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Wage decision unleashes inflation

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Economy

The Fair Work Commission has stoked pay expectations across all sectors while doing diddly-squat to boost productivity. That will inevitably be inflationary and cost jobs.

Steve Knott

The Fair Work Commission's decision to raise the minimum wage by 5.2 per cent hits a relatively small but important cohort of minimum-wage workers. It also sees increases of 4.6 per cent to 5.2 per cent for 2.6 million workers whose pay is set by awards.

While the decision in itself has no immediate impact on well-paid industries such as the resources and energy sector, the flow-on effects will profoundly affect wage claims and salary expectations throughout the economy.

As a general economic rule, when higher wages are accompanied by productivity gains and/or business growth, they can be paid without risk of adding to inflationary pressures or unemployment. This will be not the case come July.

What the FWC and the Albanese government have so proudly delivered is widespread wage and salary increase expectations with diddly-squat mechanisms to interlink such increases with productivity or business growth considerations.

For many, the FWC's decision to exceed the new ALP government's recommended wage increase was surprising. Not so much to those who understand the tribunal.

The FWC is a unique organisation formed in the horse-and-buggy era. It is inefficiently top heavy with 43 members, 21 of whom are presidential level and 22 commissioners.

While the ALP has had much to say about appointments made by the Coalition, the reality is its own Rudd/Gillard-era appointees very much remain at the apex of its influence.

The president is a former ACTU assistant secretary and was appointed by then-workplace relations minister Bill Shorten in 2012. He led the "expert panel" that handed down this month's wages decision. Shorten also appointed the FWC's two current vice-presidents in 2013, one of whom sat on the wage review panel.

In short, the decline in trade union membership to less than 10 per cent in the private sector and nine years in federal opposition have in no way diminished the ACTU and ALP's influence within the FWC.

The scary thing about the FWC setting economy-wide pay expectations is that less than a handful of its members have had any real-life experience of running a business.

Its members are largely drawn from a narrow pool of unionists, employer representatives, employment lawyers and so on. Employers who look to the FWC for assistance in determining wage and salary rates are more likely to find the experience frightening than enlightening.

In some respects, Australia's economic future, to quote John Howard in 1990, is being "held hostage to some power constellations in our community and the government". In 2022, these powers are the FWC, the ACTU and the Labor government.

Many employers across all industry sectors are shunning enterprise agreements: the number of in-term enterprise agreements has dropped from 20,000 a decade ago to less than 10,000. The key reason for this is that enterprise bargaining is no longer about offsetting wage increases with productivity gains, but simply a vehicle for unions to threaten employers with strikes and to lock in highly inflated pay rises.

The Finance Sector Union and the Australian Manufacturing Workers' Union have called for 6 per cent and 5.8 per cent wage increases. Other unions have stated broadly they too will be pursuing similar increases, notwithstanding the Reserve Bank's prediction that inflation is heading towards 7 per cent before year's end.

Those who have been through such cycles know how this will end: inflation and interest rates will go up and jobs will be lost.

In the 1980s, the Australian Conciliation and Arbitration Commission (a precursor of the FWC) endorsed massive pay increases in the metal trades industry that flowed across the economy and led to large wage blowouts with no link to productivity gains or enterprise considerations.

Having bought my first home early in that decade, I vividly recall how huge across-the-board wages increases had a brief moment of sunshine, followed quickly by 17.5 per cent interest rates and, soon after, double-digit unemployment.

At an ALP conference in Hobart in 1986, then-treasurer Paul Keating called out the influential AMWU boss George Campbell on the impact of these excessive wage outcomes. With the mass unemployment that followed in the manufacturing industry, Keating said that Campbell had "the jobs of 100,000 dead men around his neck".

In short, while the sound bite of raising wages to keep up with inflation may play well with voters, it is reasonably foreseeable it will fuel both inflation and unemployment.

In 1981, New Zealand rockers Split Enz released *History Never Repeats*. The awesome song sadly does not reflect the decision-making of those determining the future of our economy and workplaces in 2022.

Steve Knott is chief executive of the Australian Resources and Energy Employer Association and a board member of the Australian Chamber of Commerce and Industry.