General Discussion of 'Low Wages Growth in Australia – An Overview' and 'New Zealand Wage Inflation Post-crisis'

The presentations highlighted the puzzle of low wages growth across multiple countries. Together they acutely illustrated the broad-based and complex phenomena of low wages growth. Data featured heavily in each presentation, demonstrating weakness in wages growth, but also strength in other areas that typically move together with wages growth. The general discussion considered the importance of the data and evaluated what this tells us about the current wages growth malaise.

The effect of job-to-job transitions on wages growth attracted a significant amount of attention. The job-to-job transition rate measures the rate at which individuals move between jobs. Australia and New Zealand have recently experienced large falls in the job-to-job transition rate. One participant commented that the job-to-job transition was a good measure of labour market mobility as it effectively measures the workers' outside option. Moreover, low labour is associated with low wages growth. It was also noted that Australian research has found that job-to-job transitions not only benefits individuals that change jobs but also those that remain with their existing employers. That is, job-to-job transitions are associated with increased workers' bargaining power. Another participant commented that, in contrast, the research on this topic in New Zealand was not conclusive.

In further discussion a participant highlighted that not only have job-to-job transitions been lower, but productive reallocation of labour has also declined in Australia, even within narrowly defined industries. That is, there are less workers moving from low productivity to high productivity companies within an industry. This likely suppresses wages growth as more productive companies tend to have higher wages growth.

Participants then considered potential explanations of the low job-to-job transition rate. Many participants suggested that the changing nature of the labour force may be contributing to the low job-to-job transition rate and low wage growth. Trends in the labour market discussed included: changes in the age composition of the workforce, the increasing share of temporary migrant workers in the labour force and low perceptions of job security.

One participant suggested that older workers, especially those approaching retirement, are less likely to change jobs and may be 'holding on' to their current roles. This could have negative implications for younger workers who then find it difficult to 'break into' the job market. This dynamic may have contributed to the elevated level of youth unemployment.

The role of temporary workers in the labour market was also discussed. Participants suggested that temporary workers are more likely to accept any job they may find and are also less likely to negotiate wages. Therefore, the trend of increasing temporary migrant workers' share in the workforce, as evidenced in both New Zealand and Australia, was speculated to have contributed to the low rate of job-to-job transition and low wages growth in those countries. It was acknowledged that empirical analysis on this topic would be informative.

Another participant highlighted that perceptions of job security may have reduced worker's appetite to switch jobs. This suggests that workers now have a higher level of risk aversion. It was also noted that this runs counter to the dialogue of the modern economy where individuals frequently move jobs.

Two additional possible causes for the low rate of job-to-job transition were also noted: adjustment frictions and the changes in technology. Adjustment frictions, such as contract arrangements that prevent workers from changing jobs, would naturally lower the job-to-job transition rate. On the other hand, improvements in (firm-level) technology could make workers more valuable to firms, as they accumulate knowledge on the firm's technology, making it more difficult to move jobs. It was suggested that disentangling the relative importance of the two forces would help direct the discourse.

Looking beyond the low job-to-job transition rate, the distribution of income and its link to wages growth also generated discussion. One participant pointed out that in the United States, the median income earner has experienced little to no wages growth while the higher end of the distribution has experienced all the wages growth.

They noted that the presentations highlighted that the Australian experience has recently shown the opposite: those on award wages (at the lower end of the income distribution) have experienced higher wages growth than those on individual agreements (at the higher end of the income distribution). It was also highlighted that recent employment growth in Australia has been weakest for middle income jobs, suggesting that changes in the income distribution may not be an important factor in understanding low wages growth in Australia.

The presentations also discussed the persistent errors made on wages growth forecasts across countries. Specifically, economic models have overestimated wages growth over the past few years. As a result, adjustments have been made to how wages growth expectations affect wages growth in some models to account for these errors. There was some discussions around whether the errors were cyclical or structural in nature. Some participants agreed that the broad based nature of the wages slowdown – over different labour market segments and countries – pointed to a structural factor rather than a cyclical one. One participant agreed and noted that structural change in the economy is a common diagnosis when faced with persistent forecast failure. However, some argued that the dramatic nature of the wages slowdown pointed to more cyclical factors such as the end of the mining boom in Australia and the GFC in New Zealand.

The discussion concluded with a consideration of the relationship between the labour market and wages growth. It was observed that many countries are experiencing seemingly mixed labour market signals. On the one hand, wages growth is low, while on the other hand labour market have been tightening, job vacancy rates are high and the unemployment rate is low. One would normally expect higher wages growth under these conditions according to the wage Philips curve. Another participant highlighted that using a broader measure of labour market slack, such as the underutilisation rate, still gives a typical wage Phillips curve relationship. This suggests that traditional measures of labour market slack, such as the unemployment rate, do not reveal the complete picture. It was highlighted that the weakness in consumer and producer prices means that the weakness in nominal wages growth may not have translated to weakness in real wages growth. As such there may not be as much of a puzzle to explain as popular commentary would suggest.