



### Legislate the minimum wage at 60% of the full time median wage

Party: Australian Greens

#### Summary of proposal:

The proposal would enshrine in law a new minimum wage by legislating to set the minimum wage at 60% of the full-time median wage, a target already achieved by the UK's Low Pay Commission. The Fair Work Commission would be tasked with phasing in the increase.

This proposal would commence 1 July 2022.

## Costing overview

The Parliamentary Budget Office (PBO) has determined that the financial impacts of this proposal are unquantifiable. While the proposal would affect the fiscal and underlying cash balances, the overall magnitude of the financial impact is highly uncertain.

Generally, the PBO includes the static and direct behavioural impact of proposals in costings, but does not include quantitative estimates of broader economic effects<sup>1</sup>. As the fiscal impact of this proposal would primarily be caused by broader economic effects such as changes in prices, wages or employment levels, the entire costing is unquantifiable.

As at the 2022 Pre-election Economic and Fiscal Outlook (PEFO) the minimum wage is \$20.33 per hour, and 60% of the full-time median wage is \$23.75 per hour<sup>2</sup>, a difference of 17%. Increasing the minimum wage by this amount would increase estimated income tax revenue in 2022-23 from these employees by around \$7 billion dollars<sup>3</sup>, assuming the percentage increase in the minimum wage is passed on to all employees on award wages with no impact on employment.

Even assuming no 'flow through' to non-award wages in the economy, the increase in award wages would also result in an increase in average weekly earnings, which would affect the indexation benchmark for pension payments. Pension payments<sup>4</sup> are benchmarked to 41.76% of Male Total Average Weekly Earnings (MTAWE), which would be estimated to increase by around 2% under the proposal. This would not materially affect pension payments in 2022-23 as the benchmark rate would still not exceed the current payment pension rate. In future years the increase in MTAWE could result in higher rates for the pension payments.

These static impacts are likely to be modified significantly by broader economic effects.

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<sup>1</sup> [Including broader economic effects in policy costings](#), Information paper no. 03/2017, 30 November 2017

<sup>2</sup> Australian Bureau of Statistics, 2021, [Employee earnings](#), Table 1A.

<sup>3</sup> The amount assumes that the number of employees classified as on an 'award' in *Employee earnings* would be wholly affected by the policy, and that the number did not increase since 2021. The amount depends on the assumption for the minimum wage factored into the PEFO baseline, which is unpublished.

<sup>4</sup> Pension payments refers to the Age Pension, Disability Support Pension and Carer Payment.

The PBO has identified the following uncertainties associated with the proposal:

- There are many sources of uncertainty that affect estimates of the broader economic effects compared to the static and direct behavioural impacts. This is because the potential flow-on effects from a policy proposal are many and varied, can have offsetting impacts on the budget and do not eventuate over the same time period. Furthermore, the flow-on economic effects will not necessarily be constant over time, as they will depend on the broader state of the economy.
- An increase in award wages may flow through to wages through the general economy as firms compete for labour, and/or increase unemployment.
  - The Fair Work Commission’s stated view is that ‘modest and regular minimum wage increases do not result in misemployment effects or inhibit workforce participation’.<sup>5</sup> A more significant increase in the minimum wage, as outlined in this proposal, would require a consideration of the broader economic effects, particularly on employment.
- The estimate of the impact will also depend on assumptions about the dynamics of individual markets and the interactions between markets. This leads to high levels of uncertainty around the size and timing of budget impacts.
  - Increased wages would result in greater spending, particularly given that the marginal propensity to consume for lower income earners is relatively high. This would result in higher indirect tax, including GST (which is entirely passed on to the States), although the amount would depend on the composition of spending, particularly for imported goods and services. The impact on business profits, and hence business income tax, will result from the offsetting impacts of higher labour costs and higher turnover (not necessarily the same businesses), but the net impact is likely to be negative, owing to spending on imports.

This proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. The unquantifiable financial implications (including separate PDI tables) over the period to 2032-33 are provided at Attachment A.

**Table 1: Financial implications (\$m)**

|                         | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total to 2025-26 |
|-------------------------|---------|---------|---------|---------|------------------|
| Fiscal balance          | *       | *       | *       | *       | *                |
| Underlying cash balance | *       | *       | *       | *       | *                |

\* Unquantifiable – not included in totals.

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5 Fair Work Commission, 2018, *Decision – Annual Wage Review 2017-18*, FWCFB 3500. This is a view that is reinforced by the Reserve Bank of Australia (Reserve Bank of Australia, 2018, *The effect of minimum wage increases on wages, hours worked and job loss*) and the Productivity Commission (Productivity Commission, 2015, *Workplace Relations Framework*, Final Report).

## Attachment A – Legislate the minimum wage at 60% of the full time median wage – financial implications

**Table A1: Legislate the minimum wage at 60% of the full time median wage – Fiscal and underlying cash balances (\$m)**

|  | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | Total to<br>2025-26 | Total to<br>2032-33 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------|---------------------|
| <b>Revenue</b>   |         |         |         |         |         |         |         |         |         |         |         |                     |                     |
| <i>Legislate the minimum wage at 60 percent of the full time median wage</i> | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                   | *                   |
| <b>Total – revenue</b>   | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                   | *                   |
| <b>Expenses</b>  |         |         |         |         |         |         |         |         |         |         |         |                     |                     |
| <i>Legislate the minimum wage at 60 percent of the full time median wage</i> | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                   | *                   |
| <b>Total – expenses</b>  | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                   | *                   |
| <b>Total (excluding PDI)</b>   | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                   | *                   |

\* Unquantifiable – not included in totals.

**Table A2: Legislate the minimum wage at 60% of the full time median wage – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)**

|                                | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | Total to 2025-26 | Total to 2032-33 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|------------------|
| <i>Fiscal balance</i>          | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                | *                |
| <i>Underlying cash balance</i> | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *       | *                | *                |

\* Unquantifiable – not included in totals.