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The Fair Work Commission has announced a 3% hike in the national Minimum Wage, effective July 1 – taking it to A$19.49 per hour, or $740.80 per week.

The increase will apply to over one-fifth of Australian employees: not just those working for the absolute minimum, but also those working under award-determined wages that are set in relation to that minimum.

This year's increase is higher than inflation, and higher than wage increases on offer in non-award jobs, but it is lower than the 3.5% increase that the Commission granted last year. And despite appearances, it's inadequate to meet both the needs of the economy and low-wage workers.

In explaining its decision to slow down wage growth for the lowest-paid Australians, the Commission argued the recent slowdown in economic growth (raising the spectre of Australia’s first recession in 28 years) necessitated extra caution – an argument that could, of course, be turned on its head.

A weak economy cuts two ways

The weakest component of economic growth over the last year has been retail sales – which, when seasonally adjusted, were actually weaker in volume terms in the three months to March than in the three months to December.

Consumer spending accounts for more than half of gross domestic product, and nothing boosts consumer spending more directly than higher wages. So if the Commission had been truly concerned about weak GDP growth, it could be argued that it ought to have erred on the side of ambition for wages rather than caution.

Another issue raised by the Commission in justifying a 3% rather than a 3.5% increase is also unconvincing. It pointed to the benefits of the tax offsets of up to $1080 promised by the Coalition. But for low earners on less than $37,000 per year they are worth only $255 – just

$4.90 per week.

Tax offsets barely benefit low wage workers

Workers on even less, up to $20,000 (as are many on the minimum wage workers who face inadequate hours as well as low rates), will get no benefit whatsoever from the tax offsets. For these people, the Fair Work Commission was wrong to conclude the tax changes were a reason to slow increases.

Finally, the Commission suggested the recent decline in inflation (symptomatic of a weak economic climate) also justified a smaller increase.

Certainly it is true that this 3% wage increase is significantly higher than the current inflation rate of 1.3%. And in March, the quarterly rate came in at zero, meaning there was no net increase in prices at all.

And low inflation also cuts two ways

Inflation has indeed languished well below the Reserve Bank’s 2% to 3% target for years now, and weak wages are a key reason why.

The Commission faces a chicken-and-egg problem: if wage increases are restrained purely because of low inflation, they will ensure low inflation continues and create the conditions for wages and prices to chase each other down in the future, with a recession the likely result.

In one respect, the Commission’s judgement was assertive and convincing. It noted that its last two increases (3% in 2017 and 3.5% in 2018) both exceeded inflation, and yet did not have any “adverse employment or other effects”
– contrary to the scaremongering of employer lobbyists, who predictably warn each year that the economic sky will fall if real wages go up.

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Indeed, there is growing consensus both in Australia and overseas that minimum wage increases do not “destroy” jobs. Stronger purchasing power helps offset other sources of weakness in the economy, including very weak business investment.

Despite the Commission’s decision to scale back last year’s wage increase, the 3% will nevertheless support badly needed wage growth. Since 2013, wages have been growing at their slowest sustained pace since the end of the Second World War . Despite seemingly tight labour market conditions, there’s no sign of a recovery .

It could have been bigger

In fact, increases such as the one we have just been granted are one of the only things preventing wage growth from decelerating even further. My research suggests that wage growth for workers not covered by awards has been creeping along at less than 2% per year.

Waiting for “market forces” to reverse recent record weakness in wage growth hasn’t worked. Nothing does more to create sustainable economic momentum than strong, sustained increases in the minimum wage. The Fair Work Commission is helping, but it could have been more ambitious.

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