**Critical Review Report- Part B**

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## Introduction

In Australia, severe debates were sparked when a 3.5% rise in the minimum wages of workers came into effect in June 2025. The ACTU, or the Australian Council of Trade Unions, argued in favor of this decision by stressing the importance of increasing low-paid workers' wages, especially in the face of high inflation and the cost of living. However, on the other hand, the AIG, or the Australian Industry Group, raised serious concerns about this rise, as they felt this rise was made without an increase in productivity, leading to more economic loss and inflation. The present report attempts to analyze all of these aspects, taking into account the balance that must be struck between economic order and civil equity in wage setting. Using the ACTU and AIG positions as case studies, the report provides an understanding of the wage rise effects on business, the individual, and the economy as a whole. It attempts a neutral view of the wage rise balance, using the relevant academic sources and weighing all of the proposed and possible consequences and beneficial aspects of the proposed wage rise.

## Critical Review and Main Body

### *Theoretical Framing of the Issue*

Robust debates have been happening regarding the 3.5% minimum wage increase in Australia which will take effect on July 1, 2025, especially in the differing perspectives brought forward from employer associations, and trade unions. The Australian Council of Trade Unions (ACTU) has justified the increase praising it as a means for trying to combat the stagnation of real wages, and the increase of cost of living for the underpaid workers (ACTU, 2025). In contrary, the Australian Industry Group (AIG) has provided the opposing viewpoint which justifies their concern it to be ‘excessive’, especially during the time of low productivity growth in Australia (AI Group, 2025). Such a gulf plainly outlines the dominant ideological debate on the economic discipline and social justice surrounding wages. The social justice side, represented by ACTU, legally demands from employers the cost of living, while the other side represented by AIG, rationally, demands wages to be productivity sensitive. Understanding such differences helps in studying the economic impact of wage policies on the workers, and the employers, respectively.

***Economic Discipline vs. Social Justice (ACTU's Perspective)***

The ACTU is proposing a 3.5% minimum wage increase in order to rectify real wage stagnation, as low-paid workers have been suffering wage stagnation while their wages have been declining in real value due to rising living costs. The union looks upon this rise as a meaningful way to overcome stagnant and declining wages, especially due to increasing inflation. Considering the perspective of ACTU and social justice, wages should be sufficient enough so that the workers can fulfill their basic needs, and should not solely be based on productivity. This perspective or view can be considered fair enough as it balances equity and fairness by arguing that wages should be such that workers can have a good life and standard of living (ACTU, 2025). The position of the ACTU, however, is criticized by the AIG, which states that wages should not be dictated only by the cost of living, because this will cause serious economic complications (Paternesi Meloni & Stirati, 2023). From a fairness perspective, the position of the ACTU fails to account for these economic consequences.

***Economic Discipline vs. Social Justice (AIG's Counterargument)***

The AIG is against the 3.5% minimum wage increase on the grounds that it is uneconomical given Australia’s low productivity growth. The AIG argues that increases in pay must be matched by increases in productivity so that when productivity growth does not happen ‘surges in pay increases could translate into negative profit and loss consequences and make it unviable to continue to operate a business or a small business in Australia' (AIG). Also, the AIG argues that unproductive wage increases could erode the standards of living by countering the unproductive wage increases in the economy, aggravating the cost of living. Elevating the standards of living is critical to economic health (Edwards et al., 2023). The AIG's position does not sufficiently account for the social impacts of this stagnation on the health of the economy. The narrower focus on productivity growth overlooks the consequences of deepening hardship for workers due to rising living costs. The focus on the productivity level increases the social cost of stagnation on health and the human costs on wage stagnation (Ai Group, 2025).

***Productivity as a Benchmark (ACTU's Position)***

The ACTU believes that minimum wages should be primarily set according to the cost of living, and not to productivity. For the ACTU, living standards should dictate the most important pound, as wages should not be depended to rent the fully-grown trees that bear the fruits of productivity in the distant future (ACTU, 2025). For the author, wages should be adjusted in appreciation of the relentless sufferings of inflation that need immediate attention and, most importantly, relief. The author believes the productivity linkage argument for wage increases is a perverse form of time-delaying a response to a most pressing problem. The experience of the author is that productivity improvement, in the long run, can certainly not be the wild card in the current game of income inequality and the cash starvation of workers. The ACTU's own research under pressure. ACTU's concern is most important, and, in that sense, it is important to highlight that wages should be adjusted to inflation. It is a classic neoliberal argument that rising wages without productivity increases will produce inflation, worsening the economically and socially devastating problems of poverty for low-wage workers (Clibborn & Hanna‑Osborne, 2023). In this sense, an immediate focus on relief is most important, but it does not take into account the long-term effect of unshackling wages from productivity.

***Productivity as a Benchmark (AIG's Position)***

The AIG maintains that increases to the minimum wage must be based on changes in productivity, not the cost of living. This organization cites productivity as the main indicator of sustainable wage growth because compensation must be aligned with what the economy can afford. The argument by AI Group stresses that in a case where there is no productivity increase, increasing the wages of workers in such a situation can lead to higher inflation, increased business expenses, and possibly lead to reduced competitiveness, resulting in layoffs. Here, productivity has been looked upon as a means for increasing wages based on economic performance (Salimova et al. 2021). While the AIG stresses that avoiding wage increases depending on inflation can be highly effective for reducing business liabilities and expenditures. Yet, while the AIG's emphasis on economic stability is understandable, their argument tends to overlook the current challenges of low-income workers. The author knows that many low-income workers struggle with immediate needs. Therefore, focusing almost purely on productivity may justify a wage increase delay to economically justify it. This means that, while the AIG's argument focuses on the bigger picture, it is precisely the absence of economic relief that is the most immediate need for workers.

***Impact on Businesses (AIG's Perspective)***

In statements from the AIG, the minimal increase in wage costs by 3.5% is still expected to raise overarching costs for businesses, primarily for small to medium enterprises (SMEs) and those in the AIG's focus industries of manufacturing and hospitality. In the AIG's own assessment and the argument put forth by Wolf et al. (2025), SMEs, which depend mostly on the shallow end of the wage spectrum, will be 'especially' sensitive to wage increase costs and are financially more rigid than larger enterprises. Moreover, the AIG argues, wage profitability will drop, and job cuts become a necessity from the employer's side, all while retail and hospitality will drop even further into the operational challenges for their poorly flexible profit margins on wages (Ai Group, 2025). While pressures may lay on businesses to refraining from spending goals, the AIG focuses on and argues for the costs of wage increases while neglecting the relative benefits improvements of wages may directly correlate to interest and spending in the economy.

***Impact on Businesses (ACTU's Counterargument)***

The ACTU believes that a 3.5% increase to the minimum wage is beneficial to the economy and the consumers' level of demand for products and services. To the ACTU, lower income earners spend a greater proportion of their wages and/or disposable income, and thus help to sustain businesses in economically weak localities. I agree with the author that the positive impact of increased wages on demand is likely to stimulate economic growth (Ünal, 2021). The ACTU also claims that businesses recoup the cost of wage increases through greater employee productivity and lower employee turnover, and thus employers also benefit in the long run. This continues to be a matter of debate. In the small business sector, the issue of increased labor cost absorption is a real challenge (Liu, 2022). The ACTU claims that wage increases stimulate economic growth, while also ignoring the reality that not all businesses will benefit from increased consumer spending.

### *Inflation and Economic Concerns*

Concerns have been raised by AIG regarding the impact of the 3.5% minimum wage increase on inflation, which AIG has pointed out is the result of supply chain and global uncertainty conditions. AIG is of the opinion that without wage increase productivity, the inflation of surplus goods will push production costs higher and the production of goods will be sold for higher prices. Demand will increase in the short run but will result in the overall inflation of the economy, particularly in high-cost service industries (Cova, 2024). This opinion has been countered by the ACTU, on the assumption that inflation is only a result of rampant profiteering and the complications of the supply chain, not of wage costs. This more foundational perspective is supported by the author, who cites the disproportionate focus on high profits and not on the wage costs as a more constructive approach to addressing inflation (di Giovanni et al., 2022). The AIG is correct in assuming that inflation will result if wages are increased, but the ACTU is correct in assuming that inflation is net of other economic counterbalances.

### *Balancing Economic Discipline and Social Justice*

The dispute and the misalignment of views between the ACTU and the AIG indicate a lack of equal balance between the economic and social dimensions of wage policies in Australia. The ACTU, on one hand, argues that wages should be increased as the workers are falling behind the basic standard of living, leading to increased poverty. On the other hand, the AIG stresses and highlights economic challenges that can be caused by wage increases, especially when there is no productivity rise. It has been stressed and understood by the study of Vandekerckhove et al. (2022) that both parties have potentially valid points related to the importance of balancing wages and economic development, which is the main issue here. The ACTU, on its part, has argued for wage increases, focusing on a social justice view or perspective. The perspective of ACTU can be considered quite fair and just one, but in the future, it must be supported with some economic advantages of increasing wages to ensure a balance. The other side of the story is that the productivity debate has no regard for the social problems of the workers (Wright, 2022). Hence, a need for a holistic perspective that encompasses the economic and social sides of the problem.

## Conclusion

In summary, the argument regarding the 3.5% minimum wage increase Australia is defaulting to raises the issue of the tension between social equity and economic discipline. The ACTU raises the argument that fair wages assist in elevating living standards and decreasing the disparities of income, especially during the periods of high inflation and wage stagnation. From the social equity argument, the ACTU argues that fair wages need to be worked so that the cost of living can be paid as the wage will enable the basic needs to be covered. On the other side, the AIG argues that wage increases need to be anchored to productivity and that wages need to be in synch with the economic growth of the country, so it does not create inflation, or it does not adversely affect business competitiveness. There continues to be an argument for all the respective points. The proposals will need to be the consideration of the immediate economic pain of workers, however on the other side the economic proposals will need to have business sustainability in mind. That will be the ultimate challenges to resolve, the one which will ensure that fair wages are provided with economic growth that can be preserved.

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