Briefing Paper:

The Irrelevance of Minimum Wages to Future Inflation

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Summary

Minimum wages for Australia's lowest-paid workers (including those on the National Minimum Wage and Award wages) have taken on extra importance in recent years, due to the disproportionate impact of inflation on their real living standards. In its upcoming annual wage review, the Fair Work Commission needs to implement significant increases to minimum and Award wages. To offset the effects of both past and future inflation, and to recommence longer-run improvements in real wages (whereby real minimum wages grow over time to reflect productivity growth and broader wage trends), increases of between 5% and 10% are required this year.[1]

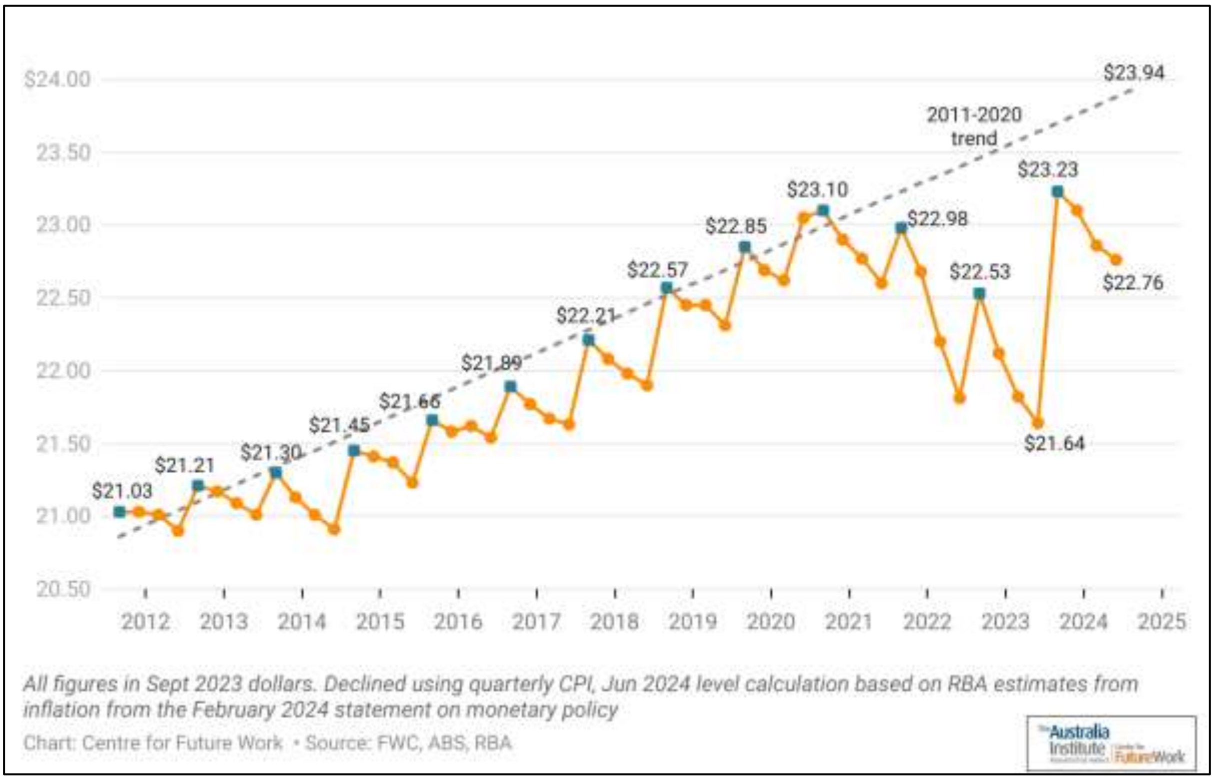
Business lobbyists complain that higher minimum wages will reinforce inflationary pressures in Australia' economy. However, the economic evidence presented in this report rebuts that claim. The impact on economy-wide prices of even a large increase in minimum and Award wages is negligible, due both to the limited coverage of Awards, and the relatively low starting level of Award wages. Compelling evidence of the non-importance of minimum wages to inflation is provided by the experience of the last year: the national minimum wage was boosted by 8.65%, the most since 1982, yet consumer price inflation over the following fiscal year slowed by over 3 full percentage points. Moreover, corporate profits in Australia surged after the pandemic, fueling most of the inflation experienced since then, and are still much higher than historic norms. Thus the impact on prices of even a substantial lift in minimum and Award wages could be fully offset with a very small reduction in aggregate profits. That would still leave profits higher relative to GDP than before the pandemic, while protecting the lowest-paid working Australians against inflation.

[1] As explained below, an increase of 10% would merely restore Award wages to their pre-pandemic trend in real terms.

The Declining Value of Minimum and Award Wages

The acceleration of inflation since the Covid-19 pandemic has undermined the real purchasing power of most employees. Average real wages across the broader labour market (measured by the ABS's Wage Price Index, and deflated by the Consumer Price Index) have declined by about 5% relative to 2019 pre-pandemic levels.[2] But low and middle income households are disproportionally affected by high inflation, because they spend a higher share of their total income on non-discretionary items. Since June 2020, average prices of non-discretionary items have increased 21.3%, compared to only 13.7% for discretionary items.[3] By supporting the wages of workers who are the lowest paid, and usually least able to bargain, the minimum wage and the Awards system are vital bulwarks against poverty and inequality. In the current inflationary cycle, keeping pace with inflation and maintaining the real value of minimum and Award wages is a top priority. This means that the Fair Work Commission's (FWC) annual wage review, to determine increases in the national minimum wage and the schedule of Modern Award wages, is particularly important.

Figure 1. Real Minimum Wage, 2011-2024



Minimum wages have retained their real value against recent inflation better than overall wages. In particular, last year's decision of the FWC to raise the hourly national minimum wage by 8.65% from $21.38 to $23.23 was a welcome step. That marked the

[2] See Greg Jericho, "Real wages are finally growing! But they have a long way to go," *Off the Charts* (Canberra: Australia Institute), 21 February 2024, https://australiainstitute.org.au/post/real-wages-are-finally-growing-but-they-have-a-long-way-to-go/.
[3] ABS (2024), "Consumer Price Index, December 2023". Non-discretionary calculation excludes tobacco.

biggest one-year increase in the minimum wage since 1982.[4] However, last year's strong increase in the minimum wage followed two years of falling real minimum wages in 2021 and 2022, when wage increases lagged well behind inflation (see Figure 1).[5] Those marked the first annual declines in the real minimum wage since 2009 (when the minimum wage was frozen during the global financial crisis). In July 2021, the minimum wage was raised by 2.5% (from $19.84 to $20.33), and then in 2022 it was raised by 5.2% (to $21.38). However, in both those years the CPI increased faster: by 3% and 7.2%, respectively (measured over each fiscal year). By June 2023 the real value of the minimum wage had fallen more than 6% lower than in September 2020.

This made it vital for the Fair Work Commission to start repairing the real value of the minimum wage. Its 8.65% increase recovered all of the real losses of the previous three years, taking the real value of the wage back to just slightly higher than in 2020. This was a just reward for the lowest-paid workers who had suffered so disproportionately from post-pandemic inflation.

Of course, once the minimum wage was increased, it immediately began to lose value again over the year as prices continued to rise. Inflation has decelerated in the past year, but continues to run faster than historical norms (and faster than the RBA's 2.5% target). This means that another significant increase is now needed to restore the real value of the minimum wage.

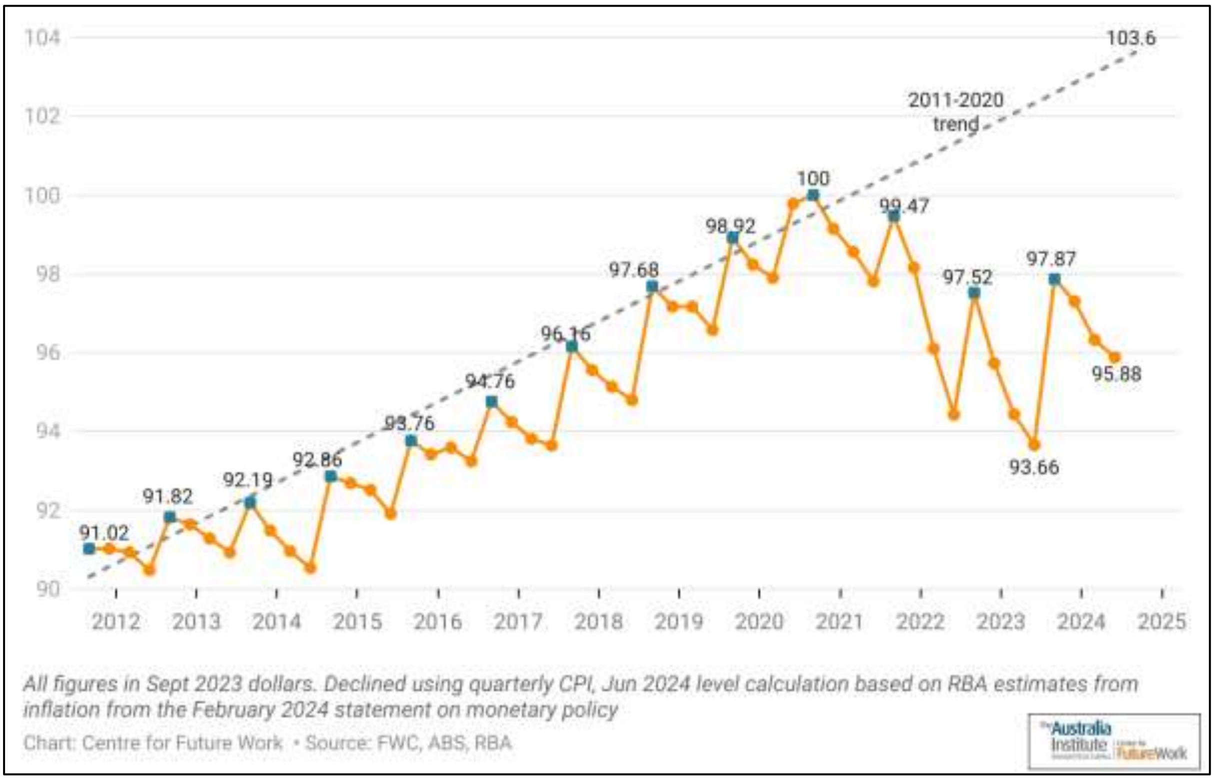
Moreover, normally we expect real minimum and Award wages to increase over time: they must not just keep pace with inflation, but also must rise over time to reflect long-run productivity growth across the economy, broader wage trends, and ongoing assessments of what is necessary to provide a decent standard of living according to community norms. Increasing the real minimum wage in line with productivity ensures that low-wage workers share at least some of the benefits of economic progress. Unfortunately, while last year's 8.65% increase did recover the absolute loss in real earnings from the previous three years, it did not return minimum wages to the trend increases of the previous decade. Given current forecasts of inflation,[6] the minimum wage must increase by more than 5% this year to regain that pre-pandemic real trend.

Crucially, the historic 8.65% increase last year only applied to the small number of workers in the lowest-wage category (whose wage gain was amplified by a change in the wage classification for those lowest-paid workers). For other workers on Modern

[4] That increase applied only to workers in the very lowest minimum wage category, and resulted from a change in classification for that group. The general increase applied to other Modern Award wages, covering the vast majority of covered workers, was smaller (5.75%), as discussed below.
[5] The 'sawtooth' pattern in Figure 1 is produced by the effect of ongoing inflation on the real value of minimum wages in periods between the FWC's annual wage adjustments. The wage is increased once per year, giving real wages a lift that is then gradually eroded over coming months (eroded faster when inflation is faster). In general, each year's successive peak in real value should be higher than the previous year's, as a reflection of ongoing productivity growth in the economy.
[6] The RBA presently forecasts 3.3% CPI growth in the 12 months ending June 2024, and 3.2% over the calendar year.

Awards, the wage increase last July was only 5.75%. This increase roughly matched inflation in the 12 months prior to the decision, but it failed to return Award-covered workers (other than those on the basic minimum) back to the real wage levels that prevailed in 2020 – let alone restore the long-term rising trend in real Award wages (as illustrated in Figure 2). After last year's decision, real Award wages (calculated by comparing annual wage review decisions to the growth of consumer prices[7]) were more than 2% below their 2020 levels, and they have eroded further since then in the wake of continued rapid inflation. Given forecasts of continuing inflation, workers on Awards would need a wage increase of over 4% just to return to the real wages that prevailed in 2020. Award wages would need to rise much more, by close to 10%, to return to the pre-pandemic trend in real Award wages.

Figure 2. Index of Real Award Wages, September 2020 = 100



It is clear therefore, that in order to restore the absolute and relative value of minimum and Award wages, a major wage increase is required in the FWC's present review. There is still damage to be repaired from the erosion of real Award wages in the first years of

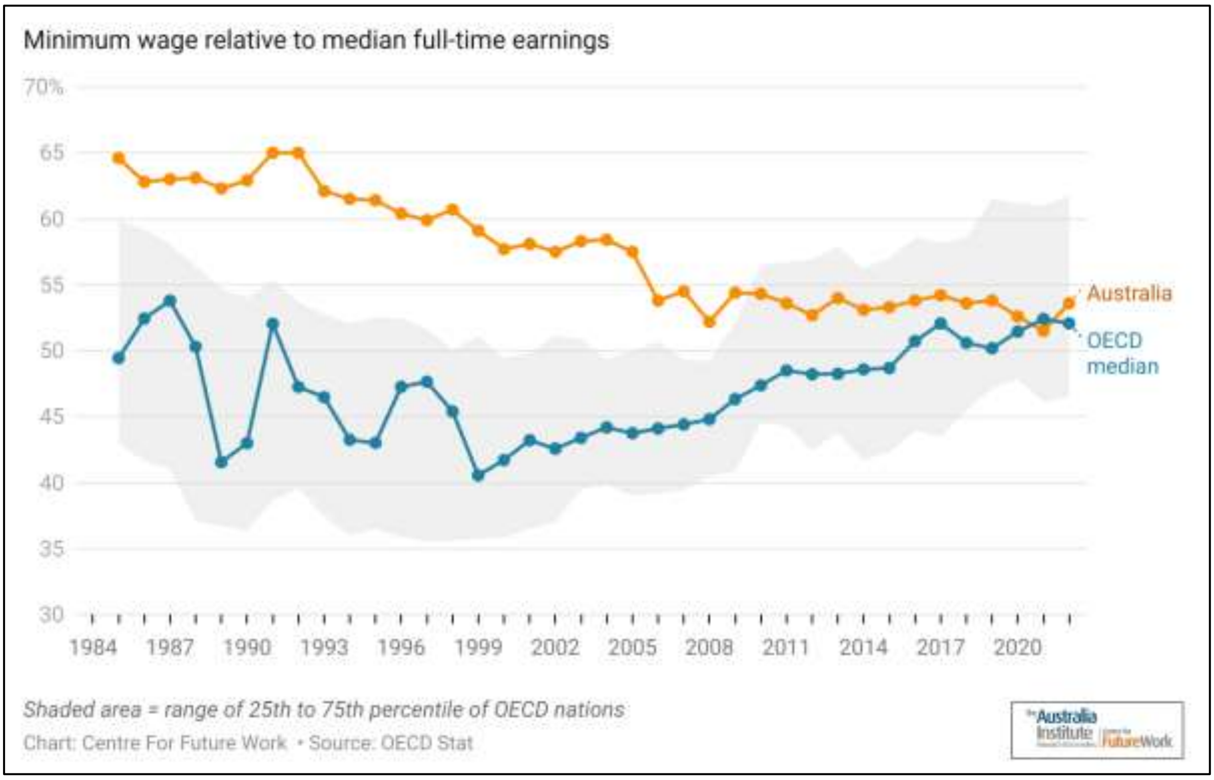
[7] An alternative method for measuring changes in real Award wages would be to compare the growth of average wages for all workers covered by Modern Awards against consumer prices (thus taking into account changes in the composition of Award-covered employment and varying hours of work, in addition to changes in the Award wage schedules). By this measure, the decline in real Award wages in the current inflationary episode has been much worse. Average weekly earnings of Award-covered workers were $849.20 in May 2021, and increased only 1.8% in the next two years, to $864.40 by May 2023 (calculations from ABS Employee Earnings and Hours). That corresponds to a decline in real average Award wages of almost 10% in just two years: partly due to inadequate Award wage increases, and partly to shifts in Award-covered employment toward lower-wage and part-time work (for example, 67% of Award-covered workers worked part-time in 2023, compared to 63% in 2021).

the current inflationary cycle. And to get back on track toward the long-run goal of increasing real wages for low-paid workers in Australia, enabling them to share some of the benefits of productivity growth and economic development, larger wage increases are required. It will thus be essential for the FWC to provide for increases between 5% and 10%: to repair remaining real wage losses, and to restore the historical rising trend in real Award wages.

Australia's Minimum Wage in International Context

For many years the common charge from business groups and conservative commentators has been that Australia's minimum wage is among the highest in the world, making Australian firms uncompetitive with businesses in other OECD nations.[8] However, such claims ignore that Australia is a high-income nation, with an economy characterised by high general levels of both prices and wages.

Figure 3. Australia's Minimum Wage Bite Relative to OECD Countries



The best way to compare minimum wages across nations is not to convert them into common currency terms (usually US dollars), but to compare minimum wages to the overall level of wages in the economy. The "minimum wage bite" is typically defined as the value of the minimum wage relative to median earnings. This measure indicates how important minimum wages are in lifting overall wages. On this score it could be

[8] See for example David Marin-Guzman, "Australia now has world's highest minimum wage", *Australian Financial Review*, 19 July 2019, https://www.afr.com/work-and-careers/workplace/australia-now-has-world-s-highest-minimum-wage-20190712-p526nv#:~:text=Australia%20officially%20has%20the%20highest,and%20translated%20into%20US%20dollars.

argued that in the 1990s Australia did indeed have relatively high minimum wages.[9] Over the past thirty years, however, the relative value of minimum wages in Australia has declined. Meanwhile, governments in other industrial countries in recent years have put more emphasis on higher minimum wages as a strategy for lifting incomes and reducing inequality. For example, the EU recently promulgated a new Minimum Wage Directive which instructs member states to strengthen minimum wages (both statutory and through collective bargaining).[10]

With Australia reducing its minimum wage 'bite', and other countries strengthening minimum wages, our minimum wage 'bite' has now fallen to about the OECD median (see Figure 3). In other words, where Australia once possessed one of the strongest minimum wages in the OECD, relative to overall domestic wages and prices, today our minimum wage policy is just average.

There is no evidence to suggest the minimum wage needs to be suppressed in order to maintain competitiveness. Over the last two decades, most nations in the OECD have been increasing their minimum wages relative to overall labour market trends. Australia is an outlier, by having lowered its minimum wage so much relative to median earnings over the past generation. More fundamentally, the idea that minimum wages need to be suppressed in the interests of global competitiveness is far-fetched. Most Award-covered workers are employed part-time, mostly in non-tradeable service industries (including public and community services) that do not participate directly in international trade. Keeping these workers even poorer can hardly be a strategy for global success.

The Sky is Still Not Falling

Each year the annual wage case brings forth a plethora of fearful announcements from business groups and company CEOs that a higher minimum wage will stoke inflation, erode competitiveness, and create unemployment. Every year these fears prove to be unfounded. For example, after last year's decision to raise Award rates by 5.75%, the CEO of the Australia Retailers Association, Paul Zahra, complained that "the scale of this increase will be difficult to absorb for retailers."[11]

The business leaders need not have worried. Even with last year's strong increases in minimum and Award wages, wages have remained low relative to total business revenues and profits. Figure 4 illustrates the evolution of wage costs in 15 private-sector industries tracked by the ABS Business Indicators survey. Despite strong growth

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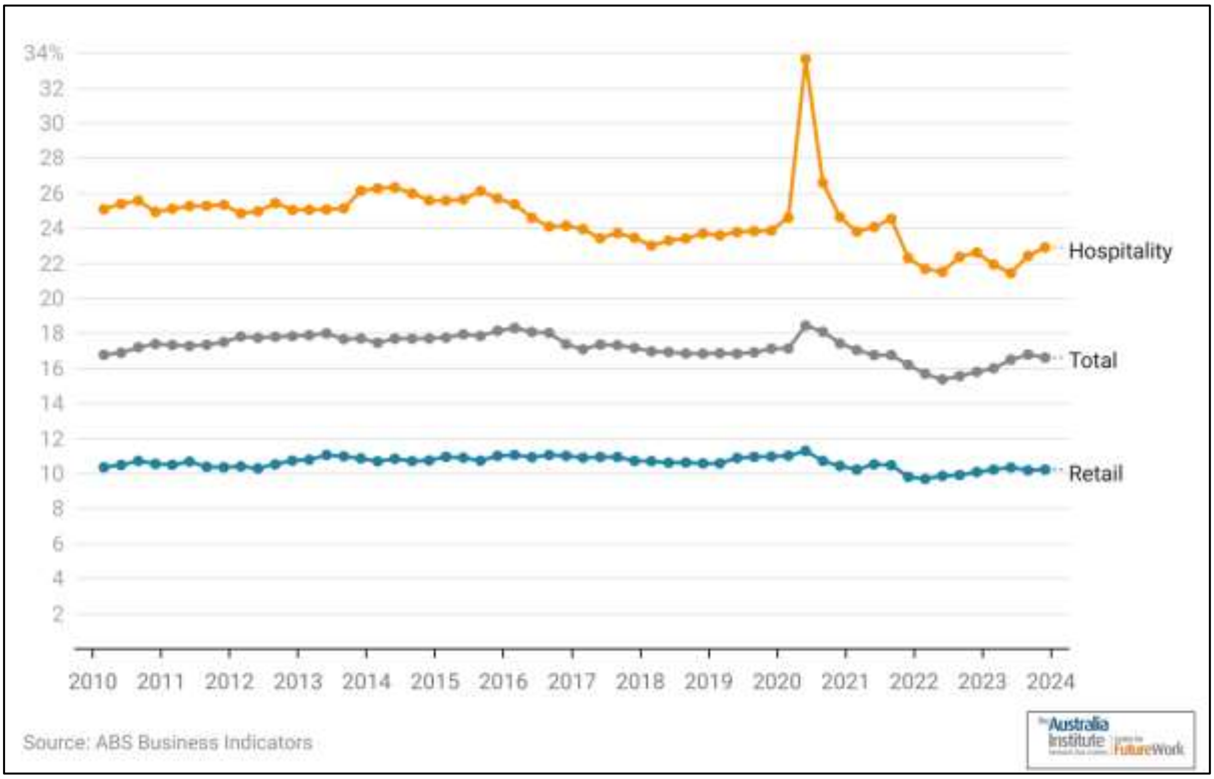
[9] This was also a period in which Australian productivity growth was relatively strong, debunking the claim that minimum wages will interfere with productivity and competitiveness.

[10] See Dora Katalin Sari, "The new EU Directive on minimum wage sets a dual goal," International Labour Organization, 16 November 2022, https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_861051/lang--en/index.htm.

[11] Rakshnna Pattabiraman, "Retailers will find it 'difficult to absorb' minimum wage rise," *Inside Retail*, 2 June 2023, https://insideretail.com.au/business/retailers-will-find-it-difficult-to-absorb-minimum-wage-rise-202306.

in employment, labour costs fell as a share of total revenue through the first 2 years after Covid lockdowns ended. Across all the 15 sectors, wages fell from 16.9% of revenues in 2019 to a low of 15.6% in 2022. This confirms that post-pandemic inflation clearly did not result from wage growth. Relative wage costs partially recovered in 2023, as inflation slowed and wage growth picked up – but they remained below pre-pandemic norms. This pattern mirrors the broader macroeconomic decline in relative wages, which fell significantly as a share of GDP after the pandemic. And while the labour share of GDP recovered partly in 2023 (thanks to stronger wage growth), it also remains below pre-pandemic shares, and far below the longer-run postwar pattern.

Figure 4. Ratio of Wages to Total Revenue, 2010-2023



Even in sectors heavily reliant on minimum-wage and Award-covered labour, wage costs have been muted relative to the growth of overall revenues. In both retail trade and accommodation and food services, wages grew only slightly as a share of total industry revenues in 2023 (to 22% of revenues in the broader hospitality sector, and just 10% of revenues in retail trade), but in both cases remain lower than pre-pandemic levels.[12] Dire predictions that higher minimum wages would push employers to the wall, especially in sectors where minimum wage work is common, are not to be believed.

[12] In each of the cases illustrated in Figure 4 (hospitality, retail, and all 15 sectors), the share of wages in total revenue in 2023 was 5-10 percent below than the five-year pre-pandemic average (March 2015 through March 2020).

Minimum Wages and Inflation

We have previously highlighted the lack of correlation between changes in minimum wages and changes in the inflation rate.[13] The experience during the turbulent economic times since the Covid-19 pandemic reaffirms the view that minimum wages are not a significant determinant of inflation. Table 1 summarises annual changes in the minimum wage and changes in the corresponding inflation rate for the fiscal year following each wage adjustment. There is no predictable relationship between the minimum wage change in any given year, and inflation in the subsequent year.

Table 1
Changes in Minimum Wages and Inflation, 2018-2023

Fiscal years	Change in Minimum Wage	Change in Inflation Rate
2018-19	3.50%	-0.28%
2019-20	2.96%	-0.31%
2020-21	1.80%	0.29%
2021-22	2.47%	2.82%
2022-23	5.16%	2.58%
2023-24	8.65%	-3.01% (fcst)[1]

Source: Calculations from ABS Consumer Price Index and Fair Work Commission.
1. Forecast from RBA Statement on Monetary Policy, February 2024, Table 3.1.

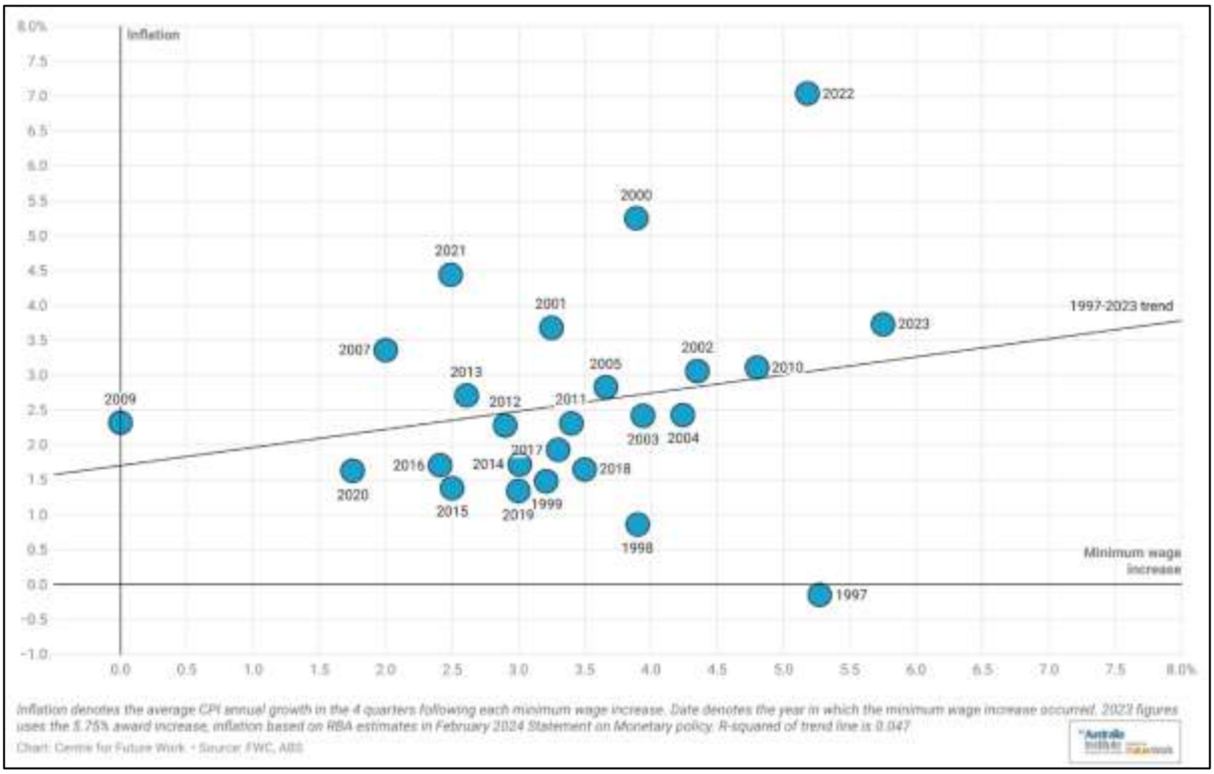
In the two years prior to the pandemic, the FWC increased minimum wages by typical amounts: 3.5% in July 2018, and just under 3% in the subsequent year. After both of those increases, inflation decelerated – in the 2019-20 case, pulled down additionally by the immediate impact of Covid lockdowns on prices.[14] A smaller minimum wage increase in pandemic-ridden 2020 (up by just 1.8%) was followed by a modest acceleration of inflation. The following year, a modest 2.47% wage increase was followed by the outbreak of post-pandemic inflation, with the inflation rate rising almost 3 percentage points. That inflation was obviously not caused by wages of any sort – let alone by the relatively low labour costs associated with minimum and Award wage payments. The next year, the FWC lifted minimum wages more robustly, by over 5%[15] – but still not enough to keep up with inflation, which accelerated another 2.6

[13] See Greg Jericho and Jim Stanford, "Minimum Wages and Inflation" (Canberra: Centre for Future Work), April 2023, https://futurework.org.au/report/minimum-wages-and-inflation/.
[14] The average inflation rate reported in Table 1 for the 2019-20 fiscal year only includes one quarter of Covid-affected data; even before the pandemic hit, a weakening economy had already suppressed inflation well below the RBA's 2.5% target.
[15] The graduated wage increase was lower for higher Award wage categories, to a minimum of 4.6%.

percentage points. Again, it is clear that minimum wages were merely trying to catch up to inflation, not causing it. Then, in 2023, following a record 8.65% hike in the minimum wage (restoring its real value to the 2020 level), inflation decelerated markedly: down by 3 full percentage points in the fiscal year, according to RBA forecasts. Over this entire period, stronger minimum wage increases were more likely to be associated with a deceleration of inflation, than an acceleration.

This lack of consistent correlation between minimum wages and inflation is also visible in longer-term data. Since 1997 there has been no significant correlation between rises in the minimum wage and inflation. As indicated in Figure 5, a scatter-plot of minimum wage changes and the inflation rate shows no clear trend. The trend line illustrated in the figure is not statistically significant. Indeed, until the most recent two years, this weak correlation was actually slightly negative.[16]

Figure 5. Relationship of minimum wage increases and inflation: 1998-2023



Minimum wages are important in lifting incomes for the lowest-wage Australians. And they have some positive impact on broader wage trends in the labour market, as well. But the connection between minimum wages and overall inflation rates is diffused as a result of several factors:

- The general unimportance of wages in inflation: both generally in the last two decades, but especially during the outburst of inflation since the Covid pandemic.
- The minority share of workers who are covered by minimum and Award wages.

[16] If the observations for 2022 and 2023 were excluded from Figure 4, the (statistically insignificant) trend line plotted against the observations would slope slightly downward.

- The low starting point of minimum and Award wages (which further reduces the share of minimum and Award wage payments in the total national wage bill).
- The dominance of other trends (such as supply chain disruptions, energy price shocks, and record corporate profits) in explaining recent inflation.

Minimum Wages and Stage 3 Tax Cuts

The Commonwealth Government recently legislated changes to amend previously announced Stage 3 tax cuts. As a result, people with incomes between $18,200 and $45,000 will now receive tax savings from the Stage 3 measures (as a result of reduction of the lowest tax rate from 19% to 16%), whereas in the original plan these taxpayers received no benefits. Strangely, business groups have suggested that the FWC should take this tax cut into consideration in its minimum wage decision. They argue that the revised Stage 3 cuts mean that workers can get by with a smaller minimum wage increase – since low-income workers' after-tax income will be enhanced by the tax changes. Moreover, business groups argue, the extra spending power facilitated by the tax cut would increase inflationary pressures. For example, Ai Group chief executive Innes Willox argued:

> "Where we have concerns and would like the commission to make consideration is around what the impact of that double whammy would be particularly on inflation and on employment prospects for people. It's the equivalent of 2 per cent more money in people's pockets. What we're asking for is that consideration be given to both."[17]

This view is wrong on several counts. First and most fundamentally, it misconstrues the point of taxation and fiscal policy. Taxes are set in Australia to raise funds, hopefully in a fair manner, to fund essential public services. Tax settings are designed to consider various efficiency and equity considerations (including to address the impact of bracket creep and recent inflation on real incomes). For businesses to imply that since (some) lower-wage workers are receiving a tax cut, they don't therefore need a wage increase, is to imply that the state should aim to subsidise private wage costs through its fiscal policies.

Moreover, the fact that these business leaders did not fret about the potential impact of the initial Stage 3 tax cut plan (which delivered the vast majority of its benefits to high-income earners) on inflation reveals a startling lack of consistency. The total amount of fiscal stimulus arising from the Stage 3 measures is not changing; what is changing is the distribution of that stimulus, with a larger share going to low- and middle-income households, and a smaller share to high-income households. If tax cuts are considered inflationary, then the original plan should have been equally problematic. The fact that

[17] See Nicole Hegarty, "Will Labor's tax cuts be dragged into a minimum wage increase debate?" *ABC Online*, 30 June 2024, https://www.abc.net.au/news/2024-01-30/labor-tax-cuts-dragged-into-looming-brawl-over-minimum-wages/103402416.

business leaders personally fall into the highest-income tax brackets perhaps explains their lack of concern over the inflationary impacts of the original Stage 3 plan.

In reality, by delivering more tax benefits to lower-income households – which, as noted above, have experienced the worst declines in real incomes due to faster price inflation for essential goods such as food, energy, and housing – the revised Stage 3 plan will only help to sustain real purchasing power. The argument that the revised tax cuts will unleash an inflationary surge in spending is inconsistent and not credible. Even the Governor of the Reserve Bank, Michele Bullock, recently told the Senate Economics committee that the changes to the Stage 3 tax cuts would have "no impact" on its forecasts of inflation.[18]

Finally, business arguments about Stage 3 tax cuts also massively overstate the impact of the revised tax cut for those on minimum or Award wages. The current minimum wage of $23.23 (or $882.80 per standard full-time week) equates to annual income of $45,906 (for full-time workers). For a person on such an income the revised Stage 3 tax cut is worth $825.45 per year, or 1.8% of their total income. That equates to an increase in average hourly wages of 42 cents per hour, or $16 per week – enough for an extra take-out sandwich for lunch on a Friday. To be sure, that additional disposable income will be appreciated by the workers receiving it, and will help to incrementally offset the regressive impacts of recent inflation. But to claim that it will unleash unsustainable consumer spending, or can somehow serve as a replacement for normal wage increases, is unfathomable.

Moreover, two-thirds of workers on Award wages are employed in part-time jobs.[19] Their weekly incomes are even lower, and hence the value of this revised Stage 3 tax cut smaller. Indeed, there are some 1.5 million workers (most of them on Award-dependent wages) who will receive no savings at all from the Stage 3 tax cuts, since they earn less than the current tax-free-threshold (adjusted for the low-income tax offset, which raises the effective tax-free threshold to $21,884, or $420 a week).

As reported in Table 2, ABS data reveals that in May 2023 1.5 million workers earned less than $420 per week. This accounts for 42% of all workers currently earning less than the weekly minimum wage. To suggest that the Stage 3 tax cuts should offset some or all of this year's minimum wage increase, would be especially unfair for nearly half of affected workers not receiving any tax cut.

[18] See Ellen Ransley, "RBA governor Michele Bullock tells economics committee inflation challenge 'not over'," News.com, 9 February 2024, https://www.news.com.au/finance/economy/interest-rates/rba-governor-michele-bullock-tells-economics-committee-inflation-challenge-not-over/news-story/fbaaf90522c12631acad76833f2c21bd.

[19] Calculations from ABS Employee Earnings and Hours, Data Cube 2, Table 1.

Table 2. Number of Employees Earning Less than $420 per Week (May 2023)

Weekly earnings	Under 21 yrs	21 to 34 years	35 to 44 years	45 to 54 years	55 yrs and over	All ages
Under $200	330,700	163,200	51,400	42,600	62,100	650,000
$200 to under $300	113,000	128,600	51,600	34,900	58,300	386,400
$300 to under $400	86,400	125,700	68,700	41,500	60,900	383,200
$400 to under $420	16,200	33,200	13,500	11,800	13,600	88,300
Under $420	546,300	450,700	185,200	130,800	194,900	1,507,900
$420 to under $500	64,800	132,900	54,100	47,200	54,300	353,300
$500 to under $600	79,800	167,700	77,700	65,100	83,100	473,500
$600 to under $700	70,300	158,300	70,500	59,500	83,700	442,200
$700 to under $800	52,400	141,800	79,800	70,100	80,000	424,100
$800 to under $882	37,000	140,800	81,800	69,700	93,800	423,200
Under $882	850,600	1,192,200	549,100	442,400	589,800	3,624,200
Total all employees	995,300	3,972,800	2,883,500	2,441,100	2,300,400	12,593,100

$400 to $420 derived from 20% of those earning between $400 to under $500. $800 to $882 derived from 82% of those earning between $800 to under $900.

Source: ABS Employee Earnings and Hours, May 2023, Data Cube 3

The same logic applies to other low-wage workers who will receive some tax cut, but not the full 1.8% received by a full-time minimum wage employee. There are another 2.1 million workers who earn over $420 per week, but less than $882 per week (the current weekly minimum). These workers will receive smaller tax cuts than the 1.8% described above.

In sum, the Stage 3 tax cuts do not constitute a “double whammy” of inflationary pressure, and should not be considered as a relevant factor in the FWC’s minimum wage deliberations. Fiscal policy is fundamentally a matter for determining public spending on essential programs and services, and then raising resources to pay for those programs in a fair manner. The claim that employers should be allowed to effectively capture the benefits of tax cuts for low-wage workers through offsetting wage suppression is opportunistic and self-interested.

Minimum Wages and Future Inflation

Economic research has confirmed that higher minimum wages were not the cause of inflation experienced in industrial countries since the Covid-19 pandemic. Recent inflation stemmed primarily from supply-side factors (such as disrupted global supply chains, initial shortages of strategic commodities, and the 2022 spike in world oil prices), not from overheated aggregate demand or labour cost pressures. No evidence exists that broad wage growth has contributed to this inflation, through a much-feared "wage-price spiral." To the contrary, it is clear that wages have lagged inflation, not caused it, with a resulting erosion of real wages in most industrial countries (including Australia). The OECD's most recent *Employment Outlook* confirmed that real wages declined last year in all but 4 OECD countries, and found no evidence of the feared wage-price spiral.[20] The OECD concluded as follows:

> "With little sign of a price-wage spiral, minimum wages and collective bargaining can help cushion losses in purchasing power."

The impact of minimum wage changes on inflation is further muted by the fact that only a small share of the total labour force is directly covered by minimum wages in most countries. Moreover, those wages account for an even smaller share of total labour income (given their low level). In separate research on the impact of minimum wages on prices,[21] the OECD concluded:

> "The contribution of minimum wages to aggregate wage growth appears quite limited and given the relatively low share of minimum wage workers, even sizeable increases in the minimum wage have a limited impact on inflation."

Other international research has also shown that even major increases in minimum wages have insignificant impacts on national inflation patterns.[22]

This general finding is clearly applicable in Australia, too. The FWC's upcoming minimum wage decision (and corresponding adjustments to Award wages) apply to a minority sub-set of Australian workers. The relatively low starting level of those wages further reduces their overall macroeconomic impact. As a result, the effect of higher minimum and Award wages on inflation is doubly dissipated. Moreover, since recent inflation has not been primarily caused by labour market conditions, there is even less reason to fear inflationary side-effects from even a strong minimum wage increase.

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[20] OECD, *OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market* (Paris: OECD, 2023).

[21] OECD, "Coping with the Cost of living Crisis: Minimum wages in times of rising inflation", December 2022, https://www.oecd.org/employment/Minimum-wages-in-times-of-rising-inflation.pdf.

[22] See for example Josh Bivens, "Inflation, minimum wages, and profits," Washington: Economic Policy Institute, 2022, https://www.epi.org/blog/inflation-minimum-wages-and-profits-protecting-low-wage-workers-from-inflation-means-raising-the-minimum-wage/.

Table 3 Award-Dependent Wages in the Total Economy			
	Number	**Share Total**	**Share GDP**
Workers Covered by Awards (2023)[1]	2.92 mil.	23.2%	
Average Award Wage ($/week, 2023)	$864	58.0%[2]	
Wage Bill Covered by Modern Awards ($b/yr, 2023)	$131.24	13.5%	
Total Compensation[3] Covered by Modern Awards ($b/yr, June quarter 2023, annualized)	$162.82		6.2%

Source: Authors' calculations from ABS National Accounts (Table 7) and Employee Earnings and Hours (Data Cube 2).

1. Includes all award-covered workers, including those under state awards. Number of workers directly affected by FWC wage review is about 10% smaller.
2. Share of average wage across all employees.
3. Including superannuation contributions.

Table 3 summarises our analysis of the insignificance of the minimum wage decision to overall macroeconomic aggregates in Australia.[23] Thanks to the Awards system, a larger share of Australian workers is covered by the FWC's wage award than is the case for minimum wage workers in other countries. Indeed, the proportion of workers paid according to Awards has grown in recent years, largely because of the unfortunate erosion of coverage by current enterprise agreements.[24] ABS survey data from 2023 indicates that 2.92 million workers (or 23.2% of Australian employees) were paid according to the terms of an award, higher than in previous years.[25] Not all of these workers are paid according to a federal Modern Award; some are covered by state-regulated awards, whose wages are not directly affected by the FWC's minimum wage

[23] This discussion updates analysis originally presented in Greg Jericho and Jim Stanford, "Minimum Wages and Inflation" (Canberra: Centre for Future Work, 2023), https://futurework.org.au/wp-content/uploads/sites/2/2023/04/Minimum-Wage-and-Inflation-Paper-FINAL.pdf.

[24] Most recent data shows just 12.6% of employed persons in the total labour market, and 9.8% of employed persons in the private sector, were covered by a current federally registered enterprise agreement. Perhaps another 5% of employed persons (almost all in the public sector) were covered by current agreements registered under state industrial systems. Other workers are covered by expired enterprise agreements which generally do not provide ongoing wage increases. Current enterprise agreement coverage has declined by close to 15 percentage points since 2010 (see Jim Stanford, Fiona Macdonald and Lily Raynes, "Collective Bargaining and Wage Growth in Australia," Canberra: Centre for Future Work, 2022). Current coverage calculations from Department of Employment and Workplace Relations, "Trends in Federal Enterprise Bargaining, September Quarter 2023," and ABS, Labour Force, Australia, Detailed, Table 26a.

[25] ABS, Employee Earnings and Hours, Australia, May 2023, Data Cube 2, Table 1.

decision.[26] For that reason, the estimates below overstate the direct impact of the FWC's annual wage review on overall labour compensation.[27]

Award-dependent workers are paid less than other workers, for two reasons: both because of lower hourly wages, and because of shorter average hours of work (since a disproportionate share of award-covered workers are in part-time and casual roles). As a result, their combined share of the total national wage bill is much smaller than their share of employment.

Average weekly wages for award-dependent workers in 2023 ($864.40) were 58% of the economy-wide average for all employees reported by the ABS for 2023.[28] Average Award wages declined somewhat last year as a proportion of overall average wages.[29] The 2.92 million Award-covered workers earned a total of $131 billion in aggregate wage payments. That represents an estimated 13.5% of total national wage payments to employees (estimated by the product of economy-wide average wages and the total number of employees, from the same ABS source). This share has grown modestly in the last year: the growing award-dependence of Australian workers has more than offset the erosion in Award wages relative to overall average wages.

We then adjust that estimated total of Award-based compensation to take into account superannuation contributions by employers, and other non-wage compensation included in ABS data on total labour compensation. In the same quarter of 2023 in which the award coverage and wages data cited above was collected, total labour compensation was reported as $302.6 billion (or $1.21 trillion on an annualised basis). Imputing Award-covered workers the same share of total compensation as was estimated for wage payments,[30] this implies that Award-dependent workers received about $163 billion in annualised total compensation. That is equivalent to 6.2% of total national nominal GDP in the same quarter.

The macroeconomic footprint of the national minimum wage decision, therefore, is modest. It lifts the pay of the lowest-paid Australian employees, who start with lower hourly wages and who work fewer hours (and hence account for a doubly-smaller share of total wages). Strong improvements in minimum and award wages are vital to their ability to navigate the current cost of living crisis facing Australian households. But it is

[26] In a research note in 2023 ("Information note—Replicating Table 1 from Jericho & Stanford (2023), 15 May 2023, https://www.fwc.gov.au/documents/wage-reviews/2022-23/information%20note-reproducing-table-1-from-jericho-stanford-2023.pdf), Fair Work Commission staff used unpublished ABS microdata to calculate the number of workers covered by Modern Awards (and hence directly affected by the FWC's minimum wage decision) and their total wages compensation. The FWC estimates were about 10% lower than the estimates reported by Jericho and Stanford (2023).

[27] At the same time, the FWC's minimum wage decision has an indirect influence on many changes in wage schedules in state awards, so the use of all award-covered workers in Table 1 is not unreasonable.

[28] ABS, Employee Earnings and Hours, Australia, May 2023, Table 1.

[29] Jericho and Stanford (2023) reported weekly award wages equal to 61% of economy-wide averages, based on 2021 ABS data.

[30] This is a conservative assumption, since higher-paid workers are more likely to also benefit from superannuation contributions paid at a higher rate, and other superior non-wage compensation components.

inconceivable that even a strong increase in Modern Award wages would have major macroeconomic repercussions (including on inflation).

Based on the analysis in Table 3, we can estimate the impact of an increase in minimum wages (and, presumably, other award wages) on overall prices. We make the following assumptions in this estimate:

- All award-covered workers receive the same percentage increase as the national minimum.[31]
- Those wage increases are fully paid to all award-covered workers, including through non-wage forms of compensation (like superannuation contributions).
- We do not consider the effect of growing labour productivity on unit labour costs; in general, productivity growth means that unit labour costs (most relevant for firms' pricing decisions) grow more slowly than hourly wages.[32]
- The full impact of higher labour costs is passed through into prices by firms, with no impact on their profits.

These assumptions are conservative; in reality, the final impact of minimum wages on inflation will likely be even lower than indicated below, for several reasons also discussed below.

Table 4 indicates the proportional impact of a 1% increase in the national minimum wage and all Award wages, on overall nominal valuations in the Australian economy. On the basis of the assumptions listed above, each 1% increase in the national minimum wage results in $1.6 billion in additional compensation (including superannuation contributions) paid to Award-dependent workers over a year. Even if fully passed through into prices (on the assumptions of no productivity growth and no reduction in current profit margins), that results in a 0.06% increase in economy-wide prices: well within the margin of error of economic statistics, and hence practically undetectable.

[31] This was not the case in the 2022 and 2023 NMW decisions, which provided (via different mechanisms) higher wage increases for the lowest-paid workers in each year. Remember also that Table 3 includes workers covered by state awards, whose wages will not be directly affected by a change in national minimum and Modern Award wages.

[32] Labour productivity trends have been disrupted by the after-effects of the Covid-19 pandemic, and economists are struggling to explain these rapid shifts. Initially productivity surged during Covid lockdowns, but then retreated with economic re-opening; compositional effects (with big changes in the make-up of employment) and measurement issues (arising in part from the impact of JobKeeper emergency subsidies on reported hours worked) likely contributed to those issues. The Productivity Commission has highlighted a significant decline in capital intensity of production as another likely source of weak productivity performance (see Productivity Commission, Annual Productivity Bulletin 2024, February 2024). Productivity measures have stabilized and begun growing again in recent months: rising 1.5% in the last two quarters of 2023 (ABS, Australian National Accounts, Table 1). In the longer run, labour productivity has grown in Australia over the last quarter century at an average rate of over 1% per year.

Table 4 Impact of Higher Minimum Wages on Average Economy-Wide Prices		
	Aggregate Labour Cost Impact	**Share of Average Nominal Prices**
Impact of 1% Award Wage Increase	$1.6 billion	0.06%
Source: Authors' calculations from ABS National Accounts (Table 7) and Employee Earnings and Hours (Data Cube 2).		

Even a robust minimum wage increase – perhaps aimed at rebuilding real Award wages, and restoring pre-pandemic trends in real minimum and Award wages – could not cause any significant increases in economy-wide prices, even under restrictive assumptions of no productivity growth and no change in profit margins. The effect of higher minimum and Award wages on price levels will almost certainly be drowned out by the other, more powerful determinants of inflation. For example, on the basis of the parameters in Table 4, a 5% increase in Award wages, fully passed through, would lift overall nominal GDP levels by just 0.3%. A 10% increase in Award levels would lift overall nominal GDP levels by 0.6%. These impacts are easily accommodated within the RBA's target range for inflation (2.5%, plus or minus 0.5%), and will be overwhelmed by other, more important influences on inflation.

The deceleration of inflation in the last year reflects non-wage factors – such as improved supply chain stability and lower energy costs. This deceleration in inflation occurred despite strong increases in minimum and award wages implemented last year. This experience confirms that minimum wage policies have minimal impact on economy-wide inflation. The small impact of minimum wage increases on consumer prices will be overwhelmed by the evolution of the other, more important determinants of future inflation.

Profits, Inflation, and Minimum Wages

One of those more important determinants of future inflation will be the course of corporate profits. It is instructive to compare the minimal impact of higher minimum and award wages on price levels, to the more important role of elevated corporate profits in recent inflation.

As has been documented in other research,[33] the dominant cause of recent inflation has not been wages or labour costs: rather, the more important cause of higher inflation

[33] For a summary of Australian and international research on profit-led inflation since the Covid-19 pandemic, see Jim Stanford et al., *Profit-Price Inflation: Theory, International Evidence, and Policy Implications* (Canberra: Centre for Future Work), September 2023, https://futurework.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/. For detailed evidence and recommendations regarding the role of excess profits in specific dimensions of the current cost of living crisis, see Allan Fels, *Inquiry Into Price*

was the dramatic expansion in business profits, as firms took advantage of the disruptions of the pandemic to increase prices far above operating costs (including wages). There is no reason to expect or assume that profits must remain at these elevated levels: in absolute terms, as a share of total revenue, or relative to national GDP. It would take only a small narrowing of current elevated profits to fully offset the impact on prices of even substantial increases in the minimum wage.

Table 5 Profit Reduction Required to Offset Minimum Wage Increase	
Total Corporate Profit ($b, 2023)	$727.7
Increase Since 2019	44.9%
Increase in Modern Award Wages Since 2019	15.4%
Reduction in Profit Required to Offset 1% Minimum Wage Increase (%)	0.22%
Source: Authors' calculations from ABS National Accounts (Table 7) and estimates reported above.	

In 2023, gross operating profit of incorporated businesses reached $728 billion (see Table 5). Corporate profits were up almost 45% compared to 2019, the last year before the pandemic – representing an increase of $225 billion. Corporate profits increased three times faster than nominal Modern Award wages over this four-year period (Award wages rose 15% in the same time[34]). Adjusted for inflation, real corporate profits (relative to the CPI) increased 25% between 2019 and 2023; in contrast, the real minimum wage declined slightly in real terms. As a share of the total economy, corporate profits averaged 27.8% of GDP in 2023 – an increase of 2.6 percentage points from 2019 (before the pandemic). And compared to longer-run averages, corporate profits are dramatically elevated: they are almost twice as large relative to GDP as in the mid-1970s. In contrast, the share of labour compensation in total GDP has experienced a mirror-image decline over the last half-century; and despite a modest recovery in 2023, the labour share of GDP remains below its level when the pandemic struck.

By reducing economy-wide corporate profits by just 0.22% (ie. less than one-quarter of one percent), the entire $1.6 billion additional labour cost arising from a 1% increase in minimum and Modern Award wages could be fully absorbed. That would avoid even the infinitesimal increase in prices associated with full pass-through of higher minimum and Award wages. In this context, a substantial increase in minimum and award wages – even lifting them back to their pre-pandemic real trend – could be offset by a modest

Gouging And Unfair Pricing Practices (Melbourne: Australian Council of Trade Unions), February 2024, https://pricegouginginquiry.actu.org.au/wp-content/uploads/2024/02/InquiryIntoPriceGouging_Report_web.pdf.

[34] This figure applies the minimum 4.6% increase in Modern Award wages implemented in 2022, and the 5.75% increase that applied to Awards in 2023; for some lower-paid Award-covered workers, the 2022 increase was slightly larger (up to the maximum 5.2% minimum wage increase that year).

retrenchment in corporate profits from current unusually high levels. Corporate profits would still be higher than pre-pandemic norms, in both absolute dollars and as a share of GDP. For example, a 10% increase in minimum and award wages could be fully offset by a barely 2% decline in corporate profits. In that scenario, corporate profits would still equal $713 billion, equivalent to 27.2% of GDP. That is down slightly from the 27.8% profit share corporations recorded in 2023 – but is still some 6 percentage points higher than the average gross operating profit share since 1960.

It is clear, therefore, that even a substantial increase in wages for Award-covered workers would have no significant impact on consumer price inflation, even if the modest labour costs associated with that increase were fully passed on in higher prices. A more reasonable scenario would see Australian businesses, still enjoying unusually strong profits amidst current inflation, absorb those incremental labour costs through a small reduction in profit margins. That would allow for the restoration of pre-pandemic norms in real wages for minimum wage and Award-covered workers, while also modestly redistributing national income back toward workers. Given the disproportionate impact of recent inflation on lower-income households, in contrast to the unprecedented corporate profits which arose during and after the pandemic, financing higher minimum and Award wages through a modest retrenchment in profits is both fair and efficient.