Briefing Paper:

The Continuing Irrelevance of Minimum Wages to Future Inflation

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Summary

While inflation growth has fallen from the heights of the past few years to now reside within the Reserve Bank's target band of 2% to 3%, the importance of the minimum wage for Australia's lowest paid workers (including both the National Minimum Wage and award wages) remains vital to keeping more than 2 million Australian workers and their families out of poverty. The cost-of-living rises over the past three years have overly affected those on low and middle incomes because the price rises have been most significant among non-discretionary items, which those on low and middle incomes devote a greater share of their income purchasing. Despite the solid increases in both the minimum wage and award wages since 2022, to return to the long-run trend level of improvements in real wages (whereby real minimum wages grow over time to reflect productivity growth and broader wage trends), increases of between 5.8% and 9.2% are required this year.[1]

As inflation levels have fallen, the typical voices from the business community have argued that higher minimum wages will cause a return of inflationary pressures and unsustainably damage company profitability. This report, drawing on and updating our 2024 research, clearly rebuts these claims.[2] The impact on economy-wide prices of even a large increase in minimum and award wages is even more negligible than was estimated in our 2024 report. This year we draw on more detailed employment data

[1] As explained below, an increase of 9.2% would merely restore Modern Award wages to their pre-pandemic trend in real terms.

[2] Jericho & Stanford (2024) "The Irrelevance of Minimum Wages to Future Inflation", https://australiainstitute.org.au/report/the-irrelevance-of-minimum-wages-to-future-inflation/.

published by the Fair Work Commission (FWC) in February.[3] We also have an extra year of data to draw on to demonstrate that the higher-than-average minimum and award wage rises over the past 3 years have had an insignificant impact on inflation. In 2023, the FWC increased the minimum wage by 8.65% and award wages by 5.75%. Despite these rises being the largest for many years (the biggest since 1982 in the case of the minimum wage) inflation fell. In 2024 the FWC increased the minimum wage by 3.75% - in line with the 3.8% inflation growth to June 2024, and still inflation fell to its current level of 2.4%. This was despite business lobby groups arguing at the time that a minimum wage increase combined with the Stage 3 tax cuts would be a "double whammy" that would have "an inflationary impact".[4]

Even with these historically large minimum and award wage rises, profit margins across the economy remain higher than pre-pandemic norms. Similarly, the ratio of wages to sales in the industries with the highest concentration of workers on award rates remains below pre-pandemic levels.

Given this, we argue the impact on prices of even a substantial lift in minimum and award wages could be fully offset by a very small reduction in profits. Such a reduction would still leave the share of GDP going to profits at higher levels than before the pandemic, while assisting the recovery of the lost living standards of Australia's lowest paid workers.

The Declining Value of Minimum and Award Wages

The sharp price increase in 2021-22 had a dramatic impact on the living standards of Australia's workers. The real value of average wages (measured by the Australian Bureau of Statistics' (ABS) Wage Price Index and deflated by the Consumer Price Index) fell 5.3% from the March 2021 quarter to the December 2022 quarter. In the period since then, real wages have risen just 0.9%, leaving the purchasing power of the average wage still some 4.4% worse than it was at the start of 2021 before taking into account taxes and government benefits.

The fall in living standards was much greater for those on low and middle incomes, who devote more of their income to the purchase of necessities and "non-discretionary items". From March 2021 to December 2024 the average price of non-discretionary items in the CPI basket rose 19.7% compared to the overall CPI increase of 14.7%. For context were wages deflated by the non-discretionary price index rather than CPI, real wages would now be 5.6% lower than they were in March 2021.[5]

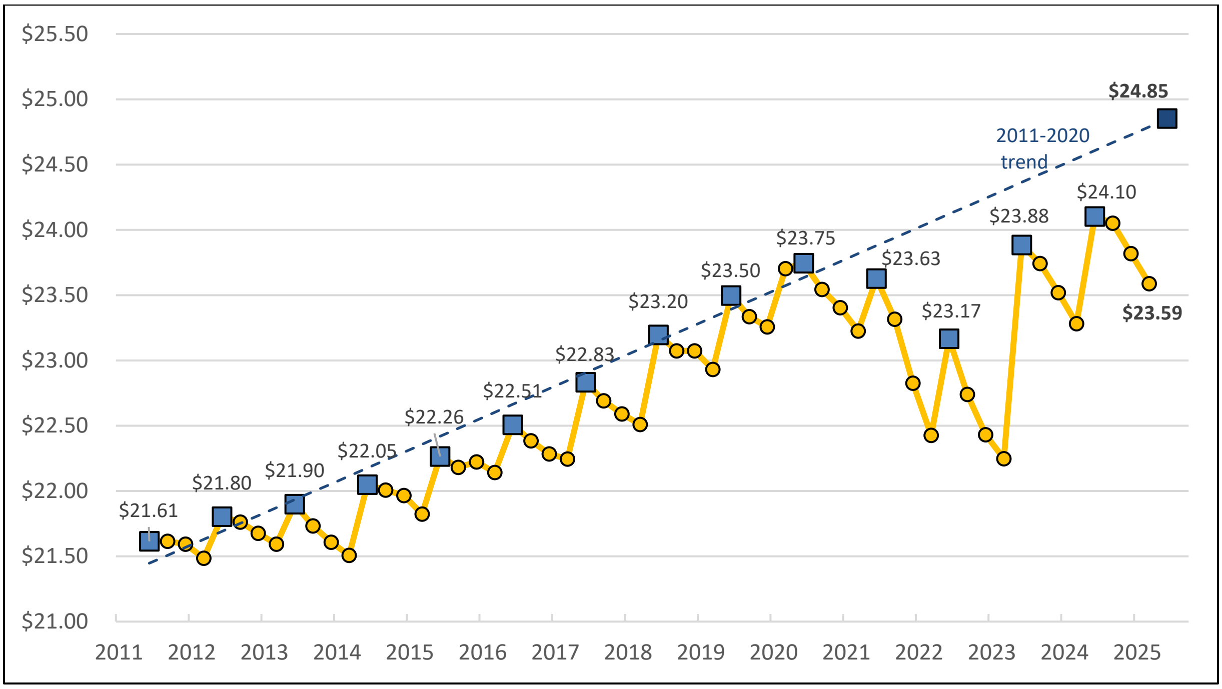
[3] Justin Strong, David Rozenbes and Josh Tomlinson (2025) "A profile of employee characteristics across modern awards – 2023" https://www.fwc.gov.au/documents/sites/wage-reviews/2024-25/c20251-a-profile-of-employee-characteristics-across-modern-awards-2023.pdf

[4] Hegarty (2024), "Will Labor's tax cuts be dragged into a minimum wage increase debate?" https://www.abc.net.au/news/2024-01-30/labor-tax-cuts-dragged-into-looming-brawl-over-minimum-wages/103402416

[5] ABS (2025) "Consumer Price Index, December 2024"

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 period, keeping pace with inflation and maintaining the real value of minimum and award wages is more vital than ever. The FWC's annual wage review, by determining increases in the National Minimum Wage and the schedule of Modern Award wages, plays a particularly important role.

Figure 1. Real Minimum Wage, 2011-2025, September 2024 dollars



Source: FWC, ABS, RBA. March and June 2025 estimates based on estimates for CPI in the February 2025 Statement on Monetary Policy. September estimate based on estimates for trimmed mean in the February 2025 statement, to best take into account the continuation of the energy rebate which had at that point not been extended.

Due to the FWC's decisions over the past three years, minimum wages have kept pace with inflation better than overall wages. The decision in 2023 to raise the minimum wage by 8.65% from an hourly rate of $21.38 to $23.23 was very welcome given it lifted the real value of the minimum wage back above the 2020-21 level and did much to restore the lost purchasing power of those on the lowest wage.[6] Last year's decision to raise the minimum wage by 3.75% also helped recover living standards to the near long-term trend and overcome the usual decline in value of the minimum wage over the year.[7] Both these increases were necessary given the previous two years had seen the first decline in real value of the minimum wage since 2009 (when it was frozen for one

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[6] That increase resulted from a change in classification for the small group of workers on the lowest level of wage.

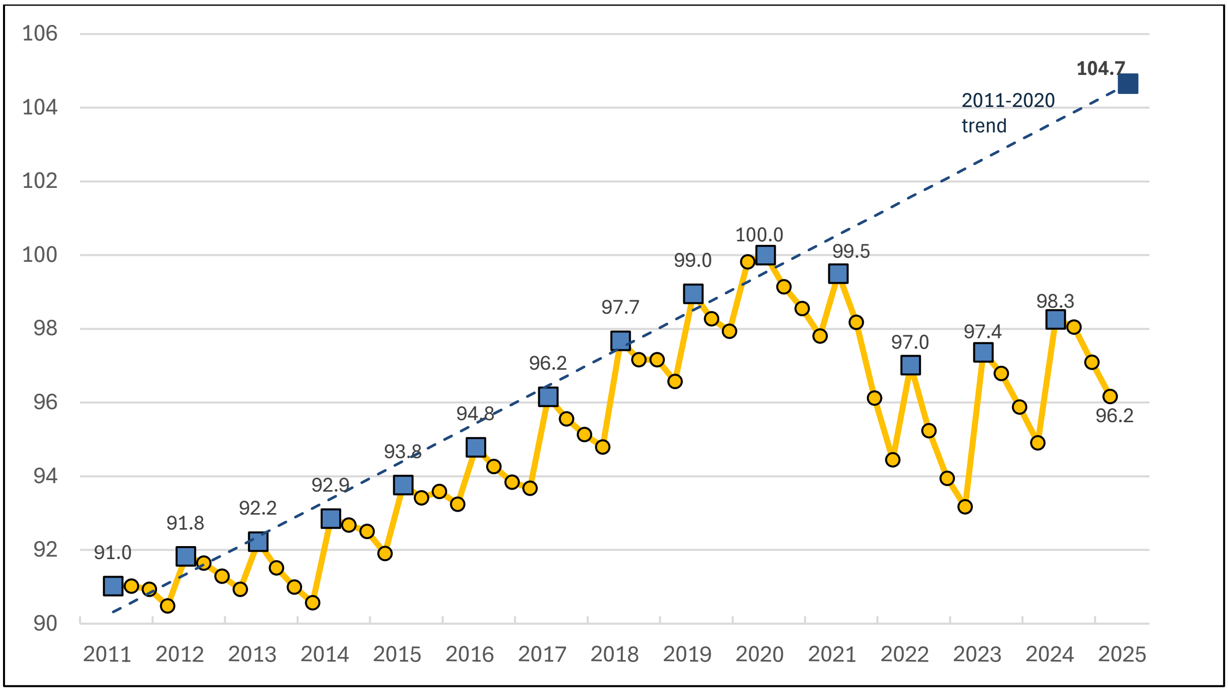
[7] The 'sawtooth' pattern in Figure 1 is produced by the effect of ongoing inflation on the real value of minimum wages in periods between the FWC's annual wage adjustments. The wage is increased once per year, giving real wages a lift that is then gradually eroded over coming months (eroded faster when inflation is faster). As a rule, 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. This was the case every year from 2011 to 2020.

year during the Global Financial Crisis). While those increases did return the value of the minimum wage in real terms to above that of 2020-21, it remained below the expected trend level over the pre-pandemic decade.

The 2023 8.65% increase returned the value of the minimum wage to 2% below the trend level, while the 3.75% increase in 2024 reduced this gap to just over 2% below the trend level. Given the expected rise in inflation by June this year, the real value of the minimum wage will be 4.8% below the pre-pandemic trend.[8] This means that to return the real value of the minimum wage to the pre-pandemic trend level an increase of 5.8% to $25.50 is required.

Crucially in two of the past three years, the annual wage increases for workers on Modern Award wages were less than for those workers on the minimum wage, despite the impact of rising costs affecting those workers to much the same extent. In 2022 rather than the 5.16% for the minimum wage, those on award wages only received a 4.6% increase, and rather than the generous but necessary 8.65% in 2023, those on Modern Award wages received only a 5.75% increase. After the 3.75% increase in 2024, the real value of Modern Award wages had only increased 1.3% in 2 years and was still 1.7% lower than it had been in September 2020.

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



Source: FWC, ABS, RBA. All figures in Sept 2024 dollars, March and June 2025 estimates based on estimates for CPI in the February 2025 Statement on Monetary Policy.

Worse still the real value of the Modern Award was 5.2% below the pre-pandemic trend of expected real wage rises. And because of inflation growth since September last year

[8] The RBA presently forecasts 2.4% CPI growth in the 12 months ending June 2025, and 3.7% in the 12 months to December 2025.

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(and assuming inflation rises in line with RBA expectations) that will mean by June this year, the real value of Modern Award wages will be 7.9% below the pre-pandemic trend.

To return to the trend level an increase of 9.2% in award wages is required. This would fully undo the damage of the past three years and also reset the parity of Modern Award wages increases with that of the smaller group of workers on the National Minimum Wage.

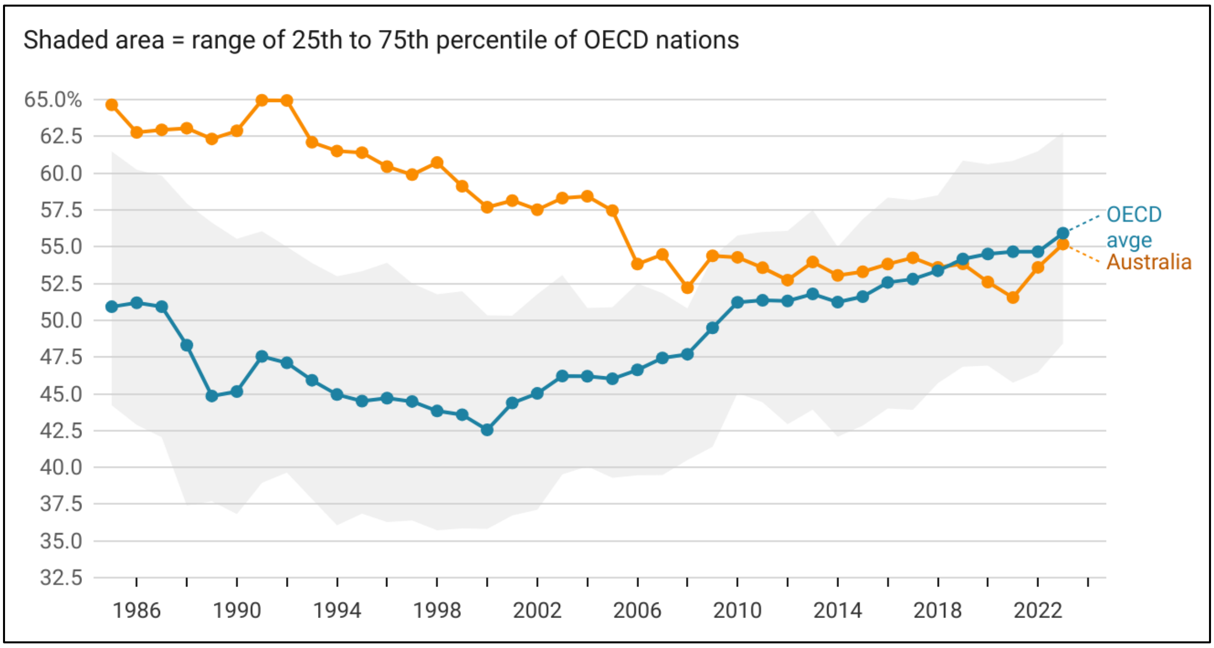
Australia's Minimum Wage in International Context

Business groups and conservative commentators commonly argue that Australia's minimum wage is one of the highest in the world. This claim is based on the simplistic comparison of the value of minimum wages across the world in US dollar terms. Indeed, this contention was put forward last year ahead of the annual wage review.[9] One major issue with this comparison is the volatility of the US Dollar – especially recently –that makes such calculations unreliable, given those fluctuations in the exchange rate are largely unrelated to wages, cost of living or any other economic parameters in each non-US nation. However, even in the most stable of times, such a comparison completely ignores the context of cost-of-living in each country as well as the median wage most workers are paid.

Rather than merely comparing the value of a wage in a common currency, the best way to compare minimum wages across nations is to compare minimum wages to the overall level of wages in that 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. As Figure 3 displays, Australia once could be said to have a high minimum wage compared to others across the OECD, but since 2010 the minimum wage bite has been below the top 75 percentile across the OECD, and since 2019 it has been below the OECD average.

[9] David Marin-Guzman (2024), "Union push for 5pc minimum wage rise sets up pay showdown", https://www.afr.com/work-and-careers/workplace/union-push-for-5pc-minimum-wage-rise-sets-up-pay-showdown-20240325-p5ff37

Figure 3. Australia's Minimum Wage Bite among OECD Countries: minimum wage relative to median full-time earnings



Source: OECD

These figures are also before the full implementation of the European Union's (EU) minimum wage directive that sought to "improve working and living conditions in the European Union by establishing a framework for adequacy of statutory minimum wage".[10] Moreover the directive stated that indicative reference values to determine adequacy could include those "commonly used at international level such as 60 per cent of the gross median wage and 50 per cent of the gross average wage".[11] Given Australia's minimum wage in 2023 (the latest comparable figures published across the OECD) was 55.2% of the gross median wage and 46.8% of the gross average wage, clearly there is little reason to argue that rises in Australia minimum wage are out of step with the rest of the world. Australia's minimum wage bite has also dropped in 2024 to be 53.6%, effectively back to where it was in 2019.[12] Indeed by the EU's standard Australia's minimum wage is inadequate. And while the EU's directive has been challenged in court, the evidence is already clear that governments have moved to set the minimum wage in line with the standards set by the EU. In Ireland for example, "a national living wage will replace the national minimum wage from 2026. The living wage will be set at [the EU's target of] 60% of the median wage in any given year".[13]

[10] The directive came into force in November 2024.
[11] Christine Aumayr-Pintar & Carlos Vacas-Soriano "Substantial rises in national minimum wages for 2025 – linked to the EU directive?" https://www.eurofound.europa.eu/en/resources/article/2025/substantial-rises-national-minimum-wages-2025-linked-eu-directive
[12] Calculated from the ABS Characteristics of Employment Survey, August 2024.
[13] Citizens Information (2025) "Minimum Wage" https://www.citizensinformation.ie/en/employment/employment-rights-and-conditions/pay-and-employment/minimum-wage/

Ireland's minimum wage bite has consistently been below that of Australia, but from 2026 will be significantly higher.

In light of such moves there is no evidence to suggest the minimum wage needs to be suppressed in order to maintain competitiveness. Australia has for two decades now been one of the exceptions among OECD countries in reducing the minimum wage relative to median earnings. More fundamentally, as we noted in our report last year, 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 and mostly in non-tradeable service industries (including public and community services) that do not participate directly in international trade. Keeping these workers even poorer by allowing the minimum wage to decline in value in real terms would be punishing them for reasons that do not hold up to scrutiny. Moreover, in the 2024 *Economic Outlook*, the OECD noted that Australia's "real minimum wage increased by only 2.3% [from 2019 to 2024], less than in most OECD countries and below the median OECD average of 8.3%".[14]

The Sky is Still Not Falling

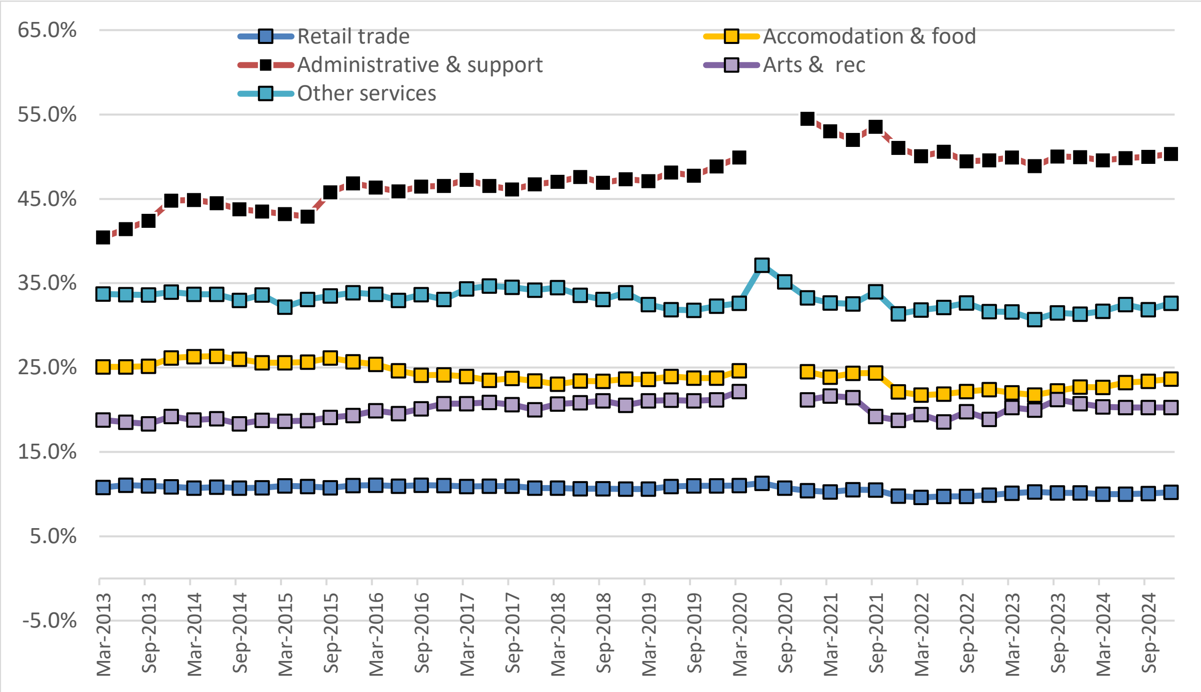
In our report last year, we noted that despite solid rises in the minimum wage and to a lesser extent Modern Award wages, the profit margins of industries with the highest concentration of workers on award rates remained high.

That situation continues to hold. The FWC has noted that in 2023 the four industries with the highest concentration of workers on Modern Awards were Accommodation and food services, Administration and support services, Retail trade, Arts and Recreation, and Other Services.[15] The latest Business Indicator data from the ABS revealed that in the December quarter 2024 the ratio of wages to business income was lower than the pre-pandemic averages in four of those five industries (Figure 4). And while the ratio of wages to income was higher than pre-pandemic levels in the administration and support services industry, the ratio has remained stable since 2022 which suggests the two significant award wage increases of 4.6% and 5.75% had negligible impact.

[14] OECD (2024) "OECD Employment Outlook 2024 - Country Notes: Australia" https://www.oecd.org/en/publications/oecd-employment-outlook-2024-country-notes_d6c84475-en/australia_4f76e85a-en.html

[15] Strong, Rozenbes and Tomlinson (2025) op cit.

Figure 4. Wages as a share of Total Revenue: 2013-2024



Source: ABS Business Indicators, Jobkeeper/pandemic affected figures of June & September 2020 for Hospitality, Administration & support, and Arts & recreation excluded for reasons of scale

Minimum Wages and Inflation

In our 2024 report, we demonstrated the lack of correlation between growth in the National Minimum Wage (and award wages) and inflation. The further 12 months of data has only reinforced this case. 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. The biggest fall in the inflation rate during this period coincided with the biggest increase in the minimum wage for 40 years and the biggest increase in Modern Award wages since 2010.

After the 5.75% Modern Award increase was announced, the Australian Chamber of Commerce and Industry chief executive Andrew McKellar stated that the increase "consigns Australia to high inflation, mounting interest rates and fewer jobs."[16] And yet as Figure 1 shows, inflation fell dramatically. Over the same period the employment to population ratio remained above 64% - higher than it had even been prior to June 2022, and in January this year it reached a record high of 64.6% - hardly evidence that solid minimum wage and award wage rises lead to fewer jobs.[17]

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[16] Victorian Chamber of Commerce and Industry (2023) "FWC raises minimum wage by 5.75 per cent" https://www.victorianchamber.com.au/news/fwc-raises-minimum-wage-by-575-per-cent
[17] ABS (2025) "Labour Force, Australia" January 2025.

Table 1. Changes in Minimum/Award Wages and Inflation 2018-2025

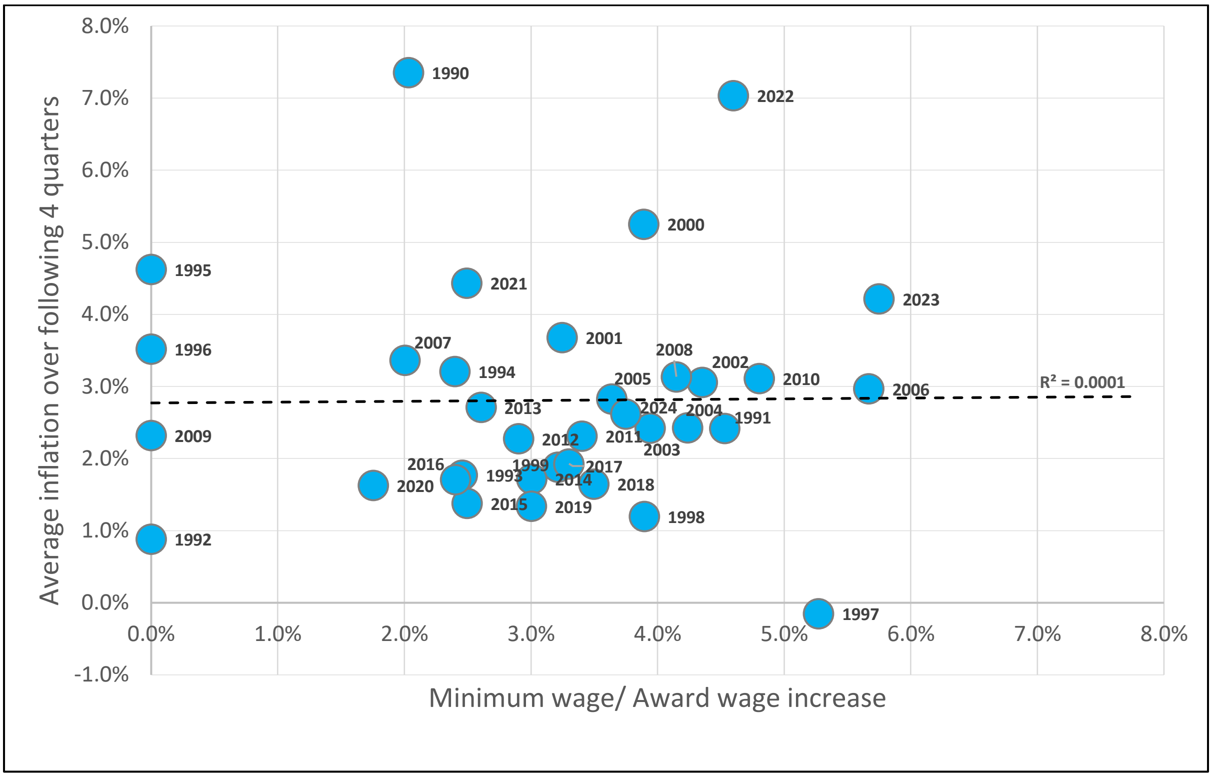
Fiscal Years	Change in Minimum / Award Wage		Change in Inflation Rate
2018-19	3.50%		-0.28%pts
2019-20	2.96%		-0.31%pts
2020-21	1.80%		0.29%pts
2021-22	2.47%		2.82%pts
2022-23	5.16%	4.6%	2.58%pts
2023-24	8.65%	5.75%	-2.82%pts
2024-25	3.75%		-1.70%pts (fcst)[1]

Source: Calculations from ABS Consumer Price Index and Fair Work Commission.
1. Forecast from RBA Statement on Monetary Policy, February 2025, Table 3.1.

What is most revealing in Table 1 is that in 2022-23 when the FWC raised award wages by 4.6% – a level below inflation – inflation rose, and yet in 2023-24 and 2024-25 when the minimum and award wages were increased by more than inflation, inflation fell. Trying to suggest that minimum wage rises above inflation causes higher inflation is an exercise in futility.

While Table 1 covers the most recent period of economic disruption before, during and after the pandemic, a longer view in Figure 5 reveals the complete absence of a correlation between minimum and award wage increases and future inflation. As noted above, increases in the minimum wage are mostly exercises in recovering lost real value over the previous 12 months since the previous increase. Figure 5 reveals that over the past 35 years there is no relationship to speak of between the rise in the minimum wage and the level of inflation over the following year.

Figure 5. Relationship of Minimum Wage/Award wage increases and future inflation: 1990-2024



Source: FWC, ABS. Inflation denotes the average CPI annual growth in the 4 quarters following each minimum wage increase. Date denotes the year in which the minimum wage increase occurred. 2024 is the award wage increase of 3.75%. In 2022 and 2023 the award wage increase has been used.

Importantly, Figure 5 also includes the four years when there was no increase in the minimum wage. As noted in our report last year, it is common sense that the impact of minimum wage and award wages on inflation would be diffuse. The share of workers who are covered by minimum and Modern Award wages is around 20%, but the low starting point of minimum and award wages means the share of minimum and Award wage payments in the total national wage bill is much smaller – closer to 11%.

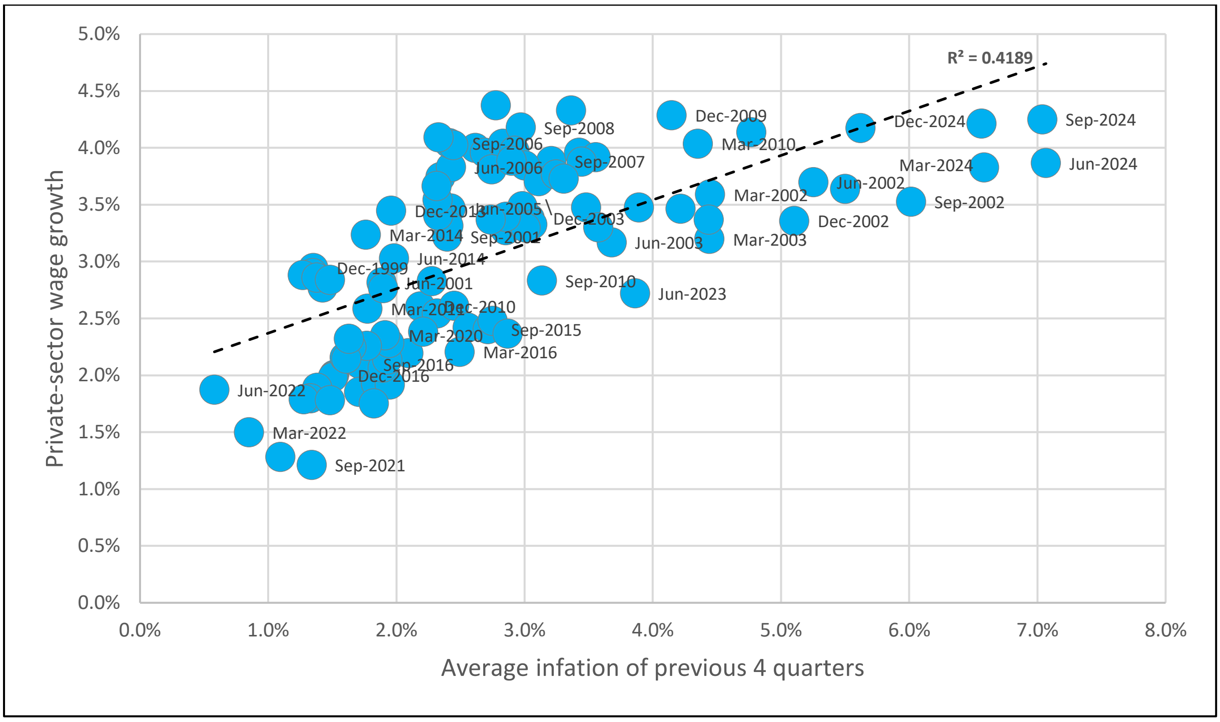
The figures in Table 1 also highlight that the recent rise (and falls) in inflation were due overwhelmingly to supply-side factors such as supply chain disruptions and company profiteering rather than demand driven impulses such as large wage rises.[18] It is clear that wages were not the cause of the recent rises in inflation, nor will they affect future outcomes. Given overall wages have not had a material impact on inflation growth, an even more substantial case can be made that the minimum wage and award wages will have an even more negligible impact.

[18] See Stanford et al (2023) "Profit-Price Inflation: Theory, International Evidence, and Policy Implications" https://australiainstitute.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/

Minimum Wages and Future Inflation

Throughout most of 2022 and 2023 the spectre of a wage-price spiral was an oft spoken concern despite a lack of evidence that such a thing was occurring either in Australia, or even in the rest of the OECD.[19] Indeed an analysis of the correlation between wages and inflation shows that the strongest relationship is between current wage growth and previous inflation (Figure 6).

Figure 6. Solid correlation of previous years inflation with wage growth: 1998-2024



Source. ABS Consumer Price Index, Wage Price Index

Since the introduction of the wage price index, the best predictor of wage growth is inflation over the previous year, whereas wage growth now has no signification correlation with inflation over the next year. This suggests that, akin to minimum wages, employees attempt to recover lost gains in the real value of their wages rather than seeking wage rises above what might be expected. Moreover, lack of bargaining power, due to the fall in union representation and successive efforts over the past 30 years to weaken the ability of employees to negotiate, means that there is now little prospect of wage rises so high that they could cause a wage-price spiral.

Given total wage growth has an insignificant impact on future inflation it is only logical that increases in minimum and award wages should have a negligible impact given they account for just 20% of all workers and around 11% of the total wage bill.

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

The FWC's upcoming minimum wage decision (and corresponding adjustments to award wages) applies to workers on a relatively low level of wages – indeed they are Australia lowest paid. Thus, any overall macroeconomic impact must be even less than for all wages.

Table 2 summarises our analysis of the insignificance of the minimum wage decision to overall macroeconomic aggregates in Australia. In our report last year, we estimated the macroeconomic impact of increases in the National Minimum Wage and Modern Awards based on the May 2023 Employee Earnings and Hours survey from the ABS. This estimated that 2.92 million of Australia's 12.6 million employees were covered by Awards (or 23.2%). However, analysis by the FWC using unpublished micro data has established that only 2.61 million of these workers are covered by Modern Awards – 20.73%. Further analysis by the FWC has also determined that the average weekly modern award wage in 2023 was just $762.60 – below the $864 average weekly wage for all awards.[20] This confirmed our assertion that the figures presented in our 2024 report – which used the total award average – were conservative given our assumption that those workers on state-based awards would likely have a higher average wage. The new analysis determined that the wage bill covered by Modern Awards in 2023 accounted for just 10.6% of the total wage bill, rather than the 13.5% we estimated.

Using the figures we are able to use the most recent National Accounts to estimate the total compensation covered by Modern Awards in December 2024 (Table 2).

Table 2. Modern Award-dependent Wages in the Total Economy, Dec 2024

	Number	Share total	Share of GDP
Workers covered by Modern Awards (Dec 2024)[1]	2.71m	20.73%	-
Average Award Wage ($/week, 2023)	$762.60	51.2%[2]	-
Total Compensation Covered by Modern Awards ($b/yr, Dec quarter 2024, annualised)[3]	$141.8	10.6%	5.1%

Source: Author's calculations from ABS National Accounts and FWC analysis of Employee Earnings and Hours[21].
1. Using the same share of workers in FWC (2024)[22].
2. Share of average wage across all employees
3. Includes superannuation payments

Table 2 applies the ratios from the 2023 figures to the December quarter of 2024. In that quarter, total compensation of employees was $334.34 billion for an annualised amount of $1,337.4 billion. Applying the 10.6% ratio to that figure results on $141.8 billion total compensation to workers covered by Modern Awards, which accounts for 5.1% of total GDP.

[20] FWC (2024) "Information note— Award-dependent wages in the economy https://www.fwc.gov.au/documents/wage-reviews/2023-24/c2024-1-information-note-award-dependent-wages-2024-04-16.pdf
[21] Strong, Rozenbes and Tomlinson (2025) op cit. and FWC (2024) ibid
[22] FWC (2024) op cit.

The macroeconomic footprint of the National Minimum Wage decision, therefore, is extremely modest.

Based on Table 2 we make the following assumptions to estimate the impact of increases in Modern Awards and the minimum wage on overall prices.

- All award-covered workers receive the same percentage increase as the national minimum.
- 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.[23]
- The full impact of higher labour costs is passed through into prices by firms, with no impact on their profits.

From this we are able to estimate that the proportional impact of a 1% increase in Modern Awards and the minimum wage would now be around $1.41 billion. This would add a negligible 0.051% to average nominal prices even were companies and businesses to fully pass on the extra cost with no reduction in their profit margins (Table 3). Such a small increase is well within the margin of error of economic statistics, and hence is statistically insignificant.

Table 3. Impact of Higher Minimum Wages on Average Economy-Wide Prices

	Average Labour Cost Impact	**Share of Average Nominal Prices**
Impact of 1% Modern Award Wage Increase (Dec 2024)	$1.41 billion.	.051%
Source: Author's calculations from ABS National Accounts and FWC analysis of Employee Earnings and Hours.		

Given such circumstance even a more robust increase of the National Minimum Wage and award wages that would restore their value to pre-pandemic trend levels would have a small impact on the economy. Even were the minimum wage to be increased by 6%, which as noted above is required to fully return it to the pre-pandemic trend level, the impact on average prices – assuming the cost was fully passed on would lift nominal GDP by just 0.3%.

[23] Labour productivity trends have been disrupted by the after-effects of the Covid-19 pandemic, and economists are struggling to explain these rapid shifts. Michael Plumb, the Head of Economic Analysis Department of the Reserve Bank, in (2025) "Why Productivity Matters" https://www.rba.gov.au/speeches/2025/sp-so-2025-02-27.html noted that "slow growth in the amount of capital available for each worker in the Australian economy – or a lack of 'capital deepening' – has also contributed to slow growth in labour productivity" because "overall investment has not kept pace with the strong growth in employment recently". Even with the most recent falls in productivity, the average annual growth of gross value added per hour worked in the market sector since 2010 remains 1.2%.

Such an amount would barely be noted among all the other variables within the economy – such as the average fluctuations in the terms of trade or the change in the prices of tradable goods and services from a depreciation of the exchange rate. Moreover, as is clear from the past two years, increases in the minimum wage above inflation levels is no barrier to inflation falling and the minor impact of minimum wage increases on consumer prices will be overwhelmed by other, more important determinants of future inflation.

Profits, Inflation, and Minimum Wages

One of the more important determinants of future inflation, as has been observed since 2022, is corporate profits. As has been well documented the dominant cause of recent inflation has not been wages or labour costs: rather, it 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). Unsurprisingly as profit growth has moderated from the highs of 2021 and 2022, so too has inflation fallen.

Even still the share of GDP going to corporate profits remains elevated above long-term levels. Over the four quarters of 2024, corporate gross operating surplus accounted for 25.7% of GDP – well above the 24% of GDP average over the 20 years prior to the pandemic – a period which includes the mining boom of the 2000s and the surge in mining profits after 2016.

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. Given the marginal impact of a rise in nominal GDP of increases in the Minimum Wage and Modern Awards, it would require only a small narrowing of current elevated profits to fully offset the impact on prices of even substantial increases in the minimum wage (Table 4).

Table 4. Profit Reduction Required to Offset Minimum/ Modern Award Wage Increase

	Number
Total Annual Corporate Profit, Dec 2024 ($b)	$700.1
Increase since Dec 2019	39.8%
Increase in Modern Award Wages since Dec 2019	19.7%
Reduction in Profit Required to Offset 1% Minimum Wage Increase (%)	0.20%
Source: Author's calculations from ABS National Accounts (Table 7) and estimates reported above.	

In 2024, corporate profits totalled $700.1 billion, which was a 39.8% increase on profits in 2019. At the same time workers on Modern Awards had received half the increase of just 19.7%. Clearly the brunt of the cost-of-living has been borne by workers.

By reducing economy-wide corporate profits by just 0.2% (ie, a fifth of one percent), the entire $1.41 billion additional labour cost arising from a 1% increase in minimum and

Modern Award wages could be fully absorbed. That would avoid even the tiny increase in prices associated with fully passing on the cost of higher minimum and award wages. In this context, a substantial increase in minimum and award wages could be offset by a modest decline in corporate profits. A 5% increase, for example, would require only a 1% point fall in profits.

Were both the National Minimum Wage and Modern Award wages raised by 9.2%, as we recommend to fully recover the real value of the Modern Award to the pre-pandemic trend level, corporate profits would need to fall 1.9% in order to ensure no impact on prices. Such a decrease would merely reduce annual profits from 25.7% of GDP to 25.2% of GDP – still more than a percentage point higher than the pre-pandemic long-term average of 24% of GDP.

It is clear 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. However, we should not assume that any such increase should be fully passed on by Australian businesses given their continuing strong profits that are above the expected norms. Small reductions in profit margins should be expected given the current abnormally high levels. That would enable the restoration of the Minimum Wage and Modern Award wages to the levels expected before the pandemic and modestly redistribute national income back toward workers. Given the disproportionate impact of recent inflation on lower-income households, and the role unprecedented corporate profits played in causing inflation after the pandemic, financing higher minimum and Award wages through a small moderation in profits is fair and well within the capacity of the Australian economy.