SOME OBSTACLES TO WAGE-LED GROWTH

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Abstract

I begin by providing a non-technical summary of the Post Keynesian model of wage-led growth. I then summarise the work of microeconomists and industrial relations researchers on the reasons why real wages have failed to keep pace with labour productivity, leading to a steady decline in the wage share of GDP. These include the decline of trade unions, the erosion of the welfare state and (especially) the increasing ability and willingness of employers to evade and avoid labour market regulation. I conclude that these microeconomic problems need to be solved for a macroeconomic strategy of wage-led growth to be possible.

Keywords

Deregulation; inequality; labour markets; trade unions; wage-led growth

1. Introduction

In recent years macroeconomists working in the Post Keynesian tradition have developed elaborate and convincing models of wage-led growth. Drawing on the earlier work of Michał Kalecki and Hyman Minsky, theorists such as Eckhard Hein, Özlem Onaran and Engelbert Stockhammer have demonstrated that, under plausible values of the relevant parameters, an increase in real wages will generate higher (not lower) effective demand and will therefore contribute to faster (not slower) rates of

output growth. At the same time, but independently, microeconomists and industrial relations specialists with an institutionalist background have published extensive research on the weakening of trade unions, the erosion of the welfare state, and the growing ability and willingness of employers to put downward pressure on real wages by evading and avoiding labour market regulation. There seems to have been little or no communication between these two sets of researchers. My intention in this paper is to show that their work is complementary, and in particular to suggest that that Post Keynesian macroeconomists need to take the microeconomics of the labour market more seriously. A substantial degree of re-regulation of the labour market will not be easy to achieve, but without it wage-led growth will not be possible.

The paper is structured as follows. In section 2 I provide a brief, non-technical outline of the Kaleckian foundations of the wage-led growth model and then summarise Minsky's views on the need for financial market regulation and its vulnerability to evasion and avoidance by market participants. In section 3, I discuss the literature on labour market regulation, which demonstrates a recent and deeply worrying tendency for it, too, to be evaded and avoided by employers, using a wide variety of methods and strategies. The consequence has been a serious and continuing decline in the wage share of GDP in almost all OECD countries. In section 4, I consider and reject the objection that, since 'wage theft' applies only to the lowest-paid, it is a problem of social justice with no significant macroeconomic implications. Section 5 discusses the policy implications. Finally, in section 6, I draw some pessimistic conclusions concerning the prospects for labour market re-regulation, which is a necessary but probably unachievable condition for wage-led growth.

2. Kalecki, Minsky and the Theory of Wage-led Growth

The principle of effective demand in a two-class society is based on the proposition that ‘workers spend what they get; capitalists get what they spend’ (this formulation is often attributed to Kalecki, but it has never been traced to a published source). Capitalists’ aggregate income is equal to their aggregate expenditure, on investment plus consumption, with causation running from expenditure to income (Kalecki 1954). In the simplest case, in a closed economy with no government, aggregate profits are equal to the sum of capitalist consumption and investment spending. The most important factor in the determination of investment expenditure is the expected profitability of new investment projects, which depends directly on aggregate current profits but also indirectly on consumption expenditure by workers out of their wage income. There is a potentially serious contradiction here, since any tendency for the profit share to rise at the expense of the wage share will reduce consumption and may well also lead to a *decline* in investment via the accelerator mechanism that links the level of investment spending to the rate of change in consumption spending. Thus the constant pressure by employers to reduce wages may be *bad* for profits, not for any individual capitalist but for the class as a whole. This, Kalecki believed, had been demonstrated in the Great Depression. It is the fundamental proposition in the 21st-century literature on wage-led growth.

Towards the end of his life Kalecki came to acknowledge what he termed the ‘crucial reform’ of advanced capitalist economies that had taken place after 1945 (Kalecki and Kowalik 1971; King 2013a). The combination of a government commitment to full employment (and the fiscal and monetary policy measures that were needed to implement it), strong trade unions, rigorous labour market regulation (via collective bargaining and/or government intervention) and a comprehensive welfare state allowed real wages to rise at the same rate as productivity, so that the

wage share remained constant and the economic contradictions of pre-1939 capitalism had been overcome. This was the so-called 'golden age' of capitalism, or what the French refer to as the '*trente glorieuses*' (thirty splendid years), 1945-c.1975.

Kalecki's discovery of the 'crucial reform' is a fine example of Hegel's Owl of Minerva, which spreads its wings at dusk: you only find out what is going on when it is about to end. With the benefit of hindsight, the end of the 'golden age' was inevitable. As the sociologist Wolfgang Streeck observes, the capitalist mode of production is an intensely contradictory system, and:

...having no opposition may actually be more of a liability for capitalism than an asset...Capitalism as we know it has benefitted greatly from the rise of counter-movements against the rule of profit and of the market...Under Keynesianism and Fordism, capitalism's more or less loyal opposition secured and helped stabilize aggregate demand, especially in recession...Seen this way, capitalism's defeat of its opposition may actually have been a Pyrrhic victory, freeing it from countervailing powers which, while sometimes inconvenient, had in fact supported it. Could it be that victorious capitalism has become its own worst enemy? (Streeck 2016, pp. 60-1)

Kalecki would have answered in the affirmative.

What is missing in the Kaleckian model is any serious discussion of financial fragility. Kalecki was not greatly interested in the macroeconomics of money and finance. His only significant treatment of financial markets had a microeconomic focus, with the phenomena of 'borrowers' risk' and 'lenders' risk' used to explain why oligopoly rather than monopoly was the typical market structure; firms were

unwilling and/or unable to borrow enough to take over the entire industry (Kalecki 1971, pp. 105-9). In fairness it should be noted that Kalecki died in 1970, before the process of 'financialisation' had really begun and five years before Hyman Minsky published his first major book, *John Maynard Keynes* (Minsky 1975). And he was not a great reader. It is entirely possible that he had never encountered Minsky's work (the only two references to the American theorist in volume II of Kalecki's *Collected Works* were both made by his editor, Jerzy Osiatynski). At all accounts, Kalecki's penetrating macroeconomic analysis does need to be complemented by that of Minsky.

Hyman Minsky's underlying vision of American capitalism placed financial markets at the centre of his analysis; labour, industry and production did not interest him very much (King 2013b). In Minsky's 'Wall Street vision', the crucial economic relationship is that between investment banker and client, not factory-owner and worker. His 'representative agent' is neither a classless consumer (as in mainstream economic theory) nor an industrial capitalist (as in Kalecki), but a financial capitalist. Borrowing and lending are the crucial transactions, not buying consumer goods or selling labour power. Minsky's *financial instability hypothesis* (FIH) explained why the system is vulnerable to financial crises, why nevertheless a catastrophe like the Great Depression had not happened again, and what must be done in order to prevent a recurrence. For Minsky, financial markets are inherently unstable. In a world characterised by fundamental uncertainty rather than by quantifiable risk, the expectations of lenders and borrowers fluctuate in a more or less regularly repeated cyclical process. Depression gives way to confidence, which grows into exuberance and excitement before collapsing into despair (Minsky 1986[2008]).

While Minsky believed that capitalism could and must be reformed, he was under no illusion that the business cycle could be abolished or economic instability eliminated. Thus he advanced what might be termed a Financial Market Regulation Vulnerability Hypothesis (FMRVH), according to which entrepreneurial ingenuity, which was repeatedly demonstrated by financial innovation, required both eternal vigilance and constant attention to institutional reform: ‘A fundamental flaw exists in an economy with capitalist financial institutions, for no matter how ingenious and perceptive Central Bankers may be, the speculative and innovative elements of capitalism will eventually lead to financial usages and relations that are conducive to instability’ (Minsky 1977, p. 22; cf. Minsky 1986, pp. 287, 333). The profits available from the evasion or avoidance of financial regulation are so enormous that efforts to do so will be continuous, substantial and often successful. The authorities need to be constantly alert, but they will not always succeed. Minsky would not have been at all surprised by the innovative practices, novel institutions and new asset types that were implicated in the Global Financial Crisis of 2007-8, which has often been interpreted as a vindication of both the FIH and the FMRVH.

What is missing from Minsky’s analysis? First, until 1977 he had no clear analysis of capitalists’ financial *resources* to set against his very well developed model of their financial *commitments*. When he finally adopted the Kaleckian income-expenditure model set out in section 2, in which capitalist spending determines aggregate capitalist income, he was able to fill this very important (and frequently criticised) gap in his model (Minsky 1977). Second, and this persisted until his death in 1996, he had little or nothing to say about *working-class* finances. In effect he followed Kalecki in (implicitly) assuming that workers spend every dollar that they receive in wages pretty well as soon as they are paid, neither saving nor incurring any

substantial debts. Even his identification of a new stage of ‘money manager capitalism’ (Wray 2009; Whalen 2017) did not seriously alter this assumption, since it too focussed on relations between capitalists, not on the relationship between capital and labour.

Thus Minsky needs Kalecki, just as we have seen that Kalecki needs Minsky. The required synthesis has been achieved in recent Post Keynesian models of wage-led growth. A good introduction to the literature is provided by the papers collected in Lavoie and Stockhammer (2013), and a very good technical summary can be found in Stockhammer (2017); other recent contributions include Hein (2017a, 2017b), Hein and Truger (2017), and Obst, Onaran and Nikolaidi (2017). I have nothing to add to their very thorough and detailed account of the conditions under which faster wage growth will promote growth in output and employment, and so I will move directly to a discussion of the obstacles to achieving a more rapid increase in real wages.

3. Labour Market Problems

The policy implications are clear. First, financial markets need much tighter regulation, and a degree of *de*-financialisation is necessary. Second, real wages must rise at least as fast as labour productivity, or indeed faster than productivity for a period of years to restore the wage share to what it was twenty years ago. There are obvious political problems with both of these prescriptions, but I shall concentrate on the second, which has received much less critical attention from Post Keynesian macroeconomists. Its implementation faces a complex set of microeconomic obstacles, which have not been extensively discussed in the macroeconomic literature. There is little or nothing on them in the 21 papers in four recent special issues (in 2016 and 2017) of this journal on wage-led growth, or in Hein’s otherwise excellent

survey of developments in the broader Post Keynesian literature since the mid-1990s (Hein 2017a). Thus the remainder of this paper deals with issues concerning the labour market and the industrial relations system. I shall assert a Labour Market Regulation Vulnerability Hypothesis (or LMRVH), which I believe to be every bit as important as Minsky's FMRVH.

The International Labour Office has had a lot to say about these issues, and I shall draw on their publications where appropriate. However, I shall focus on the Australian experience, for two reasons. First, and obviously, it is the one that I know most about. Second, and rather less obviously, Australia was until quite recently a textbook case of a tightly regulated labour market, where none of the abuses that I shall report on could have been expected to occur. For most of the 20th century there was a comprehensive system of compulsory arbitration, with state and federal tribunals setting legally-binding wages and conditions of employment. In the 1990s this was supplemented (and in part replaced) by 'enterprise bargaining', as the new system of collective bargaining at the enterprise level was termed, but a substantial degree of government regulation of the labour market was retained – in principle, at least, if rather less so in practice. Even now, the legal minimum wage is very high by international standards: on 6 June 2017 it was increased to A\$18.29 per hour (equivalent to US\$13.70, £10.61 and 12.14 Euros at the then prevailing exchange rates). This may be the highest in the world outside Norway.

The standard text on industrial relations in Australia distinguishes four periods in the history of labour market regulation since federation: the traditional (1904-83), the corporatist (1983-96), the neoliberal (1996-2007) and, since 2009, a restoration of the state's capacity to intervene (Bray *et al.* 2014, p. 100). Down to 1983 there was broad across-the-board political support for tight regulation. Thereafter there was

more disagreement, with the pro-union Australian Labor Party (ALP) administering the corporatist system when it held office between 1983 and 1996, and the anti-union Liberal-National Party coalition government favouring a neoliberal approach and legislating accordingly in 2006 once it had achieved a Senate majority. In practice, as critics from the left have rightly complained, the ALP was itself deeply influenced by neoliberal ideas, and labour market deregulation was not adequately reversed once the ALP returned to power in 2007 (Bramble and Kuhn 2011). But it is true to say that neoliberalism came very late to the Australian labour market, and its victory was not as complete as its advocates had hoped.

For a dramatic impression of the ‘traditional’ system, film buffs might like to track down Ken Hannam’s 1975 feature film *Sunday Too Far Away*, which tells the story of industrial strife in the Australian agricultural sector in the early 1950s. It centres on the experience of a group of sheep-shearers, who travel substantial distances from farm to farm in a labour market characterised by significant monopsony power, returning home to their small country town only at weekends. (The title of the film is taken from the traditional sheep-shearer’s wife’s lament: ‘Friday too tired, Saturday too drunk, Sunday too far away...’). But these shearers are unionised, and they enforce strict conditions on their employment, beginning and ending work each day at the precise times specified in their industrial award, on the blowing of a whistle by the shop steward, as if they are working in a factory in an industrial city. Nowhere else in the world, I suspect, has agricultural work ever been controlled by unions in this way. But the past tense is necessary. Already in the 1950s the employers were trying to replace union shearers by non-union blacklegs, and they soon succeeded: shearing in Australia has long been de-unionised, and work practices are no longer tightly regulated by the workforce.

This leads me to the labour market obstacles to wage-led growth, which are many, varied and very powerful. I shall concentrate on three: the decline of trade unions, the decline of the welfare state, and deregulation of the labour market. The first two can be dealt with briefly, as the story is a simple one and is very well known. Trade union density has been falling all over the world for decades, not least in Australia. In 1982, 49% of employees in Australia were union members; a quarter of a century later, in 2007, this had fallen to 19% (Bramble 2008, Table 5.2, p. 152). In 2015 union density had declined further, to a mere 15%; there was now a huge difference between the public sector (39%) and the private sector (11%). That's right: just one in nine employees in the private sector in Australia was a union member (Toscano 2015). By 2017 private sector union density had declined further, to a mere one in ten.

While there is some dispute as to whether workers are becoming more individualist and less collectivist in their underlying attitudes to employment (compare Bellace 2017 with Peetz 2010), Australian workers are certainly prone to take a free ride on the union membership of others, much more so than their parents would have been. The adverse consequences have been aggravated by anti-union legislation passed by conservative federal and state governments and only partly repealed by subsequent Labor governments, and also by systematic, widespread and partly successful efforts by employers, big and small, to avoid dealing with unions wherever possible, resulting in *de facto* (if not *de jure*) derecognition. The rise of 'managerial unilateralism and individual contracting' – the title of one chapter in the standard text already referred to – is a well-documented phenomenon in Australia (Bray *et al.* 2014, pp. 303-27; Bramble 2008).

The long-term erosion of the welfare state is an international phenomenon, which has also been well-documented. German readers do not need to be told about the consequences of Hartz IV. In Britain successive governments ‘have allowed the single adult job-seeker’s allowance to rot on the vine, from 1979 when it was 21% of average earnings, to 2008 when it had fallen to 10.5% of average earnings’ (Nicolson 2017). In Australia, too, there has been a slow but inexorable decline in the average replacement ratio (the proportion of post-tax earnings that an unemployed person receives in unemployment benefit and other social welfare entitlements). Indexing the dole to the consumer price index rather than to money wages – a decision with bipartisan political support – led to a decline, as a percentage of the poverty line, from 112 in 1993 to 80 in 2012, when it was the lowest in the entire OECD (Douglas *et al.*, 2014, pp. 19, 36). There will have been a further decrease since then, but only a small one, since real wages in Australia have almost ceased to rise. The consequences have been magnified by the imposition of a much harsher enforcement regime. This was strikingly illustrated early in 2017 when Centrelink, the federal government agency that administers the welfare regime, sent out tens of thousands of letters threatening to set the debt collectors on claimants who turned out to owe the federal government absolutely nothing (McSwiney and Cottle 2017, p. 97). The minister responsible has refused to apologise.

This is the political and socio-economic background to the deregulation of the Australian labour market, which has spawned a substantial academic literature; the outgoing President of the Association of Industrial Relations Academics of Australia and New Zealand (AIRAANZ) devoted her Presidential Address to the resulting ‘wage theft crisis’ (Thorntwaite 2017). A very good case study of wage theft in horticulture has been provided by Elsa Underhill and Malcolm Rimmer, who note that

in recent years the industry has come to be dominated by two categories of migrant workers: Working Holiday Makers (WHMs, or ‘backpackers’), who are working legally in Australia, and undocumented migrants, who are not. The latter have no legal rights. Australian and WHM workers, however, are entitled to legally enforceable minimum employment conditions under the federal Horticulture Award 2010, which sets minimum hourly wages (with a 25% casual loading) and specifies that piecework rates must allow the average competent worker to earn at least 15% more than the hourly rate. However, extensive interviews with documented migrant workers found evidence of extensive underpayment. The August 2014 hourly award rate was A\$16.87, but the average earnings of workers paid directly by farmers were only A\$14.86, and those paid by employment contractors (labour hire companies) earned a mean of A\$12.66 (Underhill and Rimmer 2016, p. 618). This indicates one dimension of ‘layered vulnerability’: direct employees do better than those hired by contractors. There is an additional, ethnic dimension, since ‘WHMs of Asian origin were the most vulnerable, and were more likely than Australians and other nationals to work for a contractor and receive lower hourly earnings’ (*ibid.*, p. 621). Underhill and Rimmer were not able to interview the even more vulnerable undocumented migrant workers, but there is anecdotal evidence that – unsurprisingly – they are even more likely to be seriously underpaid.

There is nothing specifically Australian about all this. In Germany in 2007, Polish and Hungarian workers were being even more severely exploited, some being paid as little as 1.70 Euros per hour (Dohmen 2016, pp. 43-4). These are not just particularly telling examples of crude under-payment, but also illustrate two aspects of the problem of wage theft which are of recent origin and have global relevance: the exploitation of foreign workers (backpackers, students and illegal immigrants), and

the use of labour hire companies (which in the German case involved members of the Hells Angels and Bandidos bikie gangs). In 2017 there were repeated press reports of Australian employers demanding huge payments (up to \$150,000) from overseas workers as the price of supporting their employment visa applications. Culprits included franchisees of the pizza chain Domino's (of whom more will be said shortly), an Indian restaurant in the northern suburbs of Adelaide, and the celebrated fine-dining Di Stasio restaurant in Melbourne (Ferguson 2017b; Ferguson and Christodoulou 2017; Houston and Vedelago 2017).

As regards labour hire companies, a recent ILO report concluded that temporary agency workers (TAW) in the European Union needed specific protections in order to anchor them firmly within the principles of 'decent work' and 'adequate protection' to which they are entitled under ILO Convention No. 181. 'Securing these principles, however, may well require maintaining in place many of those restrictions to TAW which are currently being dismantled, partly under the auspices of EU Directive 2008/104' (Contouris *et al.* 2016, p. 12). In Australia, too, there are serious legal issues with the regulation of temporary agency work (Holley 2014). There are also issues with the increasing use of contractors to manage activities that were previously undertaken 'in house'. In a 2014 inquiry by Fair Work Australia into procurement of trolley collection services by the retail giant Woolworths, evidence of some form of non-compliance was found at almost 80% of 130 sites, with some workers being paid as little as \$10 an hour. Many of the workers were from overseas, and hence were especially vulnerable to exploitation. In some cases the contract price agreed between Woolworths and the contractor appeared too low to enable the relevant subcontractor to make a profit and/or enable workers to be paid correctly (Queensland Government 2016, pp. 15-16).

This is an egregious example of what one German commentator describes as ‘organised irresponsibility’ (Dohmen 2016, p. 46). As David Weil has noted, the use of contractors significantly increases the monopsony power of large employers, both by restricting information on the pay and conditions of the occupational groups that the contractors employ and by making it difficult or impossible for judgements of fairness to be made and enforced regarding those terms and conditions. The ‘fissured workplaces’ that result – ‘dismembered workplaces’ might be a more appropriate metaphor, as they are not the product of natural forces but require human action – are of benefit to capital, but come at the expense of labour (Weil 2017).

This appears to be a substantial problem. Official reports in two Australian states have confirmed the tension that exists between labour hire companies and the principles of decent work and adequate protection. One was published by the Queensland Government (2016) and the other by Industrial Relations Victoria (2016) ‘The latter ran to 424 pages, with an 11-page bibliography, and found that

there are various ways in which labour hire workers in Victoria are treated almost like a ‘second class’ of worker. This treatment ranges from outright exploitation in certain sectors – principally the horticulture, meat and cleaning industries – through to differential treatment in respect of issues like health and safety, dismissal and rostering....The outcomes for these workers frequently include financial insecurity, difficulty planning and saving for the future, and stress (including in the management of working time and family commitments) (Industrial Relations Victoria 2016, p. 14).

The report recommended the introduction of a sector-specific licensing scheme for labour hire agencies in Victoria and the adoption of improved procurement policies by the state government (which was found to have agreements with some of the worst labour hire companies in the state). In May 2017 the government announced its acceptance of the great majority of the recommendations, with a licensing scheme to be established and a code of conduct developed so as to regulate labour-hire operators, with the use of unlicensed labour-hire firms becoming illegal for employers in regulated industries. There will also be increased occupational health and safety requirements, regulated accommodation standards, and an amendment made to the Equal Opportunity Act to ensure it applies to labour-hire employees (Hunt 2017).

There are several additional dimensions to the evasion of labour market regulation, the most blatant of which is bogus self-employment. This is not, course, a uniquely Australian phenomenon. The case of Uber has attracted international attention, and a variety of regulatory responses. There is some discussion of the phenomenon in the ILO's report on 'non-standard employment' (International Labour Office 2016), and a detailed treatment of 'fraudulent contracting' of work in the European Union by Roberto Pedersini and Massimo Pallini (Eurofound 2016). It seems to be well developed in Australia, where already by 2006 2% of all workers were 'dependent contractors, where the worker is not even an employee, even though they are working only for one corporation' (Peetz 2006, p. 58). These workers lacked any of the protections afforded by employment regulation, and employer representatives, supported by the then conservative federal government, defended these arrangements on the principle of freedom to contract, even though they were in effect 'extensions of the corporate strategy that seeks to individualise employment relationships' (*ibid.*, p. 59).

Bogus self-employment has since been adopted by the government-owned Australia Post, and has already been extended from low-paid, low-skilled jobs in cleaning, retailing and construction to white-collar workers, including doctors' receptionists (Patty 2007). One recent scandal relating to bogus self-employment involved the charity fundraising company Appco, accused of humiliating its young workers by forcing them to take part in simulated sex rituals as punishment for not meeting financial targets, and also paying them as little as A\$2.50 for up to 80 hours work per week (Ferguson 2017a).

Bogus self-employment is just one aspect of the new *gig economy*, in which digital platform businesses use on-call contingent workers rather than offering traditional jobs. As demonstrated by Jim Stanford (2017b), this very worrying change in the organisation of work is *not* technologically determined. The main features of platform work can all be seen in earlier periods of capitalism, and were overcome (only temporarily, it now seems), by increased labour market regulation in the 20th century. Janice Bellace (2017) has also noted the striking resemblance between 21st-century platform arrangements and the 'on call' system of casual employment found on the waterfront, for example, in the 19th century, both being motivated by the employer's desire to pay for labour only as and when it is required.

The avoidance and evasion of regulations designed to prevent these practices takes many forms, and it does not require 21st-century technology. Perhaps the most serious example of 'organised irresponsibility' in the labour market, in fact, is provided by the abuse of franchise arrangements, which seems (at least in Australia) to be very widespread (Kellner *et al* 2016; Wright and Kaine 2015). Here the franchisor claims that pay and employment conditions are the (sole) responsibility of the franchisee, while the franchisee complains, with considerable justice, that the

terms of the franchise are such that it is impossible both to meet legal obligations to employees and to make a profit.

The first widely publicised example in Australia was provided in 2016 by the 7-Eleven convenience store franchise, which first hired the high-profile academic and former competition regulator Allan Fels to investigate and then sacked him when he seemed likely to propose an expensive solution. Despite paying out \$150 million to underpaid employees, the franchisor has yet to make adequate amends. Not surprisingly, young and migrant workers feature disproportionately among the victims (Fels 2017). Since then a number of similar cases in retailing have been reported, including Caltex, Domino's Pizzas, Pizza Hut and Baker's Delight (Ferguson 2017c; Ferguson and Christodoulou 2017). It is important to avoid the 'all or nothing' fallacy in this context. There are probably significant commercial advantages for both franchisors and franchisees from these arrangements that have nothing to do with the exploitation of workers. But this does not mean that wage theft is not a significant consequence of them. It remains to be seen whether the proposed Australian legislation that will impose some degree of responsibility on franchisors for the pay and conditions of employees will prove to be effective.

If space permitted, I could explore at some length other dimensions of wage theft, in particular the abuse of unpaid internships (Oliver *et al.* 2016; Stewart and Owens 2013) and employers' expectation that their workers will perform unpaid overtime whenever it is required of them (Johnson 2015; Messenger *et al.* 2017). The consequences of wage theft are serious and wide-ranging (Kochan and Riordan 2016). As detailed in the Post Keynesian literature, there has been a substantial increase in all dimensions of economic inequality, which is evident in every measure of wage dispersion and in the steady and substantial fall in the labour share of GDP, which has

serious implications for effective demand. In Australia the evidence of rising wage dispersion is incontestable (Watson 2016), while the share of wages and salaries had fallen to 46.2% by March 2017, down from its 1974 peak of more than 58%. This was the lowest share of GDP since the data series began in 1959, when the corresponding figure was 46.4% (Stanford 2017a).

Along with rising inequality has come the increased level of insecurity that characterises the gig economy (De Stefano 2016), which has forced working-class people into much greater reliance on credit and thereby accelerated the development of financialisation (Slater and Spencer 2014). Contrary to the assumptions of both Kalecki and Minsky, workers now save and borrow. Finance has become a working-class issue, as recognised by some of the mainstream contributors to the literature on Thomas Piketty's *Capital in the 21st Century* (Morelli 2017; Zandi 2017), and it needs to be introduced into Kaleckian models. Debt is no longer a purely capitalist phenomenon, and Minskyan models also need to take account of this important development (Setterfield, Kim and Rees 2016). Again, there is an important element of cumulative causation here, since being indebted makes workers more passive in the labour market, reducing both union militancy and wage growth and thus further increasing working-class indebtedness.

4. An Objection

It might be objected that all this involves social justice rather than macroeconomics, since the people affected by these abuses are at the bottom end of the labour market, and their losses are too small to have a significant impact on aggregate consumption out of wage income. I think there are (at least) four reasons for disputing this. First,

some of the organisations involved are very big business indeed. Both Uber and Woolworths are huge enterprises; another company accused of exploiting contractors, Aerocare, has almost 3,000 employees; the secretive family that owns the 7-Eleven franchise in Australia is said to be worth somewhere between A\$1 billion and A\$2 billion; in September 2017 Caltex had a market value of \$8 billion; and in the second half of 2016 sales of Domino's pizzas amounted to A\$1.16 billion. These are not small businesses.

Second, at least some of the victims are not 'at the bottom end'. Unpaid overtime probably affects managers and technicians more than the lower-paid, and many of the unpaid interns are university graduates (and hence in the top 30% or so of their age cohort). Third, although the labour market undoubtedly is segmented and highly imperfect, it is not the case that downward wage pressure at the 'bottom end' has no significant impact on wages in better-paid occupations. Some at least of those who are systematically underpaid in low-skilled jobs will look for work in more highly-skilled occupations for which they may be qualified, putting downward pressure on the wages paid there.

Fourth, and most important, there is a *cultural* dimension to all this. If it is acceptable to cheat the low-paid, why not do the same to those in higher-paid occupations? Once the entitlement to a 'fair go' is destroyed at the bottom end of the labour market, it will begin to come under increasing pressure higher up the occupational ladder. The same ideological 'justifications' apply there too, *a fortiori* given the greater cost savings that will be attained by employers. The language of neoliberalism has become an inescapable part of everyday life in 2018. Who would deny the need to 'abolish red tape'? Is not deregulation a good thing, almost by definition? Does not the need to 'be competitive' override all other considerations?

The resentment of working-class people when faced with these tropes is widely recognised as a driving force in the rise of right-wing populism around the world – even in Australia (McSwiney and Cottle 2017).

5. Some Further Policy Implications

What is to be done? This question needs to be addressed at three levels:

macroeconomics, social policy, and microeconomics (industrial relations and the regulation of the labour market). As regards macroeconomics, there needs to be a firm policy commitment to what the late William Vickrey used to describe as ‘tight full employment’, with the headline unemployment rate brought back to its 1960s levels and care taken to ensure that the incidence of under-employment is also addressed.

The headline rate has never been a very satisfactory index of excess supply in the labour market, but in recent years it has become much less reliable. This is due to the growth of under-employment, with an increasing incidence of involuntary part-time work and a substantial increase in the number of ‘discouraged workers’ whose inability to find work leads them to drop out of the labour market altogether. These two factors are especially important in the United States, where the apparent recent return to full employment is a dangerous illusion (Dantas and Wray 2017), but they are relevant in almost all OECD countries. The Australian Bureau of Statistics (2017, p. 44) defines underemployment as the number of employed persons who want, and are available for, more hours of work than they currently have. In the second quarter of 2017 they accounted for 8.8% of the workforce, compared with a mere 2% when the data series began in 1979. The corresponding growth in part-time employment, much of it involuntary, was from 5% to 20% of total employment for men, and from 34% to 47% for women (Stiles 2017).

A return to tight full employment will require an end to austerity, so that an expansionary fiscal policy can be implemented, and possibly also the introduction of the ‘government as employer of last resort’ principle advocated by Hyman Minsky (Tcherneva 2012). In terms of social policy, a much more generous attitude to unemployment benefits is required, possibly going as far as the provision of an unconditional, universal basic income as a right of citizenship (or legal residency). Among its many other advantages, basic income would strengthen the bargaining power of employees by removing their dependence on employment income to provide them with the means of subsistence, as was recognised by its nineteenth-century advocate Joseph Charlier (Van Parijs and Vanderborght 2017, pp. 74-5).

But the most important, and also the most difficult, changes will be required in the operation of the industrial relations system and the microeconomics of the labour market. All the sources of wage theft that were identified in section 4 will need to be addressed. In addition to the rigorous enforcement of existing labour legislation, this must involve systematic and effective regulation of contractors and labour hire companies; the prohibition of zero-hours contracts and bogus self-employment; effective legal control of franchise arrangements and internships; and measures to limit, if not altogether to prohibit, the performance of unpaid overtime. Just to list these microeconomic requirements is sufficient to demonstrate the magnitude of the task. In terms of the law, Andrew Stewart and Jim Stanford (2017) have identified five major options: proper enforcement of existing laws; clarifying or expanding definitions of ‘employment’; creating a new category of ‘independent worker’; creating rights for ‘workers’, not employees; and reconsidering the concept of an ‘employer’ (see also Bellace 2017). All five will be strongly resisted by the representatives of capital, whose political influence has, of course, been considerably

increased by globalisation. Effective re-regulation of the labour market at the national level will probably require restrictions on capital mobility and some restoration of protection against imports from low-wage competitors, which will again be fiercely contested by capital.

6. Conclusion

I have two final points to make. The first concerns economic methodology. Almost all readers of this journal will reject the mainstream dogma that requires macroeconomic theory to be reduced to microeconomics. Most – but sadly not yet all – heterodox economists also refuse to use the pernicious and misleading ‘microfoundations’ metaphor (see King 2012 for a book-length polemic on these questions). It is, however, important to note that this does *not* imply that micro issues are irrelevant to macro. On the contrary: as I have suggested, they are sometimes directly relevant and so need to be taken very seriously. A couple of years ago I speculated that ‘it is just possible that the marginal intellectual return to microeconomics is higher today than the return to macroeconomics, and that substantially more Post Keynesian resources should be devoted to the former, and slightly fewer resources to the latter’ (King 2015, p. 60). I think I was right on this question.

Second, I feel obliged to draw a much less optimistic conclusion concerning the politics of it all. I find it very difficult to see labour market deregulation being substantially reversed any time soon. The case for the re-regulation of financial markets does indeed revive after every financial crisis, as Minsky always maintained, and there are three good reasons for this. The events are obvious, not to say dramatic; the sums of money involved are extremely large; and it is the rich, not the poor, who are most immediately and directly affected. The case for re-regulation of the labour

market fails on all three counts: there is no single dramatic event to focus public attention on the need for reform; the sum of money lost by each individual is small (though in total it is, of course, very large); and it is the poor, not the rich, who are the immediate victims. There is, of course, a strong element of cumulative causation here. As the rich get richer, they also become more powerful, and therefore more capable of preventing policy changes that might reduce their wealth (Palley 2017-18; Petach 2017). And capital's ability to evade irksome regulations imposed by national governments has been increased by the much greater mobility of capital that has resulted from globalisation (again, on this question, see Bellace 2017).

I return to Wolfgang Streeck, who maintains that

capitalism, if unchecked, [is] a self-destructive social formation. Capitalists, at least some of them, may well recognize this; *as capitalists*, however, they typically face a fundamental collective action problem that prevents them from acting on their preferences, in particular their longer-term, enlightened ones. This is why politics and political power are essential under capitalism, and indeed a politics that supports capitalist markets, not by *supporting* but by *counterbalancing and constraining* them, so as to *protect them from themselves*...[But the] regulatory institutions restraining the advance of capitalism for its own good have collapsed, and after the final victory of capitalism over its enemies no political agency capable of rebuilding them is in sight. (Streeck 2016, pp. 224, 72; original stress)

This is a profoundly depressing conclusion, but I cannot see any alternative to it.

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