



AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY

MEDIA RELEASE

Monday 30 October 2006

FOLLY OF THE \$27.36 WAGE INCREASE SHOWN BY TAX & WELFARE ANALYSIS

Statement by Mr Peter Hendy, Chief Executive

The Australian Chamber of Commerce and Industry (ACCI), Australia's largest and most representative business organisation, has highlighted an independent report to the Australian Fair Pay Commission (AFPC) showing the folly of the \$27.36 increase in award wages that the AFPC awarded last week.

The report by the respected National Centre for Social and Economic Modelling (NATSEM) *Interactions Between Wages and the Tax/Transfer System* clearly shows that a significant portion of the wage increase is going into government coffers and not the pay packets of employees, due to changes in tax rates and welfare payments.

Based on an average claw-back of 30 per cent (as the NATSEM research suggests) the Government will take at least \$700 million of last week's rise (given that last week's rise cost employers more than \$2 billion a year).

This is a problem that cannot be swept under the carpet by either the AFPC or the Government.

For one in ten payrolls it is worse. The report by NATSEM said that 201,000 workers (that is, 10.4 per cent of those whose wages are increased as a result of AFPC decisions) will see more than 50 per cent of the AFPC wage rises paid by employers clawed back by government. The research also shows that employees who are sole parents or in large families are more likely to have these higher effective rates of tax.

Importantly, the research also confirms ACCI's submission that low wage employees are concentrated at the middle of the household income scale.

The AFPC is given power to adjust minimum wages, not welfare and tax systems. However, the AFPC should be making appropriate recommendations to the Government on how the tax and welfare systems can be changed so that incomes of the low paid can maintain pace with the cost of living, without using the blunt instrument of large real wage rises as the primary tool of policy.

Putting all this pressure on wages means that the Government is putting excessive pressure on inflation and on jobs.

In future reviews, employers will argue that the AFPC should develop recommendations to the Government on this topic. Employers will also seek the early release of research commissioned by the AFPC, so that interested parties can comment on its research or on conclusions to be drawn from it. The NATSEM report was only released by the AFPC on the day it announced its decision.

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MR 112/06

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