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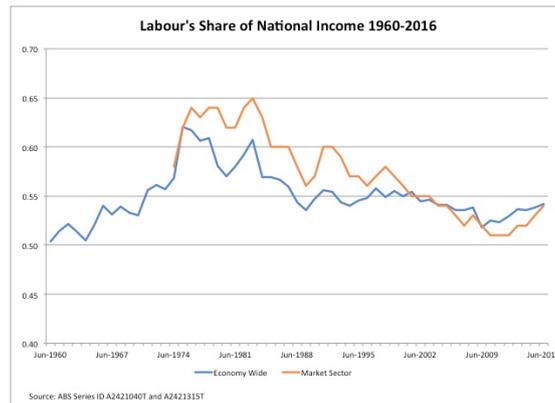
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van Onselen bellows

Posted on 11:12 am, November 13, 2017 by [Henry Ergas](#)

In an age where the default approach is for people to yell at each other, Leith van Onselen prefers to bellow, as he did last week on the Macrobusiness blog with me as the target (<https://www.macrobusiness.com.au/2017/11/henry-ergas-jukes-stats-falling-workers-share-2/>). I don't know van Onselen, but he describes himself as 'unconventional.' Never was a truer word said.

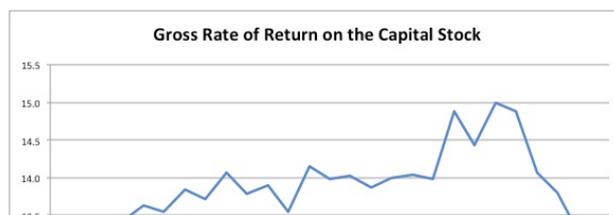
After all, a conventional economist, looking at this graph of the wages share:



would not think it was a continuous linear trend. Rather, there are clearly three phases, or if you want to use a more technical term, regimes: one that sees the share rise sharply beginning the late 1960s and then accelerating in the 1970s, propelled by Whitlam wages explosion and its after-signature; one, in which the wages share declines steeply, that begins as the wages explosion unwinds in the 1980s and continues up to the 'recession we had to have'; and finally a relatively stable wages share since then, albeit one affected (as economists would expect) by the mining boom and by swings in terms of trade. That is why in my [column](#) I compared the current wages share to that which prevailed since the real wage overhang had been more or less corrected.

But that would be boring and conventional; instead van Onselen projects a straight linear trend through the entire period, from the earliest signs of the acceleration of wages growth to the present, and concludes there is a secular decline. Ignored is the fact that even the most rudimentary econometrics would reject the hypothesis of a stable trend; and it would also reject the hypothesis that the current share represented a change in regime from that which has prevailed since the late 1980s.

As if that were not enough, van Onselen also takes a decidedly unconventional approach to measuring profits. As I noted in the column, profit rates are not at highs, as the ACTU claims. van Onselen claims to rebut my statement but as best I can tell, he looks at gross profits—somewhat strangely deflated—without taking account of the fact that the capital stock doubled in the mining boom. Call me boring and conventional, but I prefer to use the national accounts data to derive a measure of the gross rate of return—see below; enough said.





With all that, it is certainly true that the wages share was substantially higher, and the profits share lower, in the 1970s. But few economists would regard that as a good thing. On the contrary, as I explained in my column, the wages explosion of that period priced many workers out of jobs—a point even Gough Whitlam and Clyde Cameron recognized (albeit too late). I would have thought that rather than lamenting the fall in the wages share from those levels, van Onselen would do better to caution against repeating the errors of the Whitlam government. But maybe that is too conventional.

A final, more technical point. There seems to be a tendency in this debate to rely on the quarterly national accounts. However, as the ABS notes in the latest annual accounts, the quarterly figures on income shares are subject to large revisions, especially when the terms of trade are changing. It is therefore far wiser to wait for the annual data before rushing into print.

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About Henry Ergas

Henry Ergas AO is a columnist for The Australian. From 2009 to 2015 he was Senior Economic Adviser to Deloitte Australia and from 2009 to 2017 was Professor of Infrastructure Economics at the University of Wollongong's SMART Infrastructure Facility. He joined SMART and Deloitte after working as a consultant economist at NECG, CRA International and Concept Economics. Prior to that, he was an economist at the OECD in Paris from the late 1970s until the early 1990s. At the OECD, he headed the Secretary-General's Task Force on Structural Adjustment (1984-1987), which concentrated on improving the efficiency of government policies in a wide range of areas, and was subsequently Counsellor for Structural Policy in the Economics Department. He has taught at a range of universities, undertaken a number of government inquiries and served as a Lay Member of the New Zealand High Court. In 2016, he was made an Officer in the Order of Australia.

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