‘Reserve army’ of precariously employed keeps lid on wages

By Andrew Jackson
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Many economists and central bankers in both the United States and Canada say they are puzzled by the current co-existence of very low inflation and low unemployment. But this phenomenon is, in fact, not very surprising when one takes into account the major structural changes in the job market that have weakened the bargaining power of labour.

The dominant macro economic model, the so-called Phillips curve, shows a tradeoff between unemployment and inflation. It holds that a low unemployment rate will drive up inflation due to wage pressures. Karl Marx similarly argued that a “reserve army of the unemployed” is necessary to discipline workers.

Before the 1980s, wage pressures indeed increased in times of low unemployment and helped to drive up inflation. But globalization, technological change and the decline of unions have since kept wage growth very muted even at times of low unemployment, such as the early 2000s.

That said, it is noteworthy that inflation has recently fallen to very low levels even as the job market has gradually recovered from the 2008 recession.

In the case of Canada, the unemployment rate was just 6.4 per cent in October, but the inflation rate, at 1.6 per cent in September, is still well below the official target of 2 per cent. The October monetary policy report from the Bank of Canada states that soft inflation “calls for further analysis” and notes that “labour-cost pressures are below what would be expected at this stage of the cycle.”

The best explanation for very soft inflation in Canada is probably continued slack in the job market. The Bank of Canada does note that the low unemployment rate co-exists with softer indicators such as the continuing very low participation rate for young people, suggesting we are still short of a tight job market.

Going a step further, wage pressures and inflation might remain persistently low even with a low unemployment rate due to the seemingly inexorable rise of precarious work. Marx’s reserve army of the unemployed has become a reserve army of the precariously employed.

Consider this: Of the 247,000 new jobs created over the past year (October to October), almost one in three (29.7 per cent) were temporary positions. The overall incidence of temporary work is now 13.8 per cent or about one in seven jobs, and it is much higher among young workers, women and recent immigrants.

The rise of temporary work suggests that many employers, particularly in private services, do not need to offer secure employment to attract workers. Nor do they need to offer decent wages to the precariously employed. According to the Canadian Centre for Policy Alternatives, one in four of all workers, one in three temporary workers and the majority of part-time workers in Ontario, earn less than $15 per hour.

To strike a more hopeful note, minimum wages are rising significantly in some provinces and some changes may be made to basic employment standards, such as those governing hours of work. But it is advocacy and politics which are driving positive change, not a tight job market.

Employment has become more and more polarized as middle-class, middle-skill jobs have been lost to globalization and technological change. At the low end of the job market, there is fierce competition for even insecure and badly paid employment. But even those in more secure, high-skilled jobs are affected.

It seems that more secure jobs are being lost throughout the economy as many of the permanent, full-time positions vacated by retiring baby boomers are replaced by the temporary and contract jobs on offer to new entrants to the work force. This is true for many highly educated employees such as nurses, postsecondary instructors and IT professionals.

Consider this: The unionization rate in the private sector is 16.5 per cent, down from 17.8 per cent in 2008. Of the 912,000 new private-sector paid jobs created since 2008, just 8,300 were union jobs. And both private and public-sector union wage settlements have averaged well under 2 per cent over the past year.

Traditionally, unions set the wage standard for more insecurely employed workers. Now, even steadily employed union members are barely making any economic progress.

Average earnings are increasing at a bit above the rate of inflation, but it is hard to find much wage growth for any broadly based occupational group. Only the top of the income distribution is making significant economic progress.

Sure, the national unemployment rate is low. But there is little reason to expect wage growth or inflation to pick up unless and until labour regains some bargaining power.

Andrew Jackson is adjunct research professor in the Institute of Political Economy at Carleton University, and senior policy adviser to the Broadbent Institute.