options for multi-employer bargaining, and the ability to negotiate across multiple workplaces, collective agreements can reach a larger share of workers, lifting wages and improving conditions for a broader segment of the labour market.

Table 4
Bargaining Systems and Bargaining Coverage
OECD Countries

	Coverage (2018 or latest)	Change since 2010 (or latest)		Coverage (2018 or latest)	Change since 2010 (or latest)
Coordinated Centralised			Some Sectoral Bargaining / Coordination		
Belgium	96.0%	0.0	Greece	14.2%	-85.8
Finland	88.8%	1.3	Ireland	34.0%	-6.5
France	98.0%	0.0	Japan	16.9%	-1.5
Iceland	90.0%	0.0	Luxemb.	56.9%	-1.5
Italy	100.0%	0.0	Slovak Rep.	24.4%	-15.6
Portugal	73.6%	-4.2	Average¹	33.1%	-6.3
Slovenia	78.6%	8.6	Mostly Enterprise-Based		
Spain	80.1%	0.7	Australia	22.4%	-11.5
Switzerland	45.0%	3.9	Canada	30.1%	-1.3
Average	83.3%	1.1	Chile	20.4%	5.0
Coordinated Decentralised			Czech Rep.	34.2%	-1.8
Austria	98.0%	0.0	Estonia	6.1%	-9.6
Denmark	82.0%	-0.6	Hungary	21.1%	-6.2
Germany	54.0%	-5.8	Korea	14.8%	2.6
Netherlands	76.7%	-13.9	Latvia	27.1%	-5.8
Norway	69.0%	-5.0	Lithuania	7.6%	-3.3
Sweden	88.0%	-0.7	Mexico	10.0%	-0.2
Average	77.9%	-4.3	N.Z.	19.2%	3.6
			Poland	17.3%	-1.3
			Turkiye	8.1%	1.2
			U.K.	26.0%	-4.9
			U.S.	11.7%	-1.4
			Average	18.4%	-2.3

Source: OECD Labour Market Statistics, Collective Bargaining Coverage; DEWR, Trends in Federal Enterprise Bargaining.

1. Excluding Greece.

Table 4 provides data on collective bargaining coverage in OECD countries for 2018 (the latest year for which near-complete data is available¹³), and the change in coverage in each country since 2010. The table is organised into the same four categories¹⁴ of bargaining systems described in Table 3. Countries with coordinated

¹³ Some countries do not report bargaining coverage data each year, so the most recent available data prior to 2018 is reported in Table 3.

¹⁴ As in Table 3, the OECD's small category of "strongly centralised" coordinated systems (consisting solely of Belgium and Finland) is consolidated with its larger category of "weakly coordinated"

centralised systems have the highest average coverage rate (83%), followed closely by those with coordinated decentralised systems (78%). The group characterised by partial sectoral bargaining or coordination has average coverage of 33%.¹⁵ Decentralised systems report the lowest average coverage, at just 18%.

About two-thirds of OECD economies have seen collective bargaining coverage decline since 2010, although that trend is not universal. The decline in bargaining coverage in Australia from 2010 through 2018 (with coverage falling by 11.5 percentage points in that time) was the fourth worst of any OECD country – surpassed only by Greece (where collective bargaining was largely wiped out during its painful post-GFC restructuring), the Slovak Republic, and the Netherlands.¹⁶ In coordinated centralised systems, average coverage grew slightly from 2010 to 2018; Portugal was the only country in that group to experience a (small) decline in coverage.

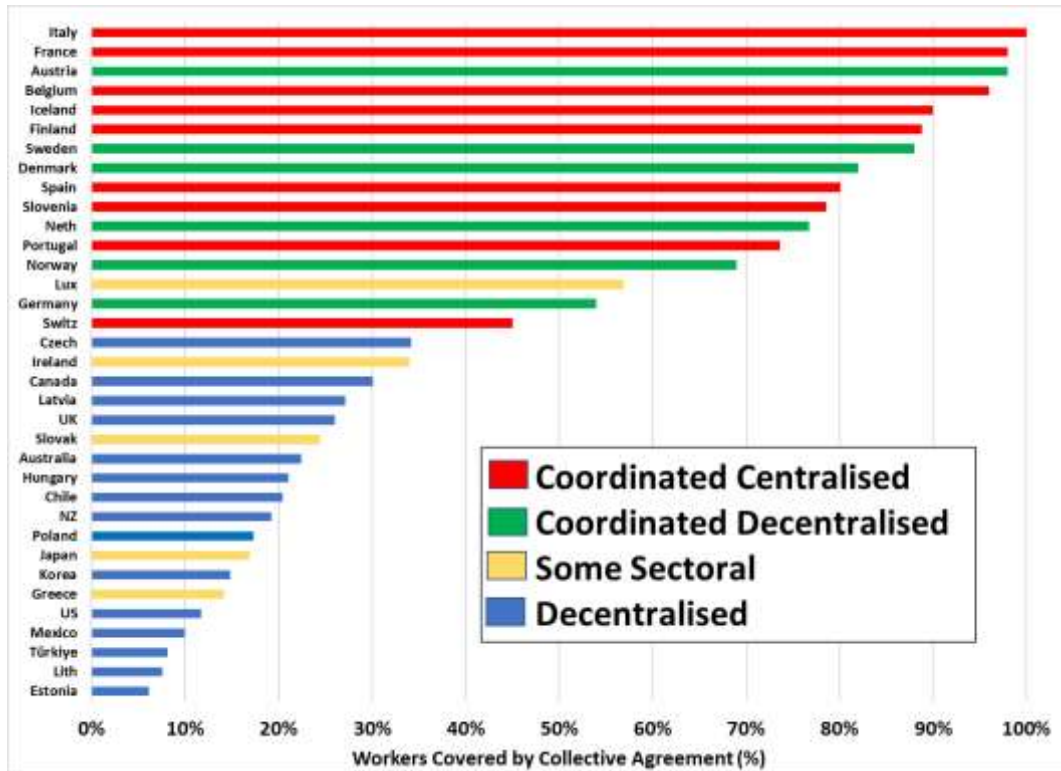
Figure 4 provides further illustration that the level of bargaining coverage is very much dependent on access to some form of multi-employer bargaining arrangement. The half of countries with above-median bargaining coverage rates is composed exclusively of countries with coordinated systems, whether centralised or decentralised (illustrated in red and green, respectively, on Figure 4). Meanwhile, almost all of the countries with decentralised systems (illustrated in blue) have very low coverage rates. Moreover, within that group of decentralised systems, countries which nevertheless retain more scope for multi-employer bargaining (including the Czech Republic, Canada and the U.K.) have achieved significantly higher bargaining coverage than Australia.

centralised systems. And as in Table 3, we have assigned Australia to the mostly decentralised category, since collective bargaining occurs almost exclusively at the enterprise level.

¹⁵ The averages for this group reported in Table 4 exclude Greece, which experienced a radical retrenchment of collective bargaining practices following the global financial crisis: moving rapidly from centralised to decentralised as a condition of structural adjustment measures negotiated with the EU and the IMF.

¹⁶ And as noted in Figure 3, federal bargaining coverage has declined further since then in Australia, by another 2 percentage points.

Figure 4. Bargaining Systems and Bargaining Coverage, 2018 (or most recent)



Source: OECD Labour Market Statistics, Collective Bargaining Coverage, and calculations from DWES and ABS data for Australia. Australia coverage equals current federally registered EAs plus state agreements.

The critical importance of multi-employer collective bargaining systems to stronger collective bargaining coverage has been acknowledged by policy-makers in other countries, who have prioritised the expansion of collective bargaining coverage as a strategy for lifting wages and improving income equality. In Europe, for example, a new directive from the Council of the EU has instructed EU-member countries to strive to expand collective bargaining coverage toward 80% of employment, as part of an ambitious strategy to lift wages across the EU:

“One of the goals of the directive is to increase the number of workers who are covered by collective bargaining on wage setting. To reach that objective, countries should promote the capacity of social partners to engage in collective bargaining. Where the collective bargaining coverage rate is, for instance, below a threshold of 80%, member states should establish an action plan to promote collective bargaining. The action plan should set out a clear timeline and specific measures to progressively increase the rate of collective bargaining coverage.”
 (Council of the EU, 2022)

As is clear from Table 4 and Figure 3 above, reaching a bargaining coverage rate of 80% requires the implementation of coordinated multi-employer bargaining systems (whether centralised or decentralised). No other OECD countries have bargaining coverage even close to that 80% level. So the EU directive in effect is instructing its member countries to implement multi-employer bargaining systems in order to attain the desired coverage rate (Muller and Shulten, 2022).

Meanwhile, in New Zealand, a new bargaining structure called 'Fair Pay Agreements' will allow collective bargaining to occur across multiple employers in specified regions, occupations, or industries. (This diversity and flexibility in facilitating multi-employer bargaining is conceptually similar to the range of options contemplated in the single-interest bargaining stream described in Australia's proposed industrial relations legislation: including geographical, sectoral, or economic commonalities.) The goal in New Zealand is to extend the reach of collective bargaining, including in industries in which a fragmented industrial structure has limited traditional bargaining and hence suppressed wages.¹⁷ The Fair Pay Agreement strategy will build on New Zealand's recent success with innovative pay equity initiatives – which have lifted wages in several industries (including several feminised care industries), and helped expand collective bargaining coverage by several percentage points over the past decade.

In sum, the international evidence linking the existence of multi-employer collective bargaining practices with higher collective bargaining coverage is very strong. Countries which aim to expand the scope of collective bargaining coverage, as part of a broader strategy for lifting wages and attaining more equal income distribution, need to include multi-employer bargaining opportunities as a central component in their strategies.

¹⁷ The rationale for and features of New Zealand's new system are described in detail by Kent (2021).

Australian Legislative Reforms and Collective Bargaining Coverage

The Commonwealth government's proposed industrial relations reforms (outlined in the *Secure Jobs, Better Wages* legislation) aim to address the decade-long crisis in Australian wages, and buttress the ability of workers to demand and win higher wages in the future and share in ongoing economic and productivity improvements. Several components of the legislation would support a reversal of the sharp decline in collective bargaining coverage which has marked Australia's labour market in recent years – and which coincided with the historic slowdown in wages.

One central theme of the proposed reforms is to relax current restrictions which limit opportunities for collective bargaining on a multi-employer basis. The evidence compiled above indicated this will be essential to any hopes of restoring collective bargaining coverage in Australia. International experience, and Australia's own industrial relations history, confirm that facilitating multi-employer collective bargaining will expand access to collective bargaining for more workers, and lead to wider coverage of collective agreements. Given the close correlation between eroding bargaining coverage and the stagnation of wages in Australia over the past decade, the expansion of bargaining coverage resulting from expanded multi-employer opportunities (and buttressed by other elements of the proposed legislation) will in turn contribute to the revitalisation of wage growth in Australia.

This section considers in more detail the proposed multi-employer bargaining streams that would be permitted under the new legislation. It also considers other complementary ways in which the *Secure Jobs, Better Wages* legislation would further strengthen collective agreement coverage in the federal industrial relations sphere: including limitations on employer terminations of enterprise agreements, stronger dispute settlement mechanisms, and streamlining the approval process for new enterprise agreements.

MULTI-EMPLOYER COLLECTIVE BARGAINING

Multi-employer collective bargaining holds great promise as a strategy for reversing the decline in collective bargaining coverage in Australia documented above. When negotiations can occur at more than one workplace or enterprise at a time, negotiators can establish common terms across multiple worksites. The bargaining process

becomes more efficient, by coordinating negotiations across several firms (rather than replicating the entire process at numerous separate worksites). And by establishing terms and conditions that apply evenly across a wider population of businesses, multi-employer bargaining can lift wages and standards for workers without disadvantaging any particular company or enterprise – since similar terms will apply to their competitors.

Under the existing provisions of the *Fair Work Act*, bargaining between employees and their employer in a single enterprise is the central policy objective of the bargaining system. The FW Act does include three provisions for bargaining that involves more than one employer, but these provisions have not been successful.

The ‘low-paid bargaining’ stream was intended to provide access to bargaining for low-paid employees “who have not historically had access to the benefits of collective bargaining” by enabling collectively bargaining among groups of employees and their employers to make multi-enterprise agreements (House of Representatives 2008, 157). Two other options for multi-employer bargaining were included in the FW Act: a ‘single-interest enterprise’ provision allowing some related corporate entities to bargain together to make a single-enterprise agreement with their employees, and a ‘voluntary’ multi-employer bargaining provision.¹⁸ While a handful of agreements have been made under these two options, no agreements at all have been made under the FW Act’s low-paid bargaining provision.

Concerns that low-paid workers, particularly those in highly feminised service sectors, would have difficulty participating in enterprise bargaining were first raised in 1993 when enterprise bargaining was introduced in Australia. By the 2000s there was considerable evidence attesting to the exclusion of many low-paid employees from collective bargaining over many years (Macdonald, Charlesworth, and Brigden, 2018, 208-210). Under the Act’s low-paid bargaining provisions, an employer or employee bargaining representative may apply on behalf of employers or employees for a low paid authorisation.¹⁹ The FWC must make a low-paid authorisation if an application for one has been made, the employees are judged to be low-paid, and it is satisfied that the public interest supports the making of such an authorisation.²⁰

The FWC is empowered to call for compulsory conferences and make orders for the parties to bargain in good faith. In addition, arbitration is possible under this stream,

¹⁸ FW Act s 172(2), (3), (5).

¹⁹ A distinctive feature of bargaining under the FW Act is that agreements are made between employers and their employees, not between employers/employer organisations and unions, unlike collective bargaining in most other countries. Unions can signify their intention to have agreements ‘apply’ to them (Creighton, Forsyth and McCrystal 2018, 5).

²⁰ FWA Part 2-4, Division 9. See also Macdonald, Charlesworth and Brigden (2018).

with the FWC able to make a ‘low-paid workplace determination’ where the parties are unable to reach agreement (House of Representatives 2008, xxxix, 170, 181). In theory, these provisions mean that reluctant employers can be made to engage in bargaining. In addition, the FWC can direct a third party that exercises control over employees’ terms and conditions to participate in conferences where this is considered necessary for an agreement to be made. This particular provision was made in recognition of the fact that some party other than the employer, such as ‘a head contractor or a government agency’, may effectively set the workers’ pay and conditions (House of Representatives 2008, 160; Cooper 2014). However, industrial action is not allowed under the low-paid bargaining option, limiting low-paid workers’ ability to apply any pressure on employers to bargain and reach agreement.

The low-paid bargaining stream has proven to be inadequate to achieve its purpose, as all attempts to use it to make agreements for workers have failed, with employees remaining dependent on minimum wages and conditions under awards (Stewart 2021). In the 12 years the FW Act has been in place not a single agreement has been made under this provision. This lack of success has highlighted some key requirements for successful bargaining, particularly for the many groups of low-paid workers whose jobs are primarily funded by the Federal and state governments.

The FWC is required to consider many criteria in deciding whether to make an authorisation that, taken together, have presented fairly significant barriers to bargaining. The FWC has taken a very narrow view of eligibility for inclusion in the bargaining authorisation. Some workers have been considered not to fit the criterion of historically not having had ‘access to the benefits of collective bargaining’, despite that they had seen few benefits from their single-enterprise agreements, including being paid wages that were at or barely above the level of the award (Macdonald, Charlesworth and Brigden, 2018).

The handful of other applications made by unions for low-paid bargaining authorisations have failed as FW Commissioners have used their discretion, somewhat inconsistently, to assess that workers were not low-paid or that unions had not demonstrated employees had been unable to access collective bargain. This is despite the fact that the workers in question have been paid comparatively low wages and/or have been members of exactly those groups identified in the original rationale for the low-paid bargaining stream (as workers who should be able to benefit from this provision).²¹

²¹See *United Voice [2014] FWC 6441* (29 September 2014) for workers in private security companies and *Australian Nursing Federation v IPN Medical Centres Pty Limited and Ors [2013] FWC 511* (Watson VP, 17 June 2013) seeking an authorisation for nurses employed in private sector medical practices.

The second current option for multiple-employer bargaining is the ‘single interest enterprise bargaining’ stream under which the FWC can make an authorisation that enables two or more employers to bargain together for a single enterprise agreement where those employers are ‘engaged in a joint venture or common enterprise or who are related bodies corporate.’²² Employers which operate franchises with agreements with the same franchisor are specifically permitted to apply for a single-interest authorisation.²³ Other types of employers who can apply for a single-interest application are “employers such as schools in a common education system and public entities providing health services,” with applications having to be approved by a Ministerial declaration (House of Representatives 2008, p. 162). Employers in the group applying for a single interest employer authorisation must have volunteered to bargain together, free of any coercion.²⁴

Employers that have had single-interest enterprise agreements approved include KFC franchisees and employers in the Domino’s Pizza and McDonald’s restaurant chains (Macdonald, Charlesworth and Brigden, 2018, p. 211). Others include church, community and public sector organisations including hospitals, early childhood education and care (ECEC) centres and schools that have a common funding source and a central body conducting their workplace relations. While a small number of these agreements have been reached, they have been important for many employees in some areas, including in public services. For example, the largest single-interest enterprise agreement approved in the March 2022 quarter covered 69,000 nurses and midwives in the Victorian public health system (Attorney-General’s Department, Table 15).

The third option under existing legislation for multi-employer bargaining is a voluntary multi-enterprise bargaining stream under which two or more employers that are *not* single-interest employers can make a multi-enterprise agreement. This is not a bargaining option that can be accessed by many workers, as it cannot be pursued by unions if employers do not consent. There is no ability for the FWC to make a ‘majority support determination’ which requires an employer to bargain where a majority of employees wish to do so; nor can the FWC order the parties to bargain in good faith.²⁵ Bargaining for a multi-enterprise agreement can only occur where two or more

²² FW Act s172(2), (5).

²³ FW Act s 249(2). Previously, the Australian Industrial Relations Commission (AIRC) had found some franchisees to be engaged in a common enterprise and others, in similar circumstances, not to be (House of Representatives, 2008, 165).

²⁴ FWA ss 249-52.

²⁵ FWA s 172(3) (a); See also Stewart et al. 2016, 362.

employers voluntarily agree to bargain together. Workers are not permitted to take industrial action to progress their claims under these bargaining arrangements.²⁶

A small number of multi-enterprise agreements have been made under this provision, covering employers and workers in the same industry, largely in the health care, social assistance, and education sectors, where there is a common funding body for all the employer organisations. For example, three multi-enterprise agreements between independent schools were among the largest multi-enterprise agreements approved in the 2022 March quarter, covering 25,000 employees between them (Attorney-General's Department, 2022, Table 15). The bargaining process under these provisions can be extremely long and difficult, as voting has to take place separately in each workplace and there are inflexible registration and other bureaucratic requirements to be met (Australian Services Union 2015).

In sum, the three existing FW Act provisions for multi-employer bargaining are ineffective, especially for workers in low-paid sectors. As a result hundreds of thousands of workers in many sectors are dependent on minimum Award pay and conditions. These safety net standards fall well below normal standards for workers who have been able to access collective bargaining – and well below what is required for a decent standard of living. The low-paid bargaining stream of the FW Act is not fit for purpose; it has been a complete failure. It is too complicated, too restrictive, and provides inadequate support for workers to exercise power through industrial action. The other options have provided virtually no scope for unions and employees to initiate bargaining at all.

Recognising the historic failure of existing multi-employer streams in the Fair Work Act, and appreciating the negative consequences of eroding bargaining coverage for wage growth and inequality in Australia, the *Secure Jobs, Better Wages* bill proposes a set of important reforms that would expand the capacity to undertake collective bargaining across multiple employers. These reforms would include:

- The low-paid bargaining stream is renamed the 'supported bargaining stream.' Limitations on access to the low-paid bargaining stream are relaxed. Criteria for the FWC issuing a supported bargaining authorisation are revised, with the aim of improving take-up of this stream.
- The single-interest employer authorisation stream is expanded, including by allowing employee bargaining representatives to apply for a single interest employer authorisation to cover two or more employers, subject to majority support of the relevant employees.

²⁶ FW Act s 413(2).

- Enhanced access is provided to Fair Work Commission support for employees and their employers who require assistance to bargain.
- Industrial action is allowed under certain conditions under both streams to support multi-employer bargaining under both streams.
- The FWC retains significant leeway to determine whether authorisation of multi-employer bargaining under either stream is consistent with the public interest.

These reforms constitute an important step in the right direction, to allow workers currently unable to access effective collective bargaining a better opportunity to negotiate better pay and conditions. However, limitations on access to either of these expanded multi-employer bargaining streams remain substantial; and in essence multi-employer bargaining will continue to be seen as an exceptional practice (rather than a legitimate, supported, normal practice, as is the case in most other industrial countries). The changes contemplated by this legislation are thus modest and incremental in nature. Nevertheless, they represent an important step in the direction of expanding access to collective bargaining for more workers.

OTHER REFORMS AND THEIR IMPACT ON BARGAINING COVERAGE

The *Secure Jobs, Better Wages* legislation contains other provisions that would also support a future recovery in collective bargaining coverage. These include:

Limitations on Employer Termination of Expired Agreements

The proposed legislation would place new limitations on the ability of employers to apply to the Fair Work Commission for termination of enterprise agreements which have expired, but which are being actively renegotiated by employees and their unions. This practice has become common since 2015, when a precedent-setting Federal Court decision allowed employers to apply for termination of agreements (or to threaten to do so), in hopes of compelling employees to accept unfavourable changes in existing agreements during their renegotiation. Dubbed the ‘nuclear option’ by industrial relations experts, this practice has undermined workers’ bargaining positions and damaged the integrity of the collective bargaining process.²⁷

²⁷ See Raynes and Stanford (2022) for more detail on this practice, and a case study of its impact on a specific example of collective bargaining (Qantas’s recent negotiations with its international cabin crew).

A new subsection of the *Fair Work Act*, 226(4), proposed in the current reform package would instruct the FWC to examine whether bargaining for a new EA is occurring, and whether termination would adversely affect the bargaining position of covered employees. The intent is to prevent termination applications from being used as a bargaining tactic.

Employers would still have avenues to seek termination of EAs that are no longer relevant in their workplaces, in conjunction with their employees and covered unions. And unilateral requests for termination are still possible if the FWC is satisfied that the continued operation of an EA poses a significant threat to the viability of a business carried on by the employer; or that termination would reduce potential job losses for employees covered by it. The legislation would also create a new sub-section of the *Fair Work Act*, Section 226A, guaranteeing termination entitlements for employees (such as redundancy payments) provided for under an EA that was terminated on one of the above grounds.

These measures constitute a sensible, incremental reform to prevent the most aggressive use of termination procedures to undermine workers' bargaining position during renegotiation of enterprise agreements. Ample provisions still exist for terminating EAs which have genuinely outlived their usefulness (not to mention so-called 'zombie' agreements inherited from pre-*Fair Work Act* times, which will face an automatic sunset under other provisions of the new legislation). But where workers and their unions are engaged in renegotiating expired EAs, which typically embody terms and conditions built up over many years of bargaining, the opportunity for employers to dispense with all of those provisions at once through unilateral termination is being foreclosed. In other words, the 'nuclear option' is being disarmed. This will help to establish a more effective, constructive, and fair playing field for collective bargaining, and is thus an important step in reversing the erosion of collective bargaining which has so badly undermined wages and working conditions in Australia.

Dispute Settlement

Part 18 of the *Secure Jobs, Better Wages* legislation provides for the Fair Work Commission to play a larger role in resolving and arbitrating intractable bargaining disputes. This will support the faster resolution of difficult negotiations, and prevent employers from 'starving out' workers through very long work stoppages. Knowing that an ultimate solution can be imposed by the Commission in event of very difficult disputes will also encourage a more productive and solutions-oriented culture of collective bargaining. This should further enhance the efficiency and effectiveness of

collective bargaining, and reinforce the commitment of both workers and employers to the process – further supporting a rebound in Collective bargaining coverage.

Approval of Agreements

Other reforms contemplated in Part 14 of the *Secure Jobs, Better Wages* package would allow the streamlining of the process through which the Fair Work Commission approves new enterprise agreements. This includes measures to avoid unnecessary complications or procedural roadblocks in ensuring that agreements have been genuinely approved by covered workers. It also includes modifications to the ‘Better Off Overall Test’ (intended to ensure that EAs cannot leave workers worse off than they would be under the minimum terms of the relevant Modern Award). These reforms need to be carefully designed so that employers cannot manipulate the BOOT process and use EAs to undermine otherwise prevailing minimum conditions. But the general goal of simplifying and speeding approval and implementation of new EAs is a good one, and would also contribute incrementally to future recovery in collective bargaining coverage.

* * * * *

In sum, the *Secure Jobs, Better Wages* legislation constitutes a significant and multi-faceted effort to restore the reach and effectiveness of collective bargaining in Australia. This legislation will not solve all the problems and weaknesses in Australia’s current industrial relations regime. It will leave collective bargaining primarily focused at the enterprise level – and this will limit the potential expansion of bargaining coverage, as international and historical experience amply demonstrate. Continuing conditions placed on the proposed expansion of multi-employer bargaining (including restrictions on where multi-employer bargaining can be authorised) will also likely limit the legislation’s ultimate impact. And other restrictions on union activity, union financing, and industrial activity – which will remain among the most severe of any industrial country – will continue to constrain collective bargaining activity. So these reforms should be understood as incremental. They certainly will not elevate Australia into the leading group of OECD countries with near-universal bargaining coverage (such as those countries in the coordinated centralised and coordinated decentralised categories discussed above). But they certainly represent a step in the right direction, and will help to restore greater capacity for Australia workers to bargain collectively for higher wages in the years ahead.

Rebuilding Bargaining Coverage and Future Wage Growth

This section considers the likely quantitative dimensions of the new legislation's potential effect on future collective bargaining coverage and hence wage growth in Australia. As described above, there is a strong and statistically robust correlation in Australia between the erosion of collective bargaining coverage and the deceleration of wages in recent years. Every one-percentage-point decline in collective bargaining coverage since 2010 has been associated with a reduction in annual wage growth (measured in both nominal and real terms) of 0.15 percentage points.

There is also a clear and robust relationship between access to collective bargaining at the multi-employer level, and the ultimate coverage of collective bargaining agreements across the labour market. Almost monotonically, countries which feature multi-employer mechanisms and complementary forms of coordination in their industrial relations systems, demonstrate much higher coverage ratios.

The reforms contemplated in the *Secure Jobs, Better Wages* bill would incrementally lift the coverage of collective bargaining in the broader Australian labour market. A reasonable expectation is that under this legislation, Australia would eventually come to resemble the experience of other countries where bargaining occurs *mostly* at the enterprise level – but where *some* multi-employer bargaining and coordination is supported. Improved coverage would result primarily from the expansion of multi-employer bargaining under the supported and single-interest streams described in the legislation. The rebound in coverage would be reinforced by other changes in the legislation to strengthen bargaining in its current, enterprise-focused context: including limitations on employer terminations, stronger dispute settlement, and streamlined agreement approvals.

If these reforms allowed Australia's collective bargaining coverage to recover to the same average level as typified by the group of countries marked by largely decentralised bargaining but with *some* multi-employer bargaining and coordination (namely, the third group listed in Tables 3 and 4 above), this would entail the recovery of most (but not all) of the bargaining coverage which has been lost over the past decade. Matching the 33.1% average bargaining coverage demonstrated by that group in 2018 (as indicated in Table 4) would imply a 10.7-percentage-point increase in

coverage in Australia.²⁸ Obviously, this recovery could only be attained over several years, as bargaining practices expand on the basis of the new provisions contained in the legislation. Even this recovery would still leave combined coverage in Australia (including both federal and state-level agreements) below its level a decade ago – but it would significantly restore bargaining opportunities for Australian workers.

Based on the observed correlation between bargaining coverage and wage growth documented above (with each percentage point expansion in coverage associated with a 0.15-percentage-point acceleration of wages), this partial restoration of bargaining coverage in Australia would lift the pace of annual wage growth by 1.6 percentage points. This would provide a significant boost to the incomes of employed Australians – reversing most if not all of the deceleration in average wage growth that was experienced after 2013.²⁹

Table 5					
Impact of Restored Wage Growth on Average Earnings					
	Weekly		Annual		
Year	Status-Quo¹	Restored Growth²	Status-Quo¹	Restored Growth²	Gain
0	\$1,769.80	\$1,769.80	\$92,030	\$92,030	
1	\$1,808.20	\$1,836.53	\$94,027	\$95,500	\$1,473
2	\$1,847.44	\$1,905.78	\$96,067	\$99,101	\$3,034
3	\$1,887.53	\$1,977.65	\$98,152	\$102,838	\$4,686
4	\$1,928.49	\$2,052.22	\$100,282	\$106,715	\$6,434
5	\$1,970.34	\$2,129.60	\$102,458	\$110,739	\$8,281
5-Year Total					\$23,908
Source: Authors' calculations as described in text from ABS, Average Weekly Earnings.					
1. Assumes annual growth at average 2013-2021 rate (2.17%).					
2. Increases annual wage growth by 1.60%.					

For workers earning average wages, that boost to wage growth would translate into significant incremental income, especially as annual wage gains are compounded over time. Table 5 summarises the impact of restored wage growth for someone earning

²⁸ We conduct this comparison using 2018 data, the latest for which comparative data is available. As noted above, Greece is excluded from the average coverage data for this group.

²⁹ By the measures summarised in Table 1, average growth in realised average compensation in Australia slowed by up to 2.2 percentage points, so this 1.6-point recovery in wage growth does not fully reverse the damage done since 2013.

average weekly full-time ordinary wages: equal to \$1770 per week as of May 2022.³⁰ Table 5 contrasts the course of weekly wages under the weak, status-quo pace observed from 2013 through 2021, with what would occur as a result of faster wage growth under strengthened collective bargaining. The ‘status-quo’ scenario in Table 5 continues the 2.17% annual pace of growth in average weekly wages demonstrated since 2013. The ‘restored growth’ supplements that pace with the additional 1.6% increment attained on the basis of restored bargaining coverage. By lifting annual wage growth (boosted by a 10.7-point restoration of collective bargaining coverage, given the observed correlation between coverage and wage growth described above), weekly wages and annual incomes are lifted considerably over time.

In just the first year after achieving this faster pace of wage growth,³¹ current full-time wages would be lifted by \$28 per week (compared to their trajectory under the 2013-2021 average growth rate), translating into a \$1473 gain in annual income. After several years of compounded faster wage growth, however, that wedge of incremental income becomes much larger. By the fifth year of faster wage growth, weekly wages are \$159 higher (or almost \$8300 for the year). On a cumulative basis over those 5 years, the average worker would receive almost \$24,000 in incremental compensation thanks to the restoration of wage growth back toward traditional norms.

The resuscitation of wage growth would have important macroeconomic implications, as well. Measured across the whole labour market, a 1.6-percentage-point acceleration of wage growth would boost aggregate wage payouts across the economy by about \$15 billion in just the first year, rising to \$75 billion by the fifth year.³² This would partly offset the impact of current rapid inflation on the real purchasing power of working families, and support stronger household financial stability; this incremental purchasing power for workers will be all the more important given the likelihood of imminent economic slowdown or even recession arising from current global interest rate increases. A faster pace of wage growth would also stabilise the historic decline in labour’s share of national GDP, promoting a more equal distribution of income across factors as well as across individuals.³³

³⁰ ABS, Average Weekly Wages.

³¹ As noted above, it would take several years after these reforms before the boost in bargaining coverage simulated here would be fully achieved.

³² Calculations based on national wages and salaries payments of \$926 billion in the latest four-quarter period.

³³ At the RBA’s target inflation rate and recent trend productivity growth, nominal wages must grow at close to 4% per year just to maintain the labour share of GDP at its current shrunken level. Even with the accelerated wage growth simulated here, total nominal wage growth (of about 3.8% per year) would fall within that range – implying a stabilisation of the labour share, but not its recovery.

Conclusion

The weakness of wage growth in Australia over the past decade has been extreme by both historic and international standards. Since 2013, nominal wages have grown at their slowest pace in postwar history, and among the slowest of any industrial country. The weakness of labour compensation cannot be explained by conventional determinants: like labour market forces, unemployment, or slow productivity growth. Rather, it clearly reflects a historic shift in relative bargaining power from workers and toward employers. The sharp decline in collective bargaining coverage in Australia during this period has played a statistically dominant role in suppressing wage growth well below a normal pace: the erosion of coverage statistically explains over half of the change in wage growth over this period.

The consequences of weaker wage growth have deeply affected Australia's economy and society: undermining consumer spending power and household financial stability, disincentivising innovation and productivity growth, and holding back macroeconomic performance. Strong and pro-active measures to restore workers' ability to demand and win healthier wage increases are required to address this sustained and distorted pattern of wage determination. Measures to strengthen the presence and reach of collective bargaining must be central to any strategy for restoring normal wage growth in Australia. International and historical evidence suggests strongly that this must include greater capacity to undertake collective bargaining across multiple employers.

The reforms proposed in the *Secure Jobs, Better Wages* bill represent important but incremental steps in restoring a better balance of bargaining power between workers and employers, and lifting wage growth back toward a normal and healthier pace. The measures provided here will not suddenly transform Australia in the image of leading OECD countries, where centralised and coordinated collective bargaining covers most workers, and wage outcomes are much more equal as a result. But they would support a gradual restoration of collective bargaining coverage, consistent with practices in other countries where bargaining still occurs mostly at the enterprise level – but where some broader bargaining and coordination is possible. On that basis, and over several years, this should result in a partial restoration of bargaining coverage lost over the past decade, and a corresponding (but still incomplete) recovery in wage growth.

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