Discussion of 'Wage Growth Distribution and Decline among Individuals: 2001-2017' by Guyonne Kalb and Jordy Meekes, contributed by Gigi Foster, UNSW, for the 2019 RBA Conference on Low Wage Growth (Sydney).

This paper asks three primary questions using HILDA 2002-2017:

(1) How is (lack of) wage growth from 2002 to 2017 distributed across the population?

(2) How much is (lack of) wage growth in this period explained by individual and/or job characteristics?

(3) How well does (lack of) wage growth predict individuals' subjective financial distress?

The motivation to ask these questions is drawn in the paper's introduction from the observation of structural changes such as skill-biased technical change in the economy in recent years. Human capital theory and search-and-matching theory and mentioned as helpful in guiding the approach and the interpretations. The paper is argued to deliver a contribution in light of the fact that existing analyses of wage growth such as by Treasury in 2017 are claimed not to have used multivariate techniques at the individual level.

The paper's approach is to model the log change in hourly wages (usual weekly earnings/usual weekly hours worked) for full-time workers, excluding person-year observations who are outliers in terms of earnings, work hours or wage growth, using both OLS and fixed-effects models and including a large suite of controls. Many tables of non-parametric results are provided for the two periods before and after 2008, ostensibly to determine whether the rater of change in wage growth has altered after the GFC. A second set of models are then run to predict two of HILDA's measures of subjective financial wellbeing.

My primary comments:

1. It is hard to believe someone has not already done this, given the strong interest in wage growth recently, reflected in the very holding of this conference (and more needs to be said in the paper about why the results are different from those of Treasury 2017). However, one reason may be that the approach in the paper necessarily excludes the members of society most likely to experience low wage growth, since only full-time workers are included in the analysis and then only those workers observed employed in successive years. The patterns in wage growth may be very different for workers in more precarious employment (the gig economy, part0time and casual workers, those not on award rates, etc.). The exclusion of these more at-risk workers may be one reason why the analysis does not match well to the WPI, AWOTE and AAWI (for which the reader requires more details: how geographically specific are these measures? How well can they capture the macroeconomic circumstances relevant to a particular worker?

2. The results by occupation are broadly consistent with skill-biased technological change, if "skill" is denoted by occupation as manager or professional (the groups that see the largest wage growth), whereas the results by industry look more like the result of being in (un)favoured positions: certain industries see much larger wage growth than others. In sum the results speak to me of "game of mates" style organization of high wage growth through insider activities and gift exchange, rather than being reflective of differences across occupations or industries in marginal product of labour. It would be wise to select a conceptual framework for understanding the results that was matched to the patterns seen, and it seems that the "tradeables versus services" framework isn't particular helpful from

this perspective; nor is the "business cycles versus occupation/industry heterogeneity". I would recommend a similar conceptual frame as that taken by myself and Paul Frijters in our 2015 paper in the AERE entitle "Rising Inequality: A Benign Outgrowth of Markets or Symptom of Cancerous Political Favours?": pitch skill-biased technological changes against political favouritism. As a general point, the paper requires more theoretical direction to help make sense of the sea of estimates, and should at the end of the day point to some feasible interventions that logically match the story of what is going on.

3. Australia is doing pretty well in terms of compensating people "demographically at risk" – i.e., those for whom we might ex ante worry about discrimination in the labour market. The results show little evidence that this risk is materializing.

4. It is no surprise that wage growth relates to subjective financial wellbeing. The case is not made clear for why we should expect anything different than this, and hence, for the value of what is done.

Smaller comments:

1. Please add measures of variation explained (R^2) and model fit to Table 4.

2. How are you estimating effects of individual characteristics like education in the fixed effects models? In general, we need more explanation of what these models are identifying and why that target is of interest.

3. It is hard to determine what industries/occupations post statistically more or less wage growth than others, because all coefficients are mechanically compared against the single left-out category. A graphical display might be preferable for visualization, and would aid the reader in seeing which industries/occupations are at the top and the bottom, and in seeing patterns that could confirm or oppose whatever conceptual frame he is using to understand the results.

4. You may wish to experiment with including some Interactions of your most predictive variables, at least once you have a story in mind.

5. Please motivate better why you imply the existence of a structural break at 2008. The GFC does not seem well embedded into your story of wage growth.

6. More information on effect sizes would be appreciated.