



Why have wage increases been so darn low?

The economy has been growing strongly, but wages haven't. The failure of wages to rise more strongly has puzzled economists and frustrated many workers. But conditions appear to be changing, with signs wages are trending up. Workers deserve higher wage increases and it's time to demand more.

While the real value of workers' wages after inflation usually declines in economic downturns, wages usually regain lost ground once the economy has recovered and the jobless rate has fallen.

That hasn't happened this time, yet. In the first half of 2017, Canada's economy grew at the strongest pace in 15 years. We've added over 300,000 jobs in the past 12 months, and the jobless rate recently dropped to 6.2 per cent, the lowest since October 2008.

But so far this year, wage settlements have averaged just 1.7 per cent. That's about half the 3.3 per cent increase they were the last time the jobless rate was this low.

Low wage growth isn't just a Canadian problem. In the United States, **the jobless rate fell to 4.1 per cent in October**, the lowest in 17 years. Yet wages increased by only 0.1 per cent above inflation. The jobless rate in the UK is now at its lowest rate in 42 years, but **average wage increases have been below inflation** all year.

Some of the factors that have suppressed workers' wage increases and bargaining power in recent years include:

- **Labour market polarization and a shrinking middle class.** The decline in middle income jobs, and growth of both lower and higher paid jobs explains some of the slow growth in average wages. But it's not the full story, because the wage growth for most occupations remains low.
- **Globalization and the threat of contracting out.** Free trade agreements, globalization and the ever-present threat of outsourcing and contracting out have constrained wage demands in goods and some service occupations. Both the OECD and the Governor of the **Bank of Canada** have acknowledged this pressure.
- **Growing precarity.** While there's been strong job growth over the past year, more than half of the growth has been in self-employed, term or contract positions. This adds to the **reserve army of the precariously employed**. Many of these are lower-paid gig-type jobs, such as working for Uber.
- **Austerity and wage freezes.** Public sector wage freezes, cuts and austerity have reduced overall wage growth. Wage settlements for public sector workers have increased by less than private sector workers for seven of the last eight years, and by less than inflation for five of the last eight years.
- **Lowered expectations.** After years of tough times, workers **may have lowered expectations**. Raising expectations will take time. Low wage increases may have been enough when inflation was also low. But with interest rates and inflation rising, low wage increases will erode living standards.
- **Threat of automation.** While previous industrial revolutions have eventually been accompanied by job growth in other sectors, there's fear that the **rise of robots** will lead to a jobless future. With low unemployment, that clearly hasn't happened. But even the threat of automation may constrain wage growth in some sectors and occupations.
- **Declining rates of unionization.** Unionization rates have gone down in the private sector over the past decade with the decline in manufacturing and resource sectors. They've also dropped more recently in the public sector, partly due to increased use of contract workers in services like health care and education.
- **Weaker labour regulations and worker protections.** Weaker employment standards have contributed to lower rates of unionization. They've also weakened workers' bargaining power in other ways, including whether they are considered employees, can collect overtime pay, or qualify for employment insurance.

- **Rising power of large corporations and the top 1%.** The increasing power of large corporations may be capping wage growth, as revenues are siphoned to owners and top executives.

Some of the factors behind low wage increases are now changing, and should result in higher wages. Legislated minimum wages rising to \$15 an hour should also help push other wages further up the pay scale. Stronger labour standards in some provinces should boost workers' bargaining power and unionization rates. While some provinces continue to attack public sector workers' wages, there's growing resistance to these attacks. Other provinces are spending more and easing off austerity. It's time for workers to demand more at the bargaining table, and from our governments.