Non-technical summary for 'Did Labour Market Concentration Lower Wages Growth Pre-COVID?'

By Jonathan Hambur

Wages growth was slow in Australia in the years leading up to the COVID-19 pandemic. Much of the slowdown in wages can be explained by factors such as a softer labour market and lower inflation, which are key drivers of wages growth. However, even after accounting for these factors wages growth was still moderately lower than expected. Understanding why this was the case is important given the crucial role wages growth plays in determining people's welfare, government revenue and inflation.

This paper explores one potential explanation for slow wages growth: that employment has become more concentrated amongst a small number of large businesses – that is, labour market concentration has increased. When there are fewer employers, competition for workers is likely to be weaker, and workers will have fewer employment options to leverage in wage negotiations. As such, increases in labour market concentration could weaken worker bargaining power and therefore contribute to lower wages growth.

Key findings

- Australian labour markets are on average less concentrated than in other countries, but there is a lot of variation within Australia.
  - Regional labour markets tend to be much more concentrated.
- Increases in labour market concentration are associated with lower wages and wages growth.
- On average, labour markets did not become more concentrated in Australia from 2005–2016. However, the effect of any given level of concentration on wages became more negative.
- A simple calculation suggests that wages were around 1 per cent lower in the early 2010s as a result.
- Slower business creation played an important role in increasing the effects of concentration, and therefore lowering wages growth.
  - When new businesses enter, they need to hire and grow, creating new employment options for workers.
  - These new options appear to improve worker bargaining power, offsetting the effects of labour market concentration.
- Declining union membership may have also played a role, though slower business creation appears to have been the more important driver.