

Submission

By



to the

**Transport and Industrial Relations
Select Committee**

on the

**Minimum Wage (Starting-out Wage)
Amendment Bill**

27 November 2012

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MINIMUM WAGE (STARTING-OUT WAGE) AMENDMENT BILL

BusinessNZ welcomes the opportunity to submit on the bill and would request the opportunity to appear before the Select Committee.

RECOMMENDATION

That the bill proceed.

DISCUSSION

1. BusinessNZ supports the amendment bill on the grounds that the lack of a youth minimum wage has discouraged employers from taking on inexperienced young people. This organisation opposed the effective abolition of the youth minimum wage in 2006 noting that although at the time New Zealand had experienced a period of strong economic growth, the unemployment rate for the 15-19 year old age group was, at 12%, considerably higher than for the working population in general. By comparison, the 2012 September quarter Household Labour Force Survey gives the current unemployment rate for 15-19 year olds as 25.5%.
2. BusinessNZ does not wish to repeat the points made in 2006 but believing these are as relevant now as they were then, is attaching that submission to this present submission.
3. In 2006 BusinessNZ posed the question 'do minimum wage laws keep least skilled people out of employment?' As its submission stated:

Minimum wage laws place obstacles in the way of unskilled workers, keeping them out of work they might otherwise be capable of doing because to their employer, their skills are of

lesser value and paying them the same as higher skilled employees is of no benefit.

4. Although the argument that a young person doing the same work as an older person should receive the same rate of pay is understandable, that is not the real point (and to an extent is catered for in the present bill by providing for the adult minimum to be payable to a young person involved in supervision or training). Of greater importance is the need for unskilled young people, often not properly work-ready, to gain the work experience that enables them to progress in the labour market. The longer the delay, the greater the chance of long-term unemployment.
5. New Zealand is not the only country to be concerned about the effects of the minimum wage on youth unemployment (see Appendix 1). It is unfortunate that increasing the price of least skilled individuals means fewer will be employed, and that is particularly the case for the young unemployed. This bill should help to remedy that situation.

APPENDIX 1

European Industrial Relations Observatory

In March 2012, the British government announced the adult rate of the National Minimum Wage (NMW) would rise by 1.8% from October. However, it has taken the unprecedented step of freezing rates for workers aged 16 to 20. The decision is said to be aimed at encouraging struggling companies to take on youngsters at a time when youth unemployment is rising to alarming levels.

There are separate, lower NMW rates for:

- workers aged 18–20 (the ‘development’ rate);
- workers aged 16 and 17;
- apprentices under 19, and those aged 19 and over in the first 12 months of their apprenticeship.

The UK Low Pay Commission (LPC) recommended that the development rate and the rate for those aged 16 and 17 should be frozen at their current rates of GBP 4.98 (€6.21) and GBP 3.68 (€4.59) an hour respectively. Since the NMW was introduced in 1999 the development rate has until now been increased every year. The rate for workers aged 16 and 17 was introduced in 2004 and, after an initial one-year pause, has been increased every year since. In 2011, the development rate was increased by only 1.2%, and the 16–17-year-old rate by 1.1%, compared with 2.5% for the adult rate.

The government had asked the LPC to consider in its 2012 recommendations the young people’s labour market. The LPC concluded that this position had continued to worsen (the unemployment rate was 22.2% among those aged 16–24 in February 2012), and that the employment of young people is more sensitive than that of adults to the economic cycle. It therefore ‘reluctantly’ recommended freezing the rates for young people, as this ‘may increase their relative attractiveness to employers’.

The LPC did, however, recommend a 1.9% increase in the apprentice rate from GBP 2.60 to GBP 2.65 an hour, citing a rise in new apprenticeships in 2010/2011.

On 19 March, the government accepted the LPC recommendations on NMW rates to apply from October 2012.

APPENDIX 2

Background Information on BusinessNZ

- 9.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association, Employers' Chamber of Commerce Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 71 member Major Companies Group comprising New Zealand's largest businesses, and its 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 9.2 In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 9.3 BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.