



BATTLERS WILL PAY FOR WAGES BLUNDER

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IT is a tough and uncompromising world for Australia's small and medium businesses seeking to be productive and competitive and employ our mums, dads and kids. It just got tougher. Unnecessarily so.

Australia cannot control a global economy. Australia cannot protect itself from overseas competitors. Australia cannot control oil prices. So the economic decisions this country can control have to be on the mark, otherwise we risk jobs and prosperity.

One of those decisions is wages policy. Australia has some say over that, at least at minimum levels. Yesterday, the federal Government's wage-setting body, the Australian Fair Pay Commission, made its first wages decision. It ordered a record minimum wage increase of \$27.36, or 5.6 per cent. That is almost double the underlying rate of inflation. It also increased all regulated wage rates, with rates over \$700 a week going up by \$22.04.

In the euphoria of the Government and ACTU reactions yesterday, one thing was missed. All of this has to be paid for, and by someone.

Directly, it is paid for by small and medium businesses. Bigger businesses are largely immune because they have agreements above minimum rates that lock in wage rises over a period.

The direct cost to small and medium businesses is about \$2 billion each year in extra payroll. With wage add-ons such as workers compensation and superannuation it is closer to \$2.5 billion.

Indirectly, though, it ends up being paid for by the people the wage rise is meant to help. How is this so? An extra \$2 billion a year in wages does not just appear. Part of it is paid for as businesses are forced to put up prices. In other words, anything above a moderate increase adds to inflation. What happens when high wage increases fuel inflation? Up goes pressure on interest rates.

Yesterday's decision makes it almost certain interest rates will go up later this year.

The second way these increases are funded is by employers cutting back on labour costs. In other words, a combination of reducing employment of existing staff and not putting on people from the 525,000 unemployed.

We did not hear much of this yesterday because it did not suit the message that the Government and the unions wanted us to hear. But these effects will occur.

Employer scaremongering, some will say. Not so. Ironically, in its own submission to the Fair Pay Commission, the Australian Government said that high minimum wage increases led to employment losses. Its submission went on to say that for every increase of 10c an hour, there was a decrease in employment by 32,800. On yesterday's decision that means more than 200,000 jobs, on the Government's own calculations.

No sensible person thinks Australia can or should compete with low-wage countries on wages. The Australian Chamber

of Commerce and Industry supported a moderate increase closer to the underlying consumer price index. But of the high-wage countries, we are the highest. That's not a bad thing if the high wages come from high productivity. But yesterday's decision has virtually nothing to do with productivity.

The AFPC swallowed the propaganda of the union movement that somehow there had been an 18-month wages freeze and there needed to be a catch-up. It would appear that the excessive wage increase is related to this so-called catch-up. This is fundamentally wrong and at most one may be able to argue that there was a 4 1/2-month delay.

The saving grace from the decision is there are signs that increases closer to the CPI may occur in the future. There is a strong correlation between the wage increase granted and the headline inflation rate during the past 18 months that is 5.6 per cent.

Taking that measure, the AFPC decision represents some improvement on the outcomes reached by the old Australian Industrial Relations Commission. The old system produced increases that averaged 1.6percentage points higher than the headline inflation rate for each of the past nine years.

These are early days for Australia's new system of minimum-wage setting. The jury remains out on its long-term effects. If future decisions are based on the benchmark of the inflation rate, that would be an improvement on the past, if still not best policy.

Our living standards are the product of policy decisions we make. The AFPC has just made a bad one.