

Submission by



GROWING PROSPERITY AND POTENTIAL

to the

Ministry of Business Innovation and Employment

on the

Review of the Minimum Wage

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ANNUAL REVIEW OF THE MINIMUM WAGE

INTRODUCTION

1. BusinessNZ welcomes the invitation by the Minister of Workplace Relations and Safety to submit on the 2016 minimum wage review.
2. We recommend that:
 - a. A review be undertaken of the role and effect of the minimum wage (not just its level) in light of the very significant movements in, and events affecting, it over the past 10 years. This should take particular account of the effects of the "Sleepover"¹ and "Woodford House"² cases. These cases highlight the significant differences in the environment pertaining in 1945 when the Act was created³, and the diverse and dynamic working conditions prevalent today.
 - b. The minimum wage be set by statute (not regulation) as a percentage of the median wage. The percentage should be determined as a result of the review in a. above.
 - c. BusinessNZ recommends that the Minimum Wage Act be amended to require that a worker's average wage not fall below the minimum wage set by the Act, rather than, as at present, requiring that every hour worked be paid at the minimum wage rate.
 - d. That pending the outcome of the review in a. above, future increases to the minimum wage be no greater than inflation as measured by the CPI in the preceding period.
 - e. The Government continue to emphasise the need for increased access to training and employment opportunities, particularly for young people.
 - f. The Government seriously considers the use of further tax cuts, rather than increases in the minimum wage rates, as a more effective way of increasing real wages for relatively low paid workers. These would mitigate the effects of the abatement of government transfer payments such as Working for Families.

Discussion

3. Minimum wage rates have increased steadily and significantly since 1999 so much so that the minimum wage now figures significantly in setting the minimum rates for many jobs (not just the lowest paid), particularly those covered by collective

¹ *Idea Services v Phillip Dickson* CA 405/2010.

² *Law & Ors v Board of Trustees of Woodford House* [2014] NZEmpC 25 WRC 29/12

³ It has not changed materially since.

bargaining. For some years we have advocated a period of consolidation is required before further increases in real terms are contemplated. That view remains unchanged.

4. It is our observation that *as the minimum wage rate rises so too does the number of people paid the minimum wage*. This is more marked in sectors with relatively higher proportions of the lowest paid workers. To improve the relative ratios between those paid above the minimum wages and those on it the Government ideally should focus on enabling and encouraging increased access to training and employment to achieve higher productivity and hence increased real earnings over time. Relying on increased minimum wages alone we believe is likely to have the opposite effect.
5. Minimum wage laws set minimum wages, but they are increasingly regarded as inefficient at guaranteeing jobs. In fact minimum wage laws are regarded as placing additional obstacles in the path of particular workers (particularly those who are young and unskilled) at the bottom end of the economic ladder. Overseas experience, for instance in the UK, suggests that rises in the minimum wage correlates with increases in unemployment, particularly, young people and minority groups.
6. BusinessNZ has outlined in prior minimum wage review submissions specific reasons why increases in the minimum wage rates (particularly the youth rate) negatively affect employment. To recap, these include the facts that:
 - a. Most employees on the youth minimum wage are not in a vulnerable position and do not rely on the minimum wage as a long term source of income. BusinessNZ members have indicated to that many of those receiving the youth minimum wage rate are "after-school" workers, who are generally employed from a goodwill or social standpoint. This type of work provides young workers with the opportunity to learn fiscal responsibility and to develop a work ethic, as well as providing additional pocket money and work experience that may be added to a CV;
 - b. Increases in minimum wage rates reduce job and training opportunities for youth, as does the extension of the youth minimum wage to employees on training agreements. Raising and/or extending minimum wage rates may well mean many workers receiving such rates would find their jobs no longer sustainable, as their productivity is below their comparable wage level; and
 - c. It is likely that continued increases and extensions of coverage to the minimum wage rate may instead send a signal to younger people that further education and training is not warranted.
7. Aside from the effect on youth employment, BusinessNZ believes increases in the minimum wage create unnecessary artificial inflationary pressures, based primarily on the relativity of the minimum wage with wages paid to those supervising those on minimum wages or workers whose performance has earned them a margin over the minimum wage.

8. This of course will be exacerbated by the pressures from some quarters to introduce a "living wage." Research by the NZ Treasury has shown this concept to be poorly targeted as it would not only benefit mainly low paid single people but will also create irresistible and arguably irresponsible pressure on wage rates generally.

Relationship between minimum and median wages

9. The ratio of the minimum wage to the median wage has not changed materially since 2008:
- a. 2008 67%
 - b. 2009 67%
 - c. 2010 66%
 - d. 2011 65%
 - e. 2012 66%
 - f. 2013 66%
 - g. 2014 66%
 - h. 2015 67%
 - i. 2016 67%
10. When the government is the determinator of the actual wages of such a large proportion of the labour force, the employers of those employees, the impact is felt across the economy. Ultimately this means that the government is creating unintended wage pressures in the New Zealand labour market, with little regard for the practicalities of that market.

What does this mean looking forward?

11. One effect that many employers have reported in recent times is that movements in the minimum wage are increasingly and directly responsible for reductions in staffing or other service costs (in order to meet wage costs).
12. In addition to putting direct cost pressures on employers, in setting the minimum wage higher than its present level of \$15.25 the government is indirectly but arbitrarily also affecting the wages of at least one third of all wage and salary earners. The scope for relativity based pressures on other wages and rates is inescapable. This in turn impacts on the ability of employers to provide other enhancements to conditions of employment, as the capacity to accommodate compulsory increases to wages and other enhancements together is diminished.
13. Such jobs also correlate most strongly to the manufacturing, produce, retail, hospitality, services and tourism sectors, the very jobs that will be the backbone of economic growth in the short and medium terms. It is in these sectors that movements in the minimum wage are felt the most. These sectors also contain a significant number of entry level jobs making them important as a gateway to long term employment for young people in particular.
14. For these reasons BusinessNZ believes further, above inflation, increases to the current minimum wage will not bring hoped for benefits and should be minimised in

favour of approaches that generate higher skills and greater productivity, the key ingredients to sustainable increases in income.

15. These concerns are exacerbated by the fact that the minimum wage is set as an hourly rate. The courts have determined that the minimum rate must be paid for every hour worked, even when that work is minimal. This approach effectively increases the costs of the job, without changing its value. Moreover is a disincentive to employers who would otherwise offer development opportunities to employees, particularly youth. It also increases the cost of "passive work" such as callouts, standby and sleeping. It is primarily for this reasons that BusinessNZ advocates changing the approach to the minimum wage away for an hourly rate to that of averaging income over hours worked. This would allow different aspects of work to be "priced" according to its relative value, at the same time as protecting an employee from exploitation by ensuring that their average income did not fall below the specified rate.

Minimum Wage Rates and Productivity

16. Increases in minimum wage rates boost wages but of themselves do not boost productivity. Furthermore increased costs that are not offset by increased productivity typically flow through either into increased prices or, if the market cannot sustain higher prices, cost cutting and, often, job losses. In other words it needs to be paid for by productivity. Anything else is effectively borrowing to pay wages.

A Better Approach – Reducing Tax Rates

17. BusinessNZ believes there is a more viable alternative to rises in minimum wage rates to ensure a highly productive and high wage economy – the reduction of taxes on both individuals and businesses.
18. If the Government is focused on raising New Zealand's productivity and growth rate, as well as raising the standard of savings which is found to be lower when compared with other countries⁴, we believe a better way in which to provide all New Zealanders with the opportunity to save and invest more is through personal and company tax rate cuts.
19. By instigating a broad-base, low rate approach to taxes while containing Government spending to levels around 30% of GDP, most New Zealanders will have more cash in hand with which to repay debt, save for a house deposit or invest for retirement savings. The advantages of a tax cut over an increase in the minimum wage rate for low paid workers are numerous and include the facts that.
 - a. the rise in the hourly rate through a tax cut does not increase the wage costs for the business. Therefore, there is little likelihood of the position being made redundant, and even less likelihood of the position being withdrawn once the current employee takes on another position.

⁴ Whether this is a fundamental problem for New Zealand is debatable, as BusinessNZ has raised this issue in previous submissions and consultations relating to other issues.

- b. the relativity of those earning slightly more than those on the minimum wage because of extra responsibilities or qualifications is kept as their wages also experience an increase.

RECOMMENDATIONS

20. We therefore recommend that:

- a. A review be undertaken of the role and effect of the minimum wage (not just its level) in light of the very significant movements in it over the past 10 years. This should take particular account of the effects of recent "Sleepover" and "Woodford House" cases. These cases highlight the significant differences in the environment pertaining in 1945 when the Act was created⁵, and the diverse and dynamic working conditions prevalent today.
- b. The Minimum Wage Act be amended to require that a worker's average wage not fall below the minimum wage set by the Act, rather than, as at present, requiring that every hour worked be paid at the minimum wage rate.
- c. Set the minimum wage by statute (not regulation) as a percentage of the median wage. This would put the focus on increasing wages over the whole economy, which needs productivity gains to occur sustainably.
- d. The Government continue to emphasise the need for increased access to training and employment opportunities, particularly for young people
- e. The Government seriously considers the use of further tax cuts, rather than increases in the minimum wage rates, as a more effective way of increasing real wages for relatively low paid workers. These would mitigate the effects of the abatement of government transfer payments such as Working for Families. Abatement reduces the benefits of pay increases.



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⁵ It has not changed materially since. In *Idea Services v Phillip Dickson CA 405/2010*, the Court of Appeal said "If the result of this judgment is of concern to the Government, the solution is to have the 1983 Act amended. It must be said that the Act is rather simplistic in its formulation. It is effectively in the same terms as the original 1945 legislation. It is very much premised upon the idea of employees working nine to five, five days a week, a work pattern now enjoyed by, perhaps, only 60 percent of workers. Employment relationships and the circumstances in which work is undertaken are much more varied these days. The simplicity of our legislation is to be contrasted with the sophistication of the equivalent legislation in the United Kingdom."



Promoting New Zealand's success through sustainable market-led growth

[BusinessNZ](#) is New Zealand's largest business advocacy body, representing the majority of New Zealand private sector companies as members, affiliates or through membership of BusinessNZ divisions such as the Major Companies Group, ExportNZ, ManufacturingNZ, Sustainable Business Council and Buy NZ Made.

BusinessNZ represents around 14,000 businesses that are members of four regional business organisations:

[Employers & Manufacturers Association](#) (EMA) - northern half of North Island

[Business Central](#) - central region

[Canterbury Employers' Chamber of Commerce](#) (CECC)

[Otago-Southland Employers' Association](#) (OSEA)

BusinessNZ's [Major Companies Group](#) (MCG) works with and represents around 80 of New Zealand's largest companies.

[ExportNZ](#) and [ManufacturingNZ](#) work with and advocate for New Zealand exporters and manufacturers.

The [Sustainable Business Council](#) (SBC) provides mainstream leadership on sustainable business matters.

The [BusinessNZ Energy Council](#) (BEC) is a group of New Zealand organisations taking on a leading role in creating a sustainable energy future for New Zealand.

The [Buy NZ Made](#) Campaign encourages consumers and organisations to help create local jobs and growth by buying New Zealand goods and services.

BusinessNZ's [Affiliated Industries Group](#) (AIG) is a grouping of 75 industry associations affiliated to BusinessNZ that work together on pan-industry issues.

BusinessNZ undertakes research, analysis and advocacy on behalf of all business in New Zealand. Research activities include producing monthly surveys of the manufacturing and services sector – the *BNZ-BusinessNZ Performance of Manufacturing Index* (PMI) and *BNZ-BusinessNZ Performance of Services* (PSI) as well as other surveys on business issues.

BusinessNZ analysts work in economic, environmental, employment and skills disciplines and provide submissions on current and proposed legislation affecting the environment for business and New Zealand's growth.

Public advocacy, public speaking, work programmes with other organisations and advocacy with decision makers make up a large part of BusinessNZ's work.

BusinessNZ champions policies leading to:

- *international competitiveness*
- *balanced employment, economic and environmental legislation*
- *compliance and tax levels that foster growth and investment*
- *innovation and skill development*
- *an environment fostering the production of high value goods and services*

Websites

BusinessNZ

www.businessnz.org.nz

ExportNZ

www.exportnz.org.nz

ManufacturingNZ

www.manufacturingnz.org.nz

BusinessNZ Energy Council

www.bec.org.nz

Buy NZ Made

www.buynz.org.nz

Sustainable Business Council

www.sbc.org.nz

Regional Business Organisations

www.ema.co.nz

www.businesscentral.org.nz

www.cecc.org.nz

www.osea.org.nz