Event: Doorstop interview, ACCI chief executive responds to Fair Work Commission's annual wage review decision.

Speakers: Andrew McKellar, chief executive Australian Chamber of Commerce and Industry.

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Topics: Fair Work Commission annual wage review outcome, inflationary pressures on business, national wage case process, supply chain disruptions, workforce shortages, energy prices, driving productivity gains, enterprise bargaining.

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Andrew McKellar, chief executive Australian Chamber of Commerce and Industry: Look, just a brief comment in reaction to today's national wage case decision, which has just been released. We would say that this represents a very significant risk to the economy. It veers very much towards the upper end of the range of possible outcomes so that we could have expected to have seen today. In particular, this adds very significant costs to the Australian economy and to business. By our calculations, this will add $7.9 billion in costs to the affected businesses over the year ahead. So that will be a very considerable burden that those businesses will either have to take to the bottom line or pass on to their customers. It comes at a time when inflation is emerging as one of the most urgent challenges facing the Australian economy. And if we are to address that, if we are to remain competitive, then clearly this is not a decision that will help in those circumstances. So, happy to take some questions.

Journalist: The Fair Work Commission said that the raise wouldn't put inflationary pressures on due to the strong market and the projections for the market. What evidence do you have to the contrary that says that this minimum wage won't put inflationary pressures up?

Andrew: Well, we disagree. We would say, at the moment, businesses are facing three key challenges. They're facing great difficulty accessing the labour that they need. There's intense disruption in the supply chain. And we're seeing a very significant spike in energy prices at the moment. All of these things

are adding to pressures on the supply side, and they are pushing up input costs, and that is feeding through into inflation. Any decision that comes at this point in time at the upper end of the range of possible outcomes will add to cost to business. As we've said, that cost will be an extra $7.9 billion hitting the bottom line of affected businesses as a result of this decision. That will add to inflationary pressures.

Journalist: The Commission said that this was below inflation, that there was an opportunity to catch up those real pay cuts in following years. Are you concerned that this means that we're going to see outsized pay rises being ordered for years to come?

Andrew: It certainly adds to that pressure at a time when labour is intensely difficult to access. We're seeing record levels of vacancies out there in the workplace at the moment. I think one of the things that this decision highlights, and the Commission has tried to really nuance, it's a very complicated decision, there's a number of different elements to it. I think what this highlights is that, frankly, this national wage case process, the way it feeds into the modern awards, it's an antiquated process. It's a process that's had its day. It's not compatible with the needs of a modern, internationally competitive economy that needs to be operating in a flexible way and responding to the circumstances, the competitive challenges, and the need to drive productivity if we're going to have higher living standards in the future.

Journalist: Can you be more specific? What's the alternative to a national minimum wage case?

Andrew: For minimum wages, fine. That's the 180,000 people on the lowest wage. It's the wage safety net. But when it flows through into the modern award system, this really needs to be looked at on a case-by-case basis. We need to get back to much more effective enterprise bargaining, flexible wage setting, driven by the market.

Journalist: Can you be more specific on what you think the consequences of this decision will be to businesses, given they're already having trouble finding staff? How are they going to respond?

Andrew: Well, I think that's a challenge. And I think there are sectors of the economy which are still struggling to come out of the pandemic. So, in that context, I think anything that adds into the cost burden that those businesses are facing at this point in time will impose difficulties. For small businesses, if they're facing costs going up at this time, then that's certainly going to add to pressure that they're already facing.

Journalist: With the [inaudible] business closures, for example, or what are you suggesting?

Andrew: Well, I think this can impact in several ways. It will make it less profitable in some businesses. It will make it more difficult for them to invest and to expand their capacity. In some cases, they are going to have to look at passing on those costs to consumers. That adds into inflation. In the worst cases, of course, it could make some businesses will have to face the difficult decision to close their doors.

Journalist: How contributory do you think government's submission was to this outcome? Obviously, it was a fairly high number that they put forward. Do you think that weighed heavily to the Commission's decision?

Andrew: It is one of the submissions that the Commission has obviously taken into account. I think there have been different views from across the economy, from business groups, from unions, and from the government. At the end of that process, where the Commission has landed is much towards the upper end of the range of those submissions. That will place significant costs on the economy, and it will heighten the risks that we face going forward in year ahead.

Journalist: And we'll see a wage inflation spiral? That's what you predict?

Andrew: Well, I think there is a risk. There is a risk that we are facing a situation where wages growth is adding into inflation.

Journalist: So the union movement has said previously that many employers say in the hospitality sector they're already paying higher wages to attract staff because we have that skill shortage, that labour shortage. Given that, isn't there a reasonable buffer, some kind of buffer for this?

Andrew: I think what we've got to differentiate is the circumstances that exist in different parts of the economy. We are seeing that in some areas, businesses do have to respond to the pressure that's out there if they're going to secure labour. But here as well, there are things that the government can do in the period ahead to encourage greater supply, to take some of that pressure off that's there at the moment. Obviously, they need to invest more in skills and training. There are things that can be done to encourage greater participation in the labour force. And of course, we do have to look at increased skilled migrations to be able to fill all the jobs that we need to fill.

Journalist: That inflationary pressure that you mentioned, have you done... Like where does this come from? Where's the evidence coming from? Have you done modelling? Are you basing it on previous statistics? Because you're saying that there will be pressure and inflation of businesses. We'll pass this on. But what are you backing that up with?

Andrew: We've done calculations as to what the cost will be for business as a result of this decision, $7.9 billion to those affected businesses. So beyond that, you don't need to go further than to listen to what the governor of the Reserve Bank had to say in the last 24 hours. He pointed to the fact that our inflation risk now, that the Reserve Bank is saying that inflation could go to 7 per cent by the end of the year, not 6 per cent as it was saying only a very short period ago.

Journalist: If inflation rises and wages don't rise, that would that decrease spending, which would then impact the economy as well. So...

Andrew: Well, wage rises have got to be underpinned as well by increased productivity. That's where we've got to take some hard decisions. We've got to get some flexibility back into the labour market. We need to look at some fundamental reforms to improve that. Enterprise bargaining, one of the key parts of the industrial relations systems in this country, is withering on the vine without some very simple changes to improve flexibility in that space also to make our award system work more effectively. We aren't going to get the sort of productivity and increases that we need, which will drive and justify those high wage outcomes. Okay? Thank you very much. Thank you.

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