

State Wage Case 2025

Productivity considerations in wage setting

Minister for Industrial Relations

The following information regarding productivity is provided by the Minister for Industrial Relations (the Minister) at the invitation of the Commission in Court Session to assist with the 2025 State Wage Case (CICS 1 of 2025).

Industrial Relations Act 1979 (IR Act)

Section 50A(3)(b) of the IR Act provides that in making a State Wage order, the Western Australian Industrial Relations Commission (WAIRC) must take into consideration:

the state of the economy of Western Australia and the likely effect of its decision on that economy and, in particular, on the level of employment, inflation and productivity in Western Australia

The above provision specifies that the WAIRC must consider the effect of any decision it issues on productivity.

Section 50A of the IR Act does not specifically require the WAIRC to consider current trends in productivity (as opposed to the effect of any decision on productivity). However, it would be all but impossible to consider the effect of any decision on productivity without also considering current productivity trends.

Furthermore, section 50A(3)(b) of the IR Act requires the WAIRC to consider “the state of the economy of Western Australia”, of which current productivity trends play a part.

Fair Work Act 2009 (FW Act)

The FW Act establishes the “minimum wages objective” which must be applied when the Fair Work Commission (FWC) is exercising its powers under Part 2-6 of the FW Act (which deals with the conduct of the Annual Wage Review and the setting of national minimum wage orders).

The minimum wages objective also applies when the FWC is exercising its powers under Part 2-3, so far as they relate to setting, varying or revoking modern award minimum wages.

The minimum wages objective states that the FWC must establish and maintain a safety net of fair minimum wages, taking into account a range of criteria including:

...the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth...¹

¹ Section 284(1)(a) of the FW Act.



The FWC is therefore required to take into account current productivity trends when it is exercising the minimum wages objective, including as part of the Annual Wage Review.

While s 284 applies to the performance or exercise of the FWC's functions and powers, it is not the only part of the FW Act that is relevant when the FWC is conducting the Annual Wage Review. The note to section 284 points out that the modern awards objective (s 134) is also relevant when the FWC is setting, varying or revoking modern award minimum wages (including through the Annual Wage Review).²

As part of the modern awards objective, the FWC must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

...the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden...³

When read together, the effect of sections 134 and 284 of the FW Act is that when the FWC is conducting the Annual Wage Review it must take into account not only current trends in productivity but also the impact of its decision on productivity.

How do you measure the impact of a wage decision on productivity?

Productivity can be a complex issue. In simple terms, productivity refers to how much output can be produced with a given set of inputs. Productivity increases when more output is produced with the same amount of inputs or when the same amount of output is produced with less inputs.

There are two widely used measures of productivity – labour productivity and multifactor productivity.

Labour productivity is defined as output per worker or per hour worked. Factors that can affect labour productivity include employee skills, technological change, management practices and changes in other inputs (such as capital).

Multifactor productivity is defined as output per unit of combined inputs. Combined inputs typically include labour and capital, but can be expanded to include energy, materials and services.

Further information regarding the measurement of productivity is available from the Reserve Bank of Australia at the following link:

<https://www.rba.gov.au/education/resources/explainers/pdf/productivity.pdf>

² The FWC is also required to take into account the objects of the FW Act when exercising its powers.

³ Section 134(1)(f) of the FW Act.

Measuring the impact of any wages decision on productivity is inherently difficult. In the 2024-25 Annual Wage Review, the Expert Panel of the FWC awarded a 3.5 per cent increase in wages and made the following remarks regarding productivity:

No causal relationship is identifiable between the outcome of this Review and the future productivity performance of the national economy. While large minimum wage increases may result in improved productivity by incentivising employers to substitute capital for labour, it is doubtful that any increase of the order we have discussed would be sufficient to have that effect.⁴

As the above reference indicates, a significantly large increase in wages could theoretically lift productivity, by encouraging employers to substitute capital for labour (e.g. self-checkout kiosks in retail or automated cooking and order taking systems in fast food) or to reduce employment and staffing levels. If the same value of output is produced with less inputs productivity will increase.

By the same token, a very low increase in wages could theoretically reduce productivity by encouraging more employment and hours worked, including the hiring of workers who may be less productive in the short term – such as those with less skills and/or the long term unemployed. If the same value of output is produced with more inputs, productivity will decrease.

A fair and sustainable increase in wages within reasonable bounds is unlikely to have any significant impact on productivity levels in Western Australia, particularly given the limited impact the State Wage Case has on aggregate wages growth across the State.

⁴ Fair Work Commission (2025), *2024-25 Annual Wage Review Decision* at [42].