

Households' share of national economic pie nears 50-year low

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It's not just small by Australian standards but also lies towards the bottom of the international ladder, economist warns

The share of national income going to Australian households is close to a 50-year low, and now "lies towards the bottom of the international ladder", an economist has warned.

Bureau of Statistics data show labour's share of gross domestic product has fallen to 51.5%, down from 54.2% in the third quarter of last year. At the same time, the profit share of GDP has risen from 24.5% to a five-year high of 27.5%.

Paul Dales from Capital Economics said Australian households had not seen "one cent" of the extra income generated by recent soaring commodity prices because "it's all gone into the pocket of business".

He said the share of national income going to households was now "within a whisker" of a 50-year low and a meaningful cyclical or structural upturn in that share of income was "very unlikely" if jobs growth and wages growth remained so low.

"The share of the economic pie that households currently enjoy isn't just small by Australia's own standards, it's also small by international standards," Dales wrote in a note to clients.

"As a share of GDP, the compensation of Australian employees lies towards the bottom of the international ladder. That's not always been the case.

"Back in 1975, Australia households received a bigger share of the economic pie than households in the US, France and New Zealand. Only in the UK did the compensation of employees account for a larger share of GDP.

"But the downward trend in labour's share of GDP over the past 40 years has been more marked in Australia than in those other economies, apart from New Zealand."

This trend in most economies was mainly because of structural changes that had reduced the bargaining power of employees, including globalisation, the increased flexibility of the labour market and technical innovation, which had flattened firms' cost curves, Dales said.

"But the larger decline in Australia may be partly because of the rise in the importance of the mining sector, which tends to generate relatively large profits while employing relatively few workers," he said.