

SDA Brief: Stable Democracy and Inequality

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THE UNION FOR WORKERS IN RETAIL. WAREHOUSING. FAST FOOD.

Stable Democracy and Inequality

Purpose

Declining living standards and economic inequality risk the stability of civil preparedness and the political system. Civil preparedness is supported by political stability, which in turn is underpinned by strong living standards and income equality.

Introduction

Australia has long enjoyed a reputation for being a stable democracy. Since Federation, Australia has held together amid natural disasters, economic depression and wars, largely eschewing political violence and rejecting dictatorship, and insurrection.

This stability is commonly attributed to cultural values such as respect for rule of law, the quality of Australia's 'Washminster' institutions, and geographic factors which give Australia both abundant natural resources and relative insulation from geopolitical instability. While these factors are important, they are ultimately informed by the quality of underlying socio-economic relations: relatively high living standards, low economic inequality, and respectable working conditions.

If these underlying socio-economic relations deteriorate, political stability falls, and Australia will struggle to prepare for and navigate through a crisis. Therefore, one of the best ways to foster civil preparedness is to uphold high living standards and reduce economic inequality today.

Political Stability and Civil Preparedness

Political stability and civil preparedness are mutually reinforcing. While good crisis management can support political stability, good crisis management is only possible in a politically stable environment.

Crises such as disasters, pandemics, and wars require the government to coordinate a variety of different state and non-state actors, communicate effectively and mobilise resources in a short amount of time.

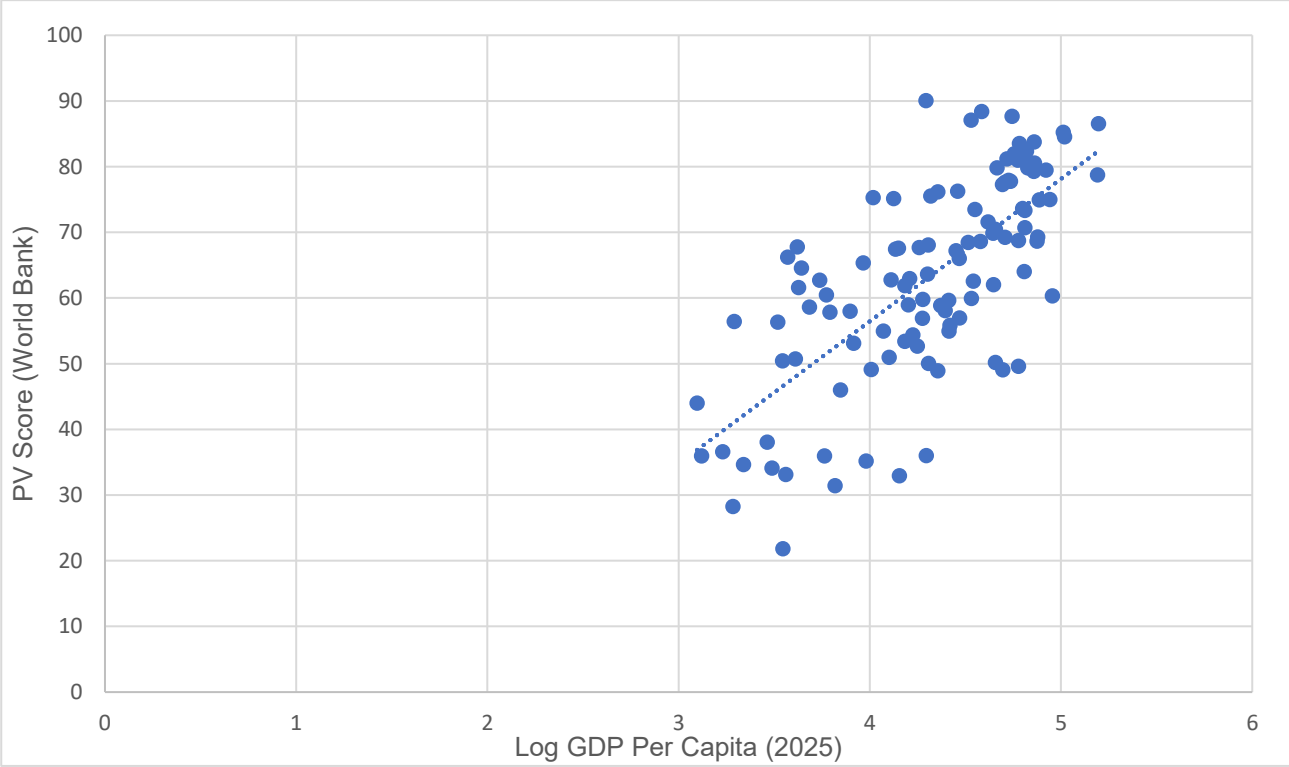
In a politically unstable environment, civil unrest and tensions are high, and the government expends its resources trying to protect public order rather than managing the crisis at hand. In this environment, the temptation to coerce citizens and bypass the rule of law arises when the government feels insecure and paralysed. Likewise, political instability fosters an environment where politicians capitalise on social polarisation during a crisis, blaming each other for failures rather than providing constructive criticism to improve collective responses.

If political stability in Australia is already eroding before a crisis, the government will find it difficult to maintain the state capacity to manage a crisis effectively.

Living standards and inequality support stability

A correlation of GDP per capita and the Political Stability (PV) score on the World Bank's Worldwide Governance Indicators unsurprisingly reveals that countries with a higher GDP per capita tend to have high political stability, and hence, a lower level of political violence and civil unrest.

Figure 1. Economic output per capita is positively associated with political governance scores



Source: World Bank; Author's calculations.[1]

While high living standards and political stability are not necessarily causally related, they are intertwined; high living standards both support and are derived from political stability. When people experience economic security, they are generally more likely to feel invested in the existing political system and work within established institutions to resolve disagreements, contributing to lower levels of social unrest.

It is important to note that high living standards must be broadly distributed to meaningfully contribute to political stability. Broadly shared prosperity strengthens the social compact between all citizens and the state, reinforcing institutional trust, a shared sense of belonging, and reducing feelings of economic exclusion. Consistent with this, a sizeable body of research demonstrates that rising economic inequality is associated with higher political instability and the erosion of democratic institutions.[2]

[1] N=110; $r^2 \approx 0.50$.

[2] For example: Jannils, Lukasz Andrzej. *Income Inequality and Political Instability*. SSRN Scholarly Paper No. 5002911, 2024, doi:10.2139/ssrn.5002911.; Rau, Eli G., and Susan Stokes. "Income Inequality and the

Previously well-functioning institutions can break down when respect for the rule of law and institutional trust dissipate. These norms may erode when high inequality intensifies political polarisation, extremism, and mistrust in institutions. Institutional trust is strongest when governments are perceived to govern for the common good, rather than their private interests, or the interests of a certain class or group. Protecting living standards and distributing income is therefore not only a matter of economic wellbeing, but also an investment in building the institutional trust required to manage a crisis.

The role of unions

Unions have long been an integral component of Australia's social fabric and are a key democratic institution. According to the latest ABS data released in August 2024, unions represent approximately 1.6 million Australian workers[3], or approximately 13.1% of the entire workforce.

Unions contribute to political stability by protecting the interests of workers, and by fairly distributing economic gains between capital with labour. The ability of unions to engage in collective bargaining ensures that businesses cannot unscrupulously pursue workforce reductions, wage reductions, and weaken safety standards that undermine worker health and living standards.

During economic downturns and crises, employer bargaining power grows significantly as workers face greater job insecurity. The retail sector is especially vulnerable to the imbalance of employer bargaining power during a crisis, as declines in consumer spending from economic disruptions can lead to increased pressure on wages and conditions.

The protection of workers' interests by registered unions safeguards against widening economic inequality, and the attendant political alienation and decline of institutional trust that comes from redundancies and unfair dismissals, the deterioration of working conditions, and wage suppression.

Whilst real wages have contracted since 2019 it is interesting to note that since June 2022 the institution of the Fair Work Commission has delivered 22.35% in wage increases for Award workers which does slightly exceed headline inflation over the same time period (June – June figures). Having Federal Governments and unions arguing for real wage increases in the Annual Wage Review has delivered better results for the lowest paid.

Because the recipients of the AWR decision are primarily low paid, and mainly part-time, these people account for only 11.2 per cent of the nation's total wage bill ([5] FWC decision 2/6/26).

The ACTU estimates that approximately 20% of the workforce are reliant on Award wage rates.

Living standards and institutional trust decline together

While unions have consistently strived to deliver wage increases for millions of Australian workers, the reality is that living standards for many Australians have been declining. This decline of living standards has been pronounced since the COVID-19 pandemic.

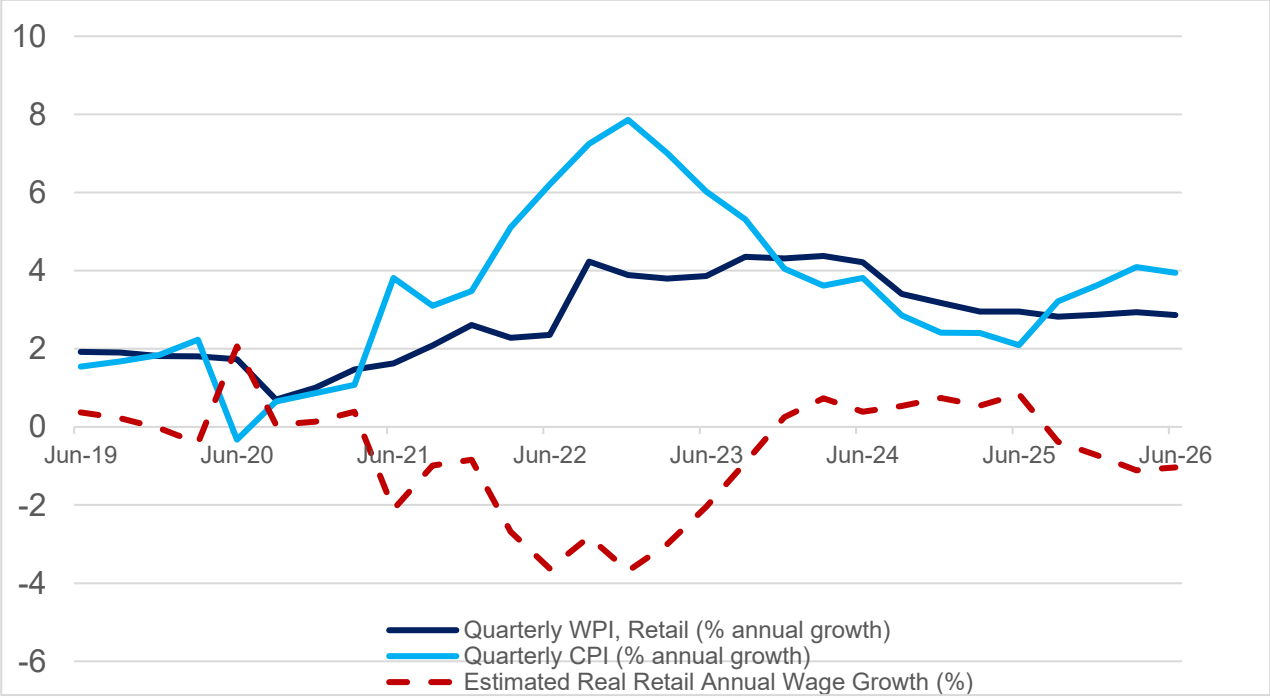
Erosion of Democracy in the Twenty-First Century." *Proceedings of the National Academy of Sciences*, vol. 122, no. 1, 2025, article e2422543121, doi:10.1073/pnas.2422543121
; Alesina, Alberto, and Roberto Perotti. "Income Distribution, Political Instability, and Investment." *European Economic Review*, vol. 40, nos. 6-7, 1996, pp. 1203–1228.

[3] Trade union membership, August 2024 | Australian Bureau of Statistics

Since 2019, wage increases have not kept up with inflation. From June 2019 to June 2026, real wages for private sector workers have fallen by an average annual rate of 0.6%. Retail workers have fared slightly worse, with real retail wages falling by an average annual rate of 0.7%.

A $60,000 wage for an average retail worker in June 2019 would be worth approximately $57,090.0 today (June 2026). Purchasing power continues its downward trajectory and is approaching the record low of $56,983.7 estimated for September 2023. This means that retail worker real purchasing power has fallen by over 4.8% since June 2019.

Figure 2. Real wages for retail workers have declined



Source: ABS; Author's calculations.

This decline in real wages has occurred at the same time that workers have been denied a share in the benefits of productivity growth. **The long-run retail productivity gap of 27% (last recorded for the period of 2007 – 2025; McKell Institute, *"Achieving The Productivity Promise", August 2025*) has grown further**. From 2007 to 2026, real retail wages have fallen by 0.2%. Meanwhile, GVA per hour worked has increased by 29.2%. This means that the 20-year wage-productivity gap for retail now stands at approximately **29.4%** as of June 2026.

Economic inequality has been rising in Australia as non-asset owners have particularly experienced a decline of living standards. According to recent modelling from KPMG, the gap between Australia's wealthiest households and the rest of the population widened significantly between 2019–20 and 2024–25, with average household wealth increasing from $1.26 million to $1.56 million, while median household wealth remained essentially unchanged at around $700,000.[4] This divergence of household wealth was attributed mainly to ongoing asset price growth, coupled with stagnant real income growth that has rendered housing increasingly inaccessible to non-home owners.

[4] KPMG, Australia's wealth gap widens as asset growth concentrates at the top

With cost-of-living pressures mounting and economic inequality increasing, institutional trust has declined. According to research from the Australian National University, while 'principled support for democracy' increased over the 12 months to June 2026, satisfaction with democracy currently has declined to 62.8% of respondents.[5] This is down from 71% recorded in June 2021.[6] Meanwhile, interpersonal trust was recorded to be at 5.32 on a scale of 0 to 10, which is slightly below the pre-COVID trough recorded in October 2019.

Of course, institutional and interpersonal trust are dependent on many different factors, and there is not necessarily a causal link. However, it is hard to discount the influence of the growing divide of wealth in the country on satisfaction with democratic institutions. Financial wellbeing appears to be strongly associated with satisfaction with democracy, with 47.9% of Australians experiencing financial difficulty expressing satisfaction, compared to 70.3% who were financially comfortable or coping.[7] Self-reported financial stress has increased from 26.7% in February 2020 to 33% in June 2026, coinciding with the decline of satisfaction in democracy.

This declining institutional trust can threaten Australia's ability to manage and recover from crises, as effective crisis management relies strongly on public confidence in institutions, and a shared sense of collective responsibility that comes from a belief that everyone is part of a coherent body politic.

Closing note

As standards of living have fallen and inequality has been increasing in Australia, our civil preparedness is at risk. The effectiveness of political institutions during a crisis depends not only on their formal powers, but also on the degree of public trust, social cohesion, and willingness of citizens to act collectively in pursuit of the common good. Ultimately, Australia's prized democratic institutions and civic traditions are not self-sustaining. They are much more fragile than we think, and they rest upon a foundation of shared economic gains.

[5] Biddle, Nicholas, and Matthew Gray. *Steady, but Not Recovering: Wellbeing, Democratic Attitudes, and Interpersonal Trust in Australia, June 2026*. The Australian National University, 27 July 2026. ANU Open Research Repository, https://openresearch-repository.anu.edu.au/entities/publication/dfaadb44-3206-4c53-96fa-d1168503efa9.
[6] Ibid.
[7] Ibid.

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