Briefing Paper:

Minimum Wages and Inflation

by Greg Jericho and Jim Stanford

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Introduction and Summary

Each year the Fair Work Commission (FWC) conducts the Annual Wage Review (AWR) which determines the national minimum and award wages. And each year it is met with a chorus of cries from business groups, conservative politicians and commentators that Australia's economy will surely break should the minimum wage be raised too much. Since such business groups consistently call for keeping minimum wage rises below the rate of inflation,[1] "too much" in their eyes means anything that would simply protect the real wages of the lowest paid in Australia – let alone see their real incomes increase.

The past two years have seen the minimum wage rise by less than inflation, causing a significant decline in the real purchasing power of millions of workers covered by the Modern Award system. This marks the first time in a quarter-century that the minimum wage has had a deflationary impact on the economy (that is, increased by less than the inflation rate) over successive years.

But despite this clear and painful fall in the real value of the minimum wage, once again, submissions from business groups to this year's AWR have called for rises below inflation – such as the Australian Chamber of Commerce and Industry (ACCI), which recommended a 3.5% increase.[2] This would see the value of the minimum wages fall by another 2.2% below in real terms where it was in September last year, and 4.5% below the level of 2020.[3]

One of the more common criticisms of minimum wage increases in recent times has been that anything above inflation would cause firms to further increase prices and

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[1] Lily Raines, "Business groups say they want higher wages, but their actions show the opposite" (Off The Charts, The Australia Institute) November 2022, https://australiainstitute.org.au/post/business-groups-say-they-want-higher-wages-but-their-actions-show-the-opposite/.
[2] ACCI, "Annual Wage Review 2022-23 Fair Work Commission ACCI Initial Submission", March 2023, https://www.fwc.gov.au/documents/wage-reviews/2022-23/c20231-sub-acci-310323.pdf.
[3] Based on current RBA estimates for inflation.

hence lead to a 'wage-price spiral.' In most years, the minimum wage has been increased by more than inflation; that is required in order for the real incomes of low-wage workers to increase gradually over time, supported by ongoing improvements in labour productivity. That this happened without triggering such a wage-price spiral is rarely noted. But as this paper demonstrates, minimum wage increases have had little to no impact on inflation at all.

This paper examines minimum wage rises over the past 25 years and finds no correlation with inflation in the year following each year's wage increase. It also demonstrates that a 1% increase in the minimum wage and all Modern Award wages – even if completely passed through into higher prices – would result in a virtually undetectable 0.06% increase in economy-wide prices. So small is this that a mere 0.2% fall in profits would be enough to cancel any impact on prices at all.

The Australian Council of Trade Unions (ACTU) has called for a 7% increase in the national minimum wage, to both protect real wages for Award-covered workers against upcoming inflation this year, and make up a portion (but not all) of the real wage losses they have experienced in the past two years. Therefore, even if fully passed on in higher prices, with no reduction in current record-high business profits, a 7% minimum wage hike would at most translate into an increase of just 0.4% in economy-wide prices. Alternatively, that 0.4% rise could be offset by just a 1.4% reduction in total corporate profits.

Profit margins are presently at record highs in Australia, because companies have increased prices since the pandemic far more than their own input costs.[4] This gives companies ample cushion to absorb the cost of higher minimum wages, with no impact on prices at all.

In sum, the impact of minimum wage increases on average prices is thus little more than a rounding error. But for the 20% of employees who earn either the national minimum wage or wages set under Modern Awards, a strong minimum wage increase will be vital. It will ensure that the lowest paid, who have already been most hurt by inflation, are not forced to suffer more due to an inflationary upsurge that was ultimately spurred by higher profits, not wages.

Eroding Real Value

For the first time since the mid-1990s,[5] the past two years have seen the minimum wage have a deflationary impact on the economy. In 2021 the Fair Work Commission (FWC)

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[4] For details of the surge in profits and its correlation with inflation in Australia, see Jim Stanford, *Profit-Price Spiral: The Truth Behind Australia's Inflation* (Canberra: Centre for Future Work, February 2023), https://futurework.org.au/report/profit-price-spiral-the-truth-behind-australias-inflation/; and Greg Jericho and Jim Stanford, *Profits and Inflation in Mining and Non-Mining Sectors* (Canberra: Centre for Future Work, April 2023), https://futurework.org.au/report/profits-and-inflation-in-mining-and-non-mining-sectors/.

[5] The national minimum wage was frozen for two consecutive years in 2992 and 1993, and then again in 1996, leading to a substantial erosion in its real value at that time. Since then the minimum wage has been increased

increased the minimum wage by 2.5% (from $19.84 to $20.33 per hour), and then a further 5.2% to $21.38 per hour in 2022.[6] In both cases, the minimum wage rose less than the previous year's inflation.

Each year the minimum wage is increased in order that the wages of the lowest paid, and often least able to bargain, at least keep pace with inflation and maintain their real value. This is vital in the current inflationary context, as noted last year by the OECD, which argued that high inflation disproportionately impacts low-income households: "Minimum wages may become an even more important tool to protect the standard of living of low-paid workers."[7] This is especially true in the current inflationary surge, which has seen the prices of necessities (including food, energy, and housing) which make up a disproportionate share of the total spending of low-income households, rising significantly faster than the overall consumer price index.[8] The OECD further noted the "increasing consensus among policy makers and academics that, at the level set in most OECD countries, minimum wage increases (even large ones) have had a positive effect on low incomes but no or limited negative effects on employment."[9]

Each year after the minimum wage is increased it then loses value over the year as prices rise. The subsequent increase then serves to "catch up" the real value of the minimum wage, and usually also to provide a real wage increase to account for productivity growth across the economy.

But in 2021 and 2022 this did not occur: in both years the value of the real wage fell. By December 2022, the value of the minimum wage was some 4.2% below the level of September 2020, and had fallen to a level commensurate with that of 2017.

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every year other than 2009 (amidst the global financial crisis), and increases in the minimum wage exceeded CPI inflation in most of those years.

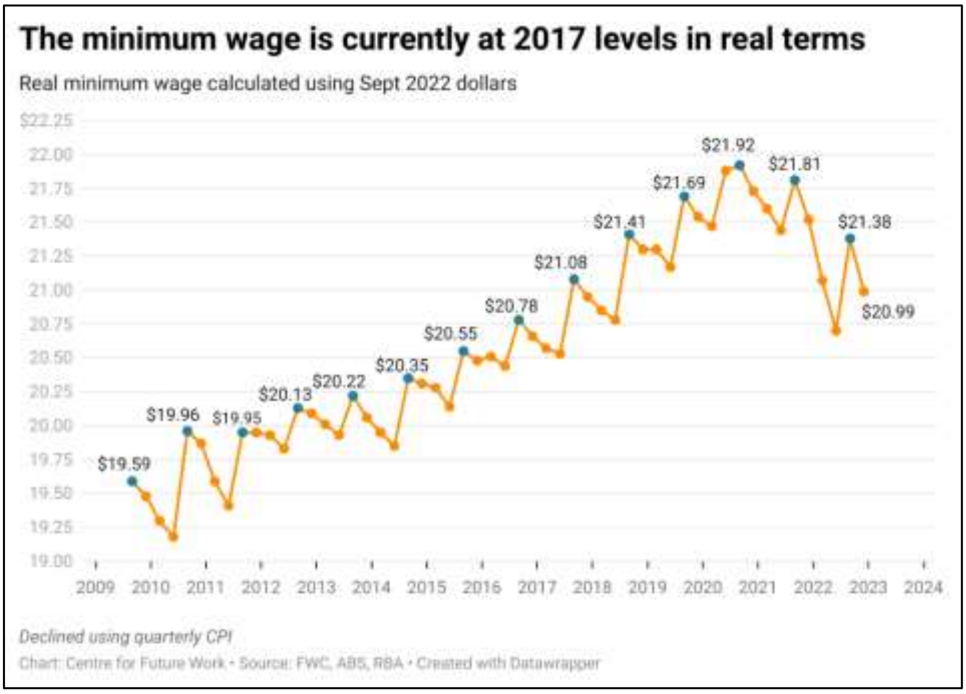
[6] The 2022 increase for Modern Awards was 4.6% or $40 per week, whichever was higher. Award-covered workers earning more than the minimum wage thus earned a smaller increase.

[7] 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.

[8] From June 2020 (the lowest point reached by the consumer price index in the initial COVID lockdowns) through December 2022, the average price of non-discretionary items tracked by the ABS rose 15.7%, versus a 12% increase in prices of discretionary items in the same period (authors' calculations from ABS Consumer Price Index, Table 8).

[9] OECD, op. cit.

Figure 1

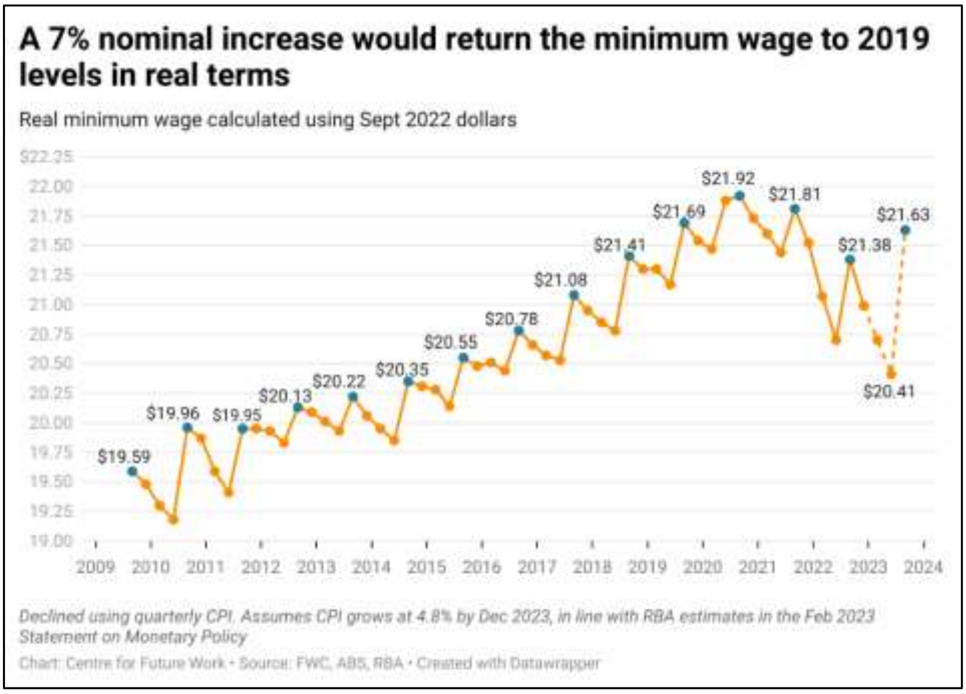


Inflation in the coming year is expected to continue to exceed the Reserve Bank's 2.5% annual target. If prices grow in line with the most recent forecasts of the Reserve Bank, by June 2023 (the time of the next FWC minimum wage decision), the value of the minimum wage will have fallen to nearly 7% below 2020 levels.

Within this context the Australian Council of Trade Unions (ACTU) has recommended in its submission to the 2022-23 Annual Wage Review (AWR) a 7% increase in the minimum wage.[10] This increase would only recover part of the fall in the real value of the minimum wage in the last two years, still leaving it below the peak levels of 2020 and 2021.

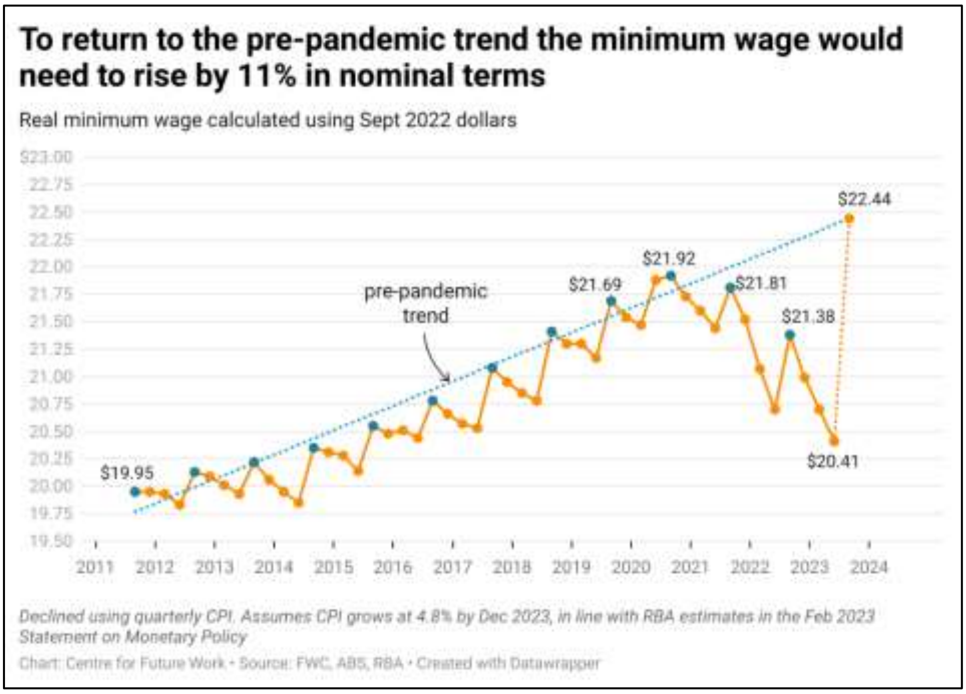
[10] ACTU, "Submission to the Annual Wage Review 2022-23" March 2023, https://www.fwc.gov.au/documents/wage-reviews/2022-23/c20231-sub-actu-310323.pdf

Figure 2



Because the minimum wage normally increases in real terms each year, the erosion of the minimum wage's real value should not be measured against its 2020 peak, but rather should also consider the normal increases in real value that should have occurred since then. To recover this loss of expected real wage growth, and regain the pre-COVID trend in the real minimum wage, it would need to increase by 11% in nominal terms this year.

Figure 3



In this context, the 7% increase proposed by the ACTU is hardly excessive. It is smaller than the 8.4% raise needed to return the minimum wage to the real value it had in September 2022, and much smaller than the 11% raise needed to return to the expected real value given the pre-pandemic trend growth. This analysis confirms that a 7% increase is small compensation indeed for the lowest-paid workers, who have seen their real wages deteriorate so markedly over the past two years.

The Annual Wage Review and the Doom Sayers Reunion

Each year in both the submissions before and commentary after the announcement of the Annual Wage Review, business groups, conservative commentators and economists engage in an exercise in fear. This year is no exception, and so it is instructive to recall the doom saying that accompanied last year's decision – dire predictions that all failed to come to fruition.

The Fair Work Commission's decision last year to raise the national minimum wage by 5.2% (and by $40 per week or 4.6% for Modern Award wages) elicited commentary which could only be described as hyperbolic, but which is rather too common in response to any wage rises. The increase, the largest nominal rise since 2006 (along with earlier statements by then leader of the opposition, Anthony Albanese to support a raise in line with the inflation rate) had some commentators and journalists suggesting hyperinflation was just around the corner, or at the very least a return to inflation of the 1970s. The months since that increase was announced have shown that fears of escalating inflation and economic ruin have been unfounded.

For example, at the time the Australian Chamber of Commerce and Industry (ACCI) suggested that the increase would impose "unaffordable wage increases" on small businesses and would "put jobs at risk, not create them."[11] And yet the December quarter of 2022, months after the increase in the minimum wage, saw unincorporated business profits grow 13.5% compared to a 2.8% increase in the total wages bill.[12] Indeed, the suggestion that small businesses in general have struggled since the pandemic is not supported by the evidence.[13] Similarly, since December 2019, according to ABS Business Indicators data, total unincorporated business profits have grown 64% – faster even than total corporate profits (up 53% in the same time) and 3.5 times the 18% increase in total wages paid by private sector businesses.

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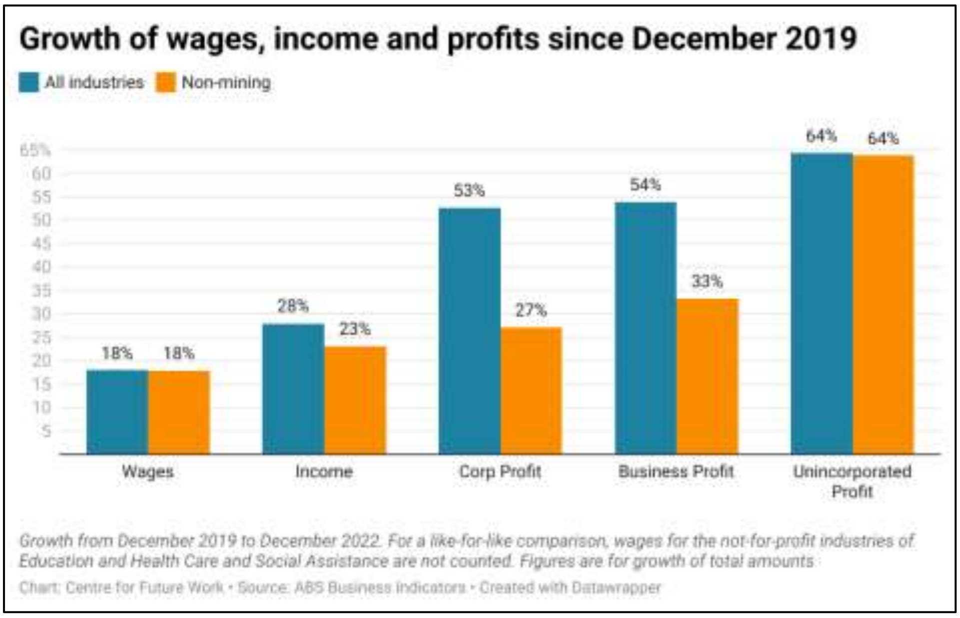
[11] ACCI, "$7.9 billion wage hike will hurt small business", 15 June 2022, https://www.australianchamber.com.au/news/7-9-billion-wage-hike-will-hurt-small-business/

[12] This excludes the wage rises in education and health care and social assistance, as those are predominantly not-for-profit sectors and thus neither their profits nor their incomes are counted by the Bureau of Statistics in its quarterly Business Indicators report. Similarly, the wages of public servants are not counted as these are not private businesses.

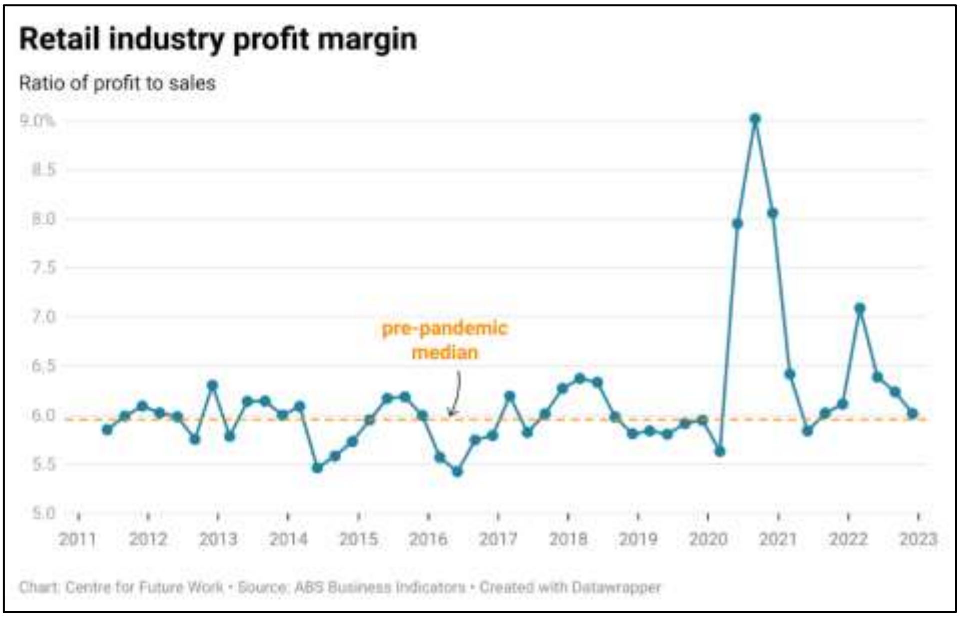
[13] Other data corroborates that small businesses have recorded strong profit margins through the pandemic. For example, they recorded average margins of 19.3% in the financial year of 2020-21, well ahead of the economy-wide level of 13.3% (ABS Australian Industry, 2020-21).

Figure 4



A similar suggestion of economic destruction from the 5.2% minimum wage increase was made by the Australian Retailer Association, whose CEO, Paul Zahra feared that "the scale of this increase could tip some businesses over the edge."[14] During the pandemic years, retail industry profit margins had soared to record levels. These margins normalised by end-2022, as pent-up consumer demand dissipated and retail input costs grew. But retail margins remained at or above pre-pandemic norms.

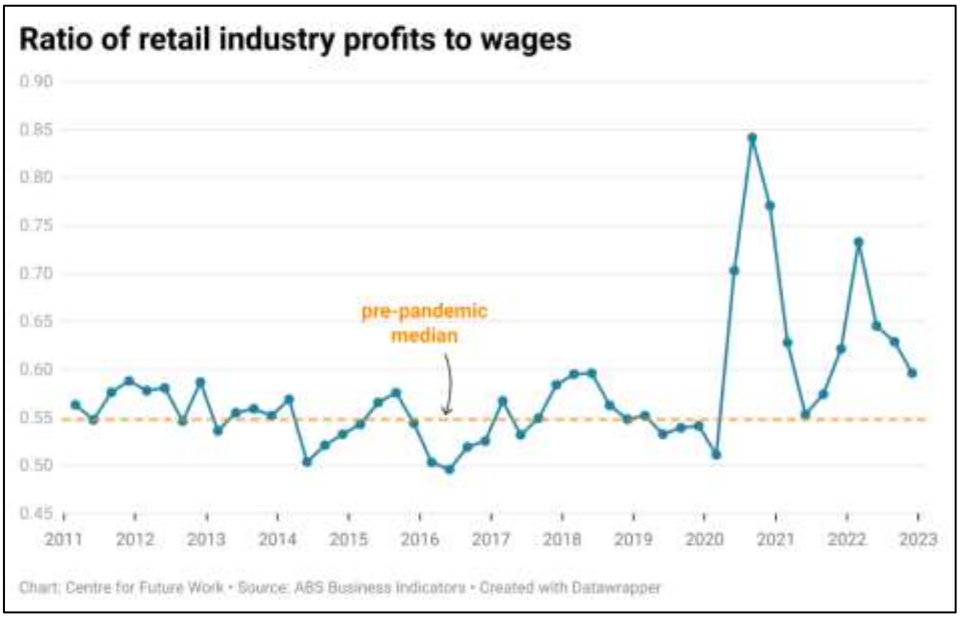
Figure 5



[14] David Marin-Guzman, Carrie LaFrenz and John Kehoe, "Minimum wage rise of up to 5.2pc could 'tip businesses over edge'", AFR, 15 June 2022, https://www.afr.com/work-and-careers/workplace/minimum-wage-for-lowest-paid-increased-by-5-2pc-20220615-p5atsw

Moreover, relative to retailers' wage expenses, profits remained well above normal ratios experienced before the pandemic. The December quarter ratio of profits to wages in the retail industry remained well above the pre-pandemic median.

Figure 6



From December 2019 to December 2022, retail industry profits grew 27%, while the aggregate wage bill in the retail industry had risen just 15%. This makes it all the more far-fetched for industry peak bodies to predict that a below-inflation wage increase could somehow tip businesses over the edge. Employment in the retail industry was 5.7% higher in February 2023 than a year earlier, compared to a 3% increase in total employment in the same period. There is no evidence that the minimum wage increase negatively impacted the retail sector in any significant way.

Another doom sayer was the chief executive of the Australian Industry Group, Innes Willox, who argued that the 5.2% and 4.6% increases would create "a major risk that ... will fuel inflation and lead to even higher interest rates."[15] Similarly, UBS economist George Tharenou warned of a possible "wage-price spiral," and suggested that higher minimum wages would increase "the possibility the Reserve Bank will be forced to hike rates more aggressively; closer to market pricing for a cash rate of about 4.3 per cent."[16] The wage-spiral did not occur, with annual private-sector wage growth by December 2022 of 3.6% both well below inflation growth of 7.8% and also below expectations[17]. Moreover, despite the Reserve Bank continuing to warn of a wage-price spiral, the governor of the Reserve Bank, Philip Lowe recently acknowledged that "it is also

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[15] ibid.
[16] ibid.
[17] Peter Hannam, "Wage growth surprise: slower-than-expected gain eases RBA rate rise fears", Guardian Australia, 22 February 2023, https://www.theguardian.com/business/2023/feb/22/australia-wage-price-index-wpi-wages-grow-december-quarter-inflation-gap-widens.

noteworthy that the recent high inflation has not been driven by excessive wages growth"[18].

A New Year; Same Fears

The announcement of the ACTU's submission to the 2023 AWR advocating a 7% increase brought with it much the same response as was observed last year.

Innes Willcox suggested that "a wage rise anywhere near the 7% proposed by the ACTU would raise inflationary pressures and inflationary expectations" which "in turn, would lift the likelihood of an additional round of interest rate rises" and that the "wage claims risk recession."[19] Warren Hogan, economist from Judo Bank, argued that a 7% wage rise would "make it impossible for the Reserve Bank to get inflation down to its target – in fact make it all but impossible for the RBA to get inflation down to 5 to 6 per cent."

And similar to the 2022 predictions, Hogan argued that such a wage increase would mean the cash rate would need to go higher – perhaps to "5 per cent."[20]

All such claims, however, fly in the face of evidence regarding the size and impact of the minimum wage in Australia.

The Impact of Minimum Wage Rises on Prices.

Despite ongoing suggestions from both business groups and economists that minimum wage rises will drive inflation and thus in turn cause interest rates to rise, most academic literature regarding the impact of the minimum wage does not focus on inflationary impacts, but rather on employment. Last year the OECD report on "Minimum Wages in a Time of Inflation," for example, discounted concerns about the minimum wage adding to inflationary pressures. Rather it noted that "on average, 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."[21]

It cited research that found even a 20% increase in the UK minimum wage would produce a mere 0.2% increase in the inflation rate, given that only around 5% of employees in the UK are covered by the wage.

This accords with our findings regarding the Australian economy. A larger share of Australian workers will likely see a wage increase as a result of the FWC's minimum

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[18] Philip Lowe, "Monetary Policy, Demand and Supply", Speech to the National Press Club, 5 April 2023, https://www.rba.gov.au/speeches/2023/sp-gov-2023-04-05.html.
[19] AIG, "Irresponsible wage claims risk recession that we didn't have to have", Media Release, 30 March 2023, https://www.aigroup.com.au/news/media-centre/2023/irresponsible-wage-claims-risk-recession-that-we-didnt-have-to-have/.
[20] David Marin-Guzman, "Unions' 7pc minimum wage claim would trigger recession: economists", AFR, 30 March 2023, https://www.afr.com/work-and-careers/workplace/actu-s-7pc-minimum-wage-claim-would-trigger-recession-economists-20230330-p5cwp9
[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.

wage decision: as of 2021, some 20.5% of Australian employees were paid according to the terms of a Modern Award.[22] However, those workers are paid less than other workers, due both to lower hourly wages and to lower 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 smaller than their share of employment.

Average weekly wages for award-dependent workers were 61% of the economy-wide average for all employees in 2021.[23] Hence the aggregate wages paid to those workers amounted to only 12.5% of total national wage payments. Extrapolating that proportion to 2022 data, and including all compensation (including superannuation payments), we estimate that Modern Award-dependent workers received some $138 billion in total compensation that year – equal to just 5.6% of total national nominal GDP.

The macroeconomic footprint of the national minimum wage decision, therefore, is modest. It lifts the pay of the lowest-paid fifth of Australian employees, who earn lower hourly wages and also work fewer hours. While this decision is vital to their ability to survive in the current inflationary environment, it is not possible for it to have major macroeconomic repercussions (including on the rate of inflation).

Table 1
Award-Dependent Wages in the Total Economy

	Number	Share Total	Share GDP
Workers Covered by Modern Awards (m, 2021)	2.37	20.5%	
Average Award Wage ($/week, 2021)	$849	60.9%[1]	
Wage Bill Covered by Modern Awards ($b/yr, 2021)	$104.8	12.5%	
Total Compensation[2] Covered by Modern Awards ($b/yr, 2022)	$137.9		5.6%

Source: Authors' calculations from ABS National Accounts (Table 7) and Employee Earnings and Hours (Table 2).
1. Share of average wage across all employees.
2. Including superannuation contributions.

From this basis, we can estimate the impact of an increase in minimum wages (and, presumably, other award wages) on overall prices. Assumptions in this estimate include:

[22] See Kelvin Yuen and Josh Tomlinson, *A Profile of Employee Characteristics Across Modern Awards* (Melbourne: Fair Work Commission), March 2023, p.13. This proportion excludes workers covered by state-level awards, whose wages are not directly dependent on the federal minimum wage decision.
[23] See ABS, Employee Earnings and Hours, Table 2.

- All Modern Award-covered workers receive the same percentage increase as the NMW.[24]

- Those wage increases are correctly paid to all award-covered workers, including on other forms of compensation (like superannuation).[25]

- We do not consider the benefit of higher labour productivity in reducing the impact of minimum wages on unit labour costs; in general, productivity growth means that unit labour costs (which are most relevant for pricing decisions) grow more slowly than hourly wages.[26]

- The full impact of higher labour costs is passed through into prices. (We relax this assumption below, to allow for a reduction in current record-high profit margins.)

These assumptions are conservative; in reality, the final impact of minimum wages on inflation will almost certainly be even lower than indicated below.

By this reasoning, each 1% increase in the national minimum wage results in $1.37 billion in additional compensation paid to all award-dependent workers (including superannuation) over the upcoming financial 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.

Table 2
Impact of Higher Minimum Wages on Average Economy-Wide Prices

	Aggregate Cost ($b)	Share of Average Prices
Impact of 1% Wage Increase	$1.38	0.06%
Impact of 7% Wage Increase	$9.66	0.39%

Source: Author's calculations from ABS National Accounts (Table 7) and Employee Earnings and Hours (Table 2).

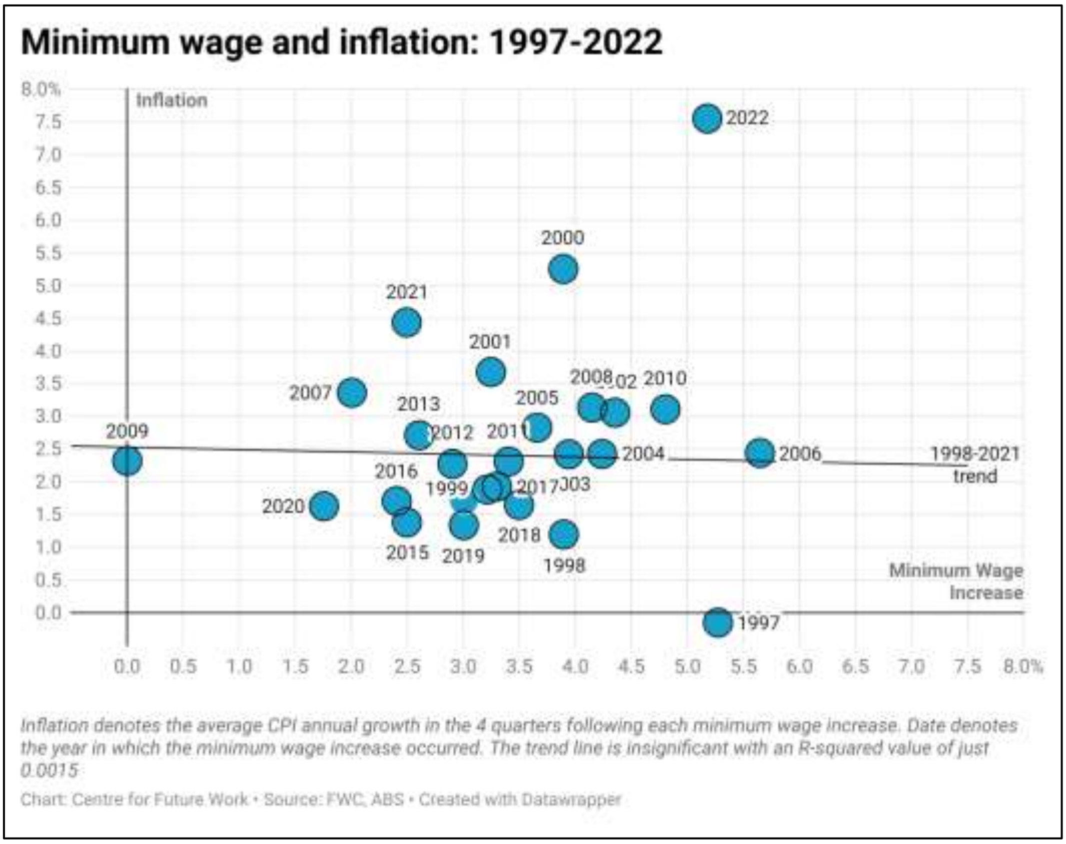
The 7% minimum wage increase proposed by the ACTU would result (again, even under the restrictive assumptions of no productivity growth and no change in current profit margins) in an increase in economy-wide prices of just 0.39% - an amount able to be easily accommodated within the RBA's target range. That is one-twentieth the pace of year-over-year consumer price inflation in 2022.[27] An evident deceleration in inflation has occurred so far in 2023 (as a result of non-wage factors, such as moderating supply

[24] This was not the case in the 2022 NMW decision: only those on the lowest minimum wage received the full 5.2% increase announced by the FWC, while higher-paid Modern Award-covered workers received less (ranging to as low as 4.6%).
[25] The shocking incidence of wage theft in Australian businesses, most acute in low-wage industries, means this assumption is optimistic. In reality, far too many workers do not receive their full legal entitlements, including to the minimum wage.
[26] Annual growth in labour productivity has averaged 0.9% each year since 2013.
[27] ABS Consumer Price Index, December 2022.

chain, transportation, and energy costs). The small impact of even a 7% minimum wage increase on consumer prices will thus be overwhelmed by these much larger determinants of future inflation.

The insignificant impact of minimum wage increases on inflation is also confirmed by a review of the history of previous increases. Were the increase in the minimum wage to have an impact on inflation, we would expect a significant correlation between annual NMW increases and inflation over the subsequent year. However, when we compare annual increases in the minimum wage over the past 25 years with the average annual increase in CPI over the following 4 quarters, no significant relationship is visible.

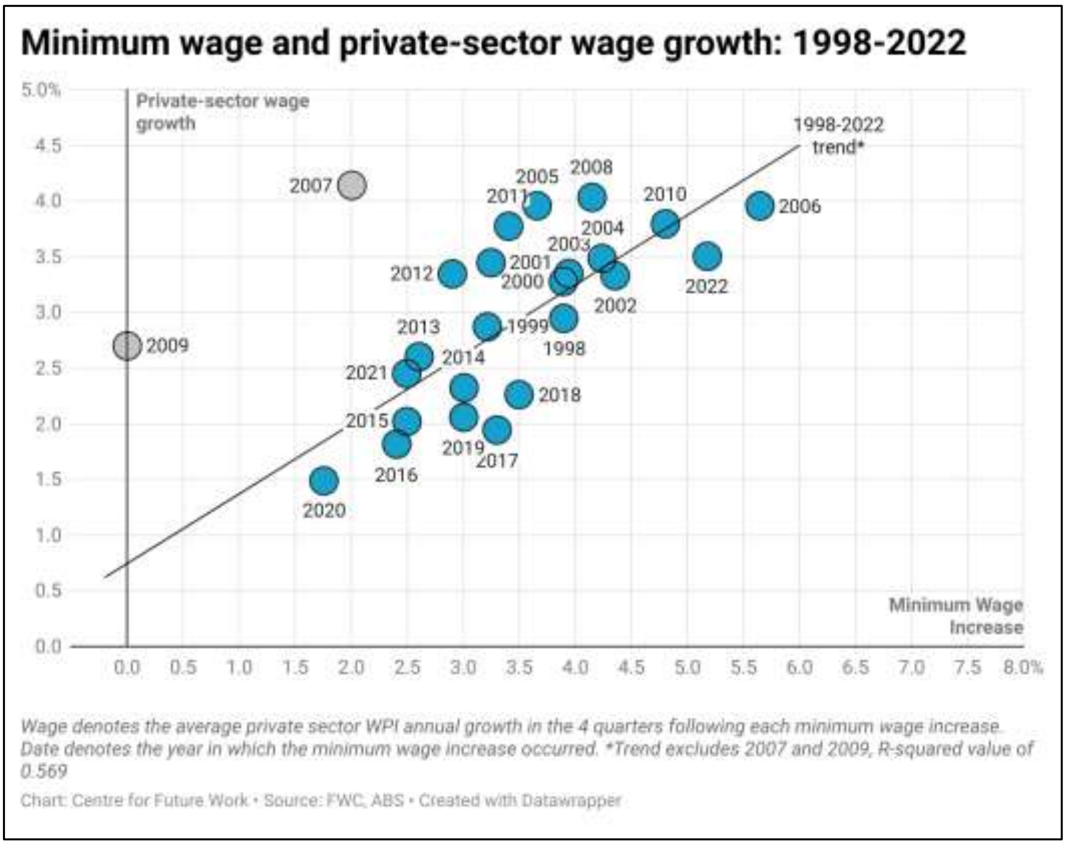
Figure 7



There is no correlation between minimum wage increases and subsequent inflation. The extreme cases highlight this lack of correlation. In 2006, the minimum wage was increased 5.6% - the biggest rise in the past two decades. However, annual inflation over the following 4 quarters averaged just 2.4%, and year-over-year inflation actually fell over each quarter from 3.3% in the December 2006 quarter to just 1.8% in the June 2007 quarter. By contrast, that average inflation rate was almost the same as that which occurred over the 4 quarters following the 2009 decision to freeze the minimum wage. Neither a relatively large minimum wage hike, nor a freeze in the minimum wage, had any discernible impact on inflation.

In contrast, the minimum wage does show a solid correlation with broader wages growth. Over most of the last quarter-century, there is a very solid correlation between the minimum wage increase and subsequent growth of average private-sector wages, as indicated in Figure 9. Excluding two outlier observations (the one-year freeze of the minimum wage in 2009, and the minimum wage increase in 2007 which occurred less than one year after the previous year's increase), the correlation suggests that about two-thirds of each annual increase in minimum wages is ultimately reflected in growth in overall private sector wages: in part because of the significant proportion of private sector workers who are paid according to the terms of a Modern Award (typically linked to the minimum wage), and in part because of the demonstration effect of higher minimum wages on wage-setting in other workplaces. The FWC also considers private-sector wage growth in its decision making processes, and thus the trajectory of overall wages also feeds back into the NMW increase.

Figure 8



This reinforces the conclusion that minimum wage policy plays an increasingly significant role in shaping overall wage growth: stronger minimum wage increases will have broader benefits for workers.[28] That the minimum wage is correlated with overall wages, but not with inflation, also highlights that inflation in recent years has had little connection to wages.

[28] For more on the growing importance of minimum wages to overall wage trends, see Jim Stanford, "The Importance of Minimum Wages to Recent Australian Wage Trends" (Canberra: Centre for Future Work), May 2019, https://futurework.org.au/report/the-importance-of-minimum-wages-to-recent-australian-wage-trends/.

Profits, Inflation, and Minimum Wages

The overall impact on prices of even a significant increase in minimum and Modern Award wages (such as the ACTU's proposed 7% increase) pales compared to the impact of corporate profits on inflation.

Table 3 Profit Reduction Required to Offset Minimum Wage Increase	
Total Corporate Profit ($b, 2022)	$704.7
Increase Since 2019	39.6%
Reduction to Offset 1% Minimum Wage Increase (%)	0.20%
Reduction to Offset 7% Minimum Wage Increase (%)	1.37%
Source: Authors' calculations from ABS National Accounts (Table 7) and Employee Earnings and Hours (Table 2).	

As has been documented in other research,[29] the dominant cause of recent inflation has not been wages or labour costs: rather, it has been the recent 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: either in dollar terms, or as a share of total revenue (ie. profit margins). It would take only a small narrowing of current elevated profit margins, to fully offset the impact on prices of even substantial increases in the minimum wage.

In 2022, gross operating profit of incorporated businesses reached $705 billion. Corporate profits were up almost 40% compared to 2019, the last year before the pandemic – representing an increase of $200 billion. The strongest increases in profits were experienced in the mining sector, as a result of dramatic increases in prices for petroleum products, gas, and coal. But most non-mining sectors of the economy have also enjoyed robust and disproportionate gains in profitability during the current inflationary episode. Aggregate profits in non-mining sectors grew 27% in the three years from December 2019 through December 2022 – significantly faster than total revenue, value-added, and wages in those sectors.

By reducing economy-wide corporate profits by just 0.2% (ie. one fifth of one percent), all of the extra labour cost arising from a 1% increase in minimum and Modern Award wages could be absorbed, hence avoiding even the infinitesimal increase in prices associated with higher minimum wages. Reducing profits by just 1.37% (reducing aggregate profits from $705 billion to $695 billion per year, still leaving them far higher

[29] See Jim Stanford, *Profit-Price Spiral: The Truth Behind Australia's Inflation* (Canberra: Centre for Future Work), February 2023, https://futurework.org.au/report/profit-price-spiral-the-truth-behind-australias-inflation/; and Greg Jericho and Jim Stanford, *Profits and Inflation in Mining and Non-Mining Sectors* (Canberra: Centre for Future Work, April 2023), https://futurework.org.au/report/profits-and-inflation-in-mining-and-non-mining-sectors/.

as a share of GDP than historic norms) would fully negate the effects on prices of a full 7% minimum wage increase.

In sum, a 7% increase in wages for Modern 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, which have enjoyed record-breaking profits through the current inflationary upsurge, absorb those incremental labour costs through a tiny reduction in profit margins. Reducing business profits by just over 1% would fully offset the impact of higher Modern Award wages on consumer prices.

Conclusion

The current surge in inflation has seen many economists and business groups searching for a culprit. Rather than look at the companies which actually set prices, most concern has been directed towards workers and their wages. That wages have for more than two years now been rising below inflation and thus are axiomatically deflationary, has done little to quell the chorus of those calling for wage restraint.

Such calls are magnified every year during the Annual Wage Review, which has historically sparked dramatic predictions that a rise above inflation will inevitably destroy businesses and wreck the economy. The recommendation this year from the ACTU for a 7% rise in the minimum wage has seen that predictable chorus reach even louder decibels – with far-fetched suggestions it could cause a recession, and at the very least fuel further inflation growth.

But contrary to these claims, recent international research on minimum wages and post-COVID inflation has concluded the impact on inflation is negligible: minimum-wage workers earn low pay, and thus their earnings have a negligible impact on overall macroeconomic conditions. Moreover, in the current environment where excess profits rather than labour costs are driving inflation, it is even more misplaced to worry about a $1.50 per hour increase in pay for our lowest paid workers.

This report revealed that increases in the minimum wage over the past 25 years have had no significant impact on inflation. Moreover, the fears spruiked after last year's 5.2% increase (about surging inflation and business bankruptcies) were shown to be without merit. Employment growth remained solid, unemployment remained low, and profit margins (even for smaller businesses) remained strong.

It is time to stop predicting doom from pay rises for low-paid workers – rises that would not even fully restore the purchasing power they have lost over the past two years. As the OECD noted last December, "It is important to ensure regular adjustments of statutory minimum wages in order to maintain their usefulness as a policy instrument and protect, at least partially, the most vulnerable workers from rising prices."[30]

[30] OECD, "Coping with the cost of living crisis: Minimum wages in times of rising inflation" December 2022.