Submission by

BusinessNZ

GROWING PROSPERITY AND POTENTIAL

to the

Ministry of Business Innovation and Employment

on the

2019 Review of the Minimum Wage

18 October 2019

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ANNUAL REVIEW OF THE MINIMUM WAGE 2019

INTRODUCTION

1. BusinessNZ welcomes the invitation by the Minister of Workplace Relations and Safety to submit on the 2019 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 and events affecting it since its creation in 1945[1], and the diverse and dynamic working conditions prevalent today.

   b. account should also be taken of the effects of the Working for Families Scheme and other transfer payments on the incomes on those on the Minimum Wage.[2]

   c. the minimum wage ultimately be set as a percentage of the median wage. The percentage should be determined taking accounts of the results of (a) and (b) above.

   d. 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.

   e. 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.

   f. the Government continue to emphasise the need for increased access to training and employment opportunities, particularly for young people.

   g. the Government seriously considers the use of further tax cuts, rather than increases in minimum wage rates, as a more effective way of increasing real wages for relatively low paid workers.

DISCUSSION

3. There will always be work that is "undesirable": because it is low skill, is conducted at unsociable times of day etc. Historically this work taken by the least experienced and educated, migrant workers, part time workers, and people supplementing other incomes.

[1] It has not changed materially since.

[2] See Appendix 1 for a discussion of these effects

4. Raising wages for these groups may briefly improve standards of living for them but it may also stimulate competition from more qualified and experienced workers others, thus disenfranchising the very vulnerable workers it is desired to protect. Overseas experience, for instance in the UK, suggests that rises in the minimum wage correlate with increases in unemployment for young people and minority groups.

5. For other low paid jobs, raising wages may have no effect at all, as they remain sufficiently unattractive that only those with no other alternatives are likely to compete for them. Migrant workers increasingly are filling these roles, which ultimately reduces the number of jobs available for New Zealanders who might seek to enter the workforce at some future date.

6. Furthermore, while increasing low pay levels eventually forces up all pay rates, this can have unintended consequences. Employees in jobs requiring a high level of skill and knowledge rightly expect a higher rate of pay than a worker in a job requiring little skill and/or knowledge. Pressure on wage levels above the minimum wage adds to inflationary pressures, ultimately resulting in increased costs and interest rates, both of which ironically impact most on the lowest paid.

7. It has been observed that *as the minimum wage rate rises so too does the number of people paid the minimum wage*. At its present level (58% of the average wage and 69% of the media wage) the minimum wage now influences wages levels generally, particularly those covered by collective bargaining. This is more marked in sectors with relatively higher proportions of the lowest paid workers (e.g., hospitality and retail).

8. Ultimately, unless all the effects are managed, *simply increasing the minimum wage can marginalise the very people the increase is designed to assist, low paid New Zealanders*.

9. This is a key reason why BusinessNZ has consistently advocated a period of consolidation before further increases in real terms are contemplated. That view remains unchanged.

Key factors

10. BusinessNZ has outlined in previous submissions a number of reasons why increases in minimum wage rate (particularly the youth rate) negatively affect employment. These include:

    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 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. Other effects include increasing limitations for young people to find afterschool part time work.

c. These effects create a risk that continued increases and extensions of coverage to the minimum wage rate may signal to younger people that further education and training are not going to be beneficial. Ultimately, raising and/or extending minimum wage rates may mean many minimum wage workers will find their jobs no longer sustainable once their productive value falls below their comparable wage level.

d. Aside from the effect on youth employment, raising wages without increases in productivity to sustain them will boost the incomes of current employees in the immediate term but will also fuel relativity arguments that quickly "cycle" low paid employees back to the bottom of the wage heap.

11. These general effects are being reported to BusinessNZ by a number of businesses, particularly smaller businesses and those with a relatively high proportion of lower waged employees. The hospitality-based example below is typical of most stories.

Case study
Hospitality businesses typically operate on small margins. By and large they employ at least some staff (often students) on the minimum wage. When the minimum wage increases the wages of those slightly above the lowest level jobs (also often students) usually are also increased in the interests of keeping a fair relativity between and across roles and responsibilities. This puts pressure on already tight margins. Simply increasing prices is not an attractive option however, as it tends to drive customers away and threaten the sustainability of the business. Typically, affected business owners (often husband and wife owners) increase their own work hours and reduce those of their staff in order to avoid imposing price increase on customers. This removes income from workers, negating the value of the increase in the minimum wage. Even with these measures price increases often cannot be avoided. Furthermore, increased wage costs are too often followed in short order by increased supply and transport costs, because supply and transport businesses have had to increase prices to accommodate increased wage costs. The net result is often less income for everyone.

12. Inflationary pressures of course will be exacerbated by the pressure from some quarters to introduce a "living wage", which has less to do with the productive value of a worker than it does with the worker's costs of living. Research by the NZ Treasury has shown this concept to be poorly targeted as it would benefit

mainly low paid single people but will also impose irresistible and arguably irresponsible pressure on wage rates generally.

Working for families adds additional value

13. The Working for Families (WFF) scheme benefits a large proportion of those on the minimum wage.

14. It comprises two main payments:
    a. *Family tax credit* – paid irrespective of source of income
    b. *In work tax credit* – for families working a specified minimum number of hours per week (20 hours for a 1 parent family and 30 hours for a 2-parent family)

15. The table below illustrates the effect of WFF payments on the minimum wage. Only the Family tax credit has been used in this example as it applies to everyone.

		Min Wage	Working for Families Family Tax Credit					
			1 child	2 children	3 children	4 children	5 children	6 children
Weekly		$708	$113	$204	$295	$386	$478	$569
Cumulative Total			$821	$912	$1,003	$1,094	$1,186	$1,277
Annual		$36,917	$5,892	$10,637	$15,382	$20,127	$24,924	$29,669
Cumulative Total			$42,809	$47,554	$52,299	$57,044	$61,842	$66,587
Hourly equivalent		**$17.70**	**$20.53**	**$22.80**	**$25.08**	**$27.35**	**$29.65**	**$31.93**

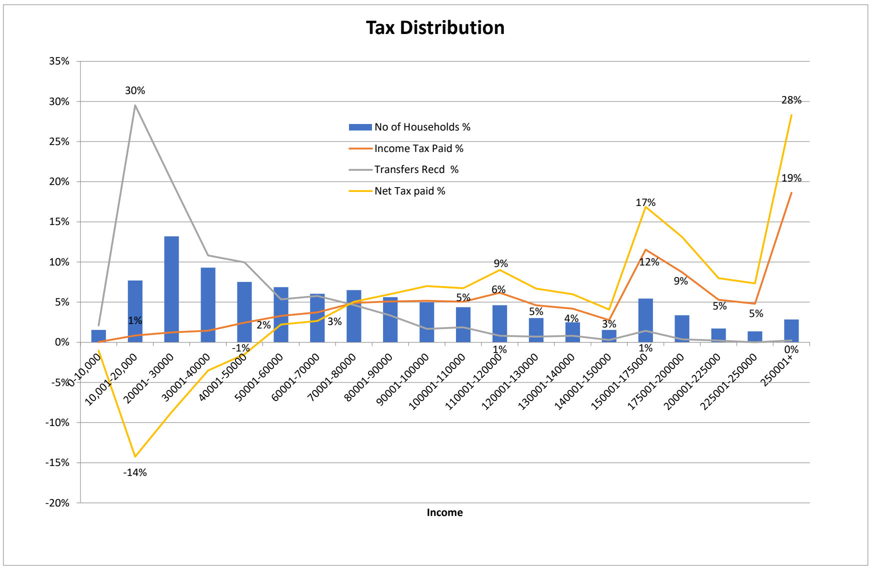
16. If the IWTC was added, the hourly equivalent rates would be:

		Min Wage	Working for Families Family Tax Credit					
			1 child	2 children	3 children	4 children	5 children	6 children
Weekly		$708	$113	$204	$295	$386	$478	$569
	plus IWTC		$72	$72	$72	$87	$102	$117
Cumulative Total			$893	$984	$1,075	$1,181	$1,288	$1,394
Annual		$36,917	$5,892	$10,637	$15,382	$20,127	$24,924	$29,669
Cumulative Total			$42,809	$47,554	$52,299	$57,044	$61,842	$66,587
Hourly equivalent		**$17.70**	**$22.33**	**$24.60**	**$26.88**	**$29.53**	**$32.20**	**$34.85**

17. These rates are all in excess of the so-called Living Wage which is currently set at $21.15 per hour for a family of four with 1.5 full time incomes. Single persons with no children attract only the minimum wage as they are not eligible for Working for Families payments.

18. Based on this, it is arguable that current minimum wage settings coupled with transfer payment regimes constitute adequate minimum incomes already, without the need for the scale of proposed future increases.

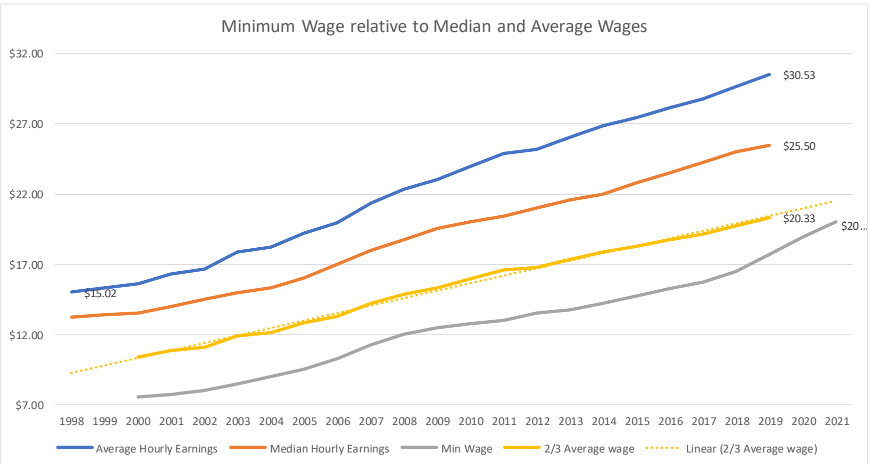
19. Added to this is the fact that, on average, those on the minimum wage are paying net negative tax. The graph below illustrates the net effect of income versus transfer payments (including WFF).



20. At the very least, consideration needs to be given to the effects of transfer payments when contemplating future adjustments to minimum wage rates. This has not been a feature of previous reviews.

Relationship between minimum wage and average and median wages

21. The ratio of the minimum wage to the median wage and average wage did not change materially between 2008 and 2017. It has jumped up significantly since the current government came to power



22. This is also demonstrated in the table below

	Average Hourly Earnings	Median Hourly Earnings	Min Wage	2/3 Average wage	Min Wage as % of Average Hourly Wage	Min Wage as % of Median Hourly Wage
1998	$15.02	$13.21				
1999	$15.34	$13.38				
2000	$15.62	$13.55	$7.55	$10.40	48.3%	55.7%
2001	$16.30	$14.00	$7.70	$10.86	47.2%	55.0%
2002	$16.66	$14.50	$8.00	$11.10	48.0%	55.2%
2003	$17.87	$15.00	$8.50	$11.90	47.6%	56.7%
2004	$18.23	$15.34	$9.00	$12.14	49.4%	58.7%
2005	$19.23	$16.03	$9.50	$12.81	49.4%	59.3%
2006	$19.99	$17.00	$10.25	$13.31	51.3%	60.3%
2007	$21.34	$18.00	$11.25	$14.21	52.7%	62.5%
2008	$22.33	$18.75	$12.00	$14.87	53.7%	64.0%
2009	$23.04	$19.56	$12.50	$15.34	54.3%	63.9%
2010	$23.97	$20.00	$12.75	$15.96	53.2%	63.8%
2011	$24.89	$20.46	$13.00	$16.58	52.2%	63.5%
2012	$25.19	$21.00	$13.50	$16.78	53.6%	64.3%
2013	$26.08	$21.58	$13.75	$17.37	52.7%	63.7%
2014	$26.87	$22.00	$14.25	$17.90	53.0%	64.8%
2015	$27.46	$22.83	$14.75	$18.29	53.7%	64.6%
2016	$28.14	$23.49	$15.25	$18.74	54.2%	64.9%
2017	$28.78	$24.29	$15.75	$19.17	54.7%	64.8%
2018	$29.66	$25.00	$16.50	$19.75	55.6%	66.0%
2019	$30.53	$25.50	$17.70	$20.33	58.0%	69.4%

23. Both median and average wages show a relatively stable relationship with the minimum wage over time, reflecting successive governments' desire to maintain a relationship between the minimum wage and national wage reality. By and large, increases have followed inflation as indicated by CPI movements.

24. However, movement in average wages primarily reflects movements at the top whereas increases to the median are more reflective of the broader economic situation. This arguably makes the median wage a relatively more balanced point of comparison than the average wage.

Minimum Wage Rates and Productivity

25. 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, increasing wages needs to be paid for by productivity. Anything else is effectively borrowing to pay wages.

What does this mean looking forward?

26. It is generally accepted that increases in the minimum wage cost jobs, which are not replaced in the short to medium term. These losses shrink the pool of work available to the least skilled and educated.

27. The pressures caused by wage compression and job losses are set to increase even more significantly if the government remains committed to raising the minimum wage to $20 per hour by 2021.

28. The table below summarises increases in both the adult and youth minimum wage since 1999.

Time Period	Adult Minimum Wage Rate	% Change from Previous Year
March 1999	$7.00	-
March 2000	$7.55	7.9%
March 2001	$7.70	2.0%
March 2002	$8.00	3.9%
March 2003	$8.50	6.25%
April 2004	$9.00	5.9%
March 2005	$9.50	5.6%
March 2006	$10.25	7.9%
April 2007	$11.25	9.75%
April 2008	$12.00	6.6%
April 2009	$12.50	4.1%
April 2010	$12.75	2%
April 2011	$13.00	1.92%
April 2012	$13.50	3.7%
April 2013	$13.75	1.8%
April 2014	$14.25	3.5%
April 2015	$14.75	3.5%
April 2016	$15.25	3.4%
April 2017	$15.75	3.3%
April 2018	$16.50	4.7%
April 2019	**$17.70**	**7.1%**
April 2020	**$18.90**	**6.6%**
April 2021	**$20.00**	**6.1%**

29. As can be seen the increases in 2019, and those proposed for 2020 and 2021 are roughly double those in previous years. The potential for relativity-based pressure on wages above the minimum wage is inescapable.

30. 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. Instances are being reported of employers reducing employer subsidised health care, health status check, gym memberships and other well-being related benefits to compensate for increases in the minimum wage. In other instances, young persons not able to get jobs are resorting to unpaid volunteer work to obtain work experience and therefore be more competitive in the job market.

31. All these impacts are felt disproportionately across the economy. Jobs in 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 term) will be impacted more significantly than in other sectors. This is mainly because there are higher proportions of lower paid workers in these sectors than in, for instance, the finance sector. The rise of staffless service stations (e.g. Gull and Waitomo) and self-service checkouts in supermarkets are manifestations of this pressure.

32. These sectors also contain a significant number of entry level jobs (eg supermarkets) making them important as a gateway to long-term employment for young people in particular.

33. Emerging evidence also suggests that actual and planned minimum wage increases have sped up the shift of food manufacturing from New Zealand to Asia. While this has been happening for some time, the Government's 2017 announcement that was aiming for $20 by 2020 sent a strong message about cost trends in manufacturing.

34. While it is expected that processing of fresh commodities will stay in New Zealand for the foreseeable future, many grocery products can and are expected to move manufacturing elsewhere. This sentiment appears to be true of manufacturing and exporting generally, as illustrated by the attached survey conducted in 2018 by Export New Zealand.

35. Mainly 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 of sustainable increases in income.

36. 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, eg sleeping and travelling. This approach effectively increases the costs of the job, without changing its value. This in turn is a disincentive to employers who would otherwise offer development opportunities to employees, particularly youth. It also increases the cost of other "passive work" such as callouts and standby.

37. BusinessNZ advocates changing the approach to the minimum wage away from a rate per hour to that of averaging income over hours worked. This would allow different aspects of work to be "priced" according to their relative value, at the same time as protecting employees from exploitation by ensuring that their average income did not fall below the specified rate.

What can be done?

38. To improve the relative ratios between those paid above the minimum wage 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.

39. The key challenge is to increase the value (as opposed to the cost) of low paid work. Put another way, low wages need to be dragged up by improvements in the performance of the economy, not pushed up, affecting the rest of the economy.

40. However, it also needs to be recognised that all markets, including labour markets, typically respond faster to reality than a government can respond through intervention. Thus, many interventions run the risk of being rendered ineffective by the time they are implemented.

A Better Approach – Reducing Tax Rates

41. 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. Economic conditions are good for this option at the moment.

42. 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 countries[3], we believe a better way to provide all New Zealanders with the opportunity to save and invest more is through restructured personal and company tax rates.

43. Instigating a broad-based, low rate approach to taxes while containing Government spending to levels around 30% of GDP, will leave most New Zealanders with 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.

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

44. There is also a need to account for the effects of transfer payment schemes such as Working for Families on low wage rates. The challenge here is to avoid the

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[3] 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.

complications of abatement regimes in the first place. If it is determined that the government should subsidise incomes it should do so in a way that is effective in areas of need, is administratively simple, and does not create perverse incentives that contradict other policy initiatives. Currently the administration of state social assistance programmes requires monolithic government infrastructure, complex and cumbersome administrative processes, and ever-increasing costs.

45. An obvious means of addressing this issue is to leave the value of government assistance in people's pockets in the first place. This means adjusting tax rates and thresholds rather than introducing new ways of distributing welfare. Except for those genuinely unable to work, this would act as an incentive to find work; it would also mean that increases in net income would need to be achieved through effort and productivity.

46. Taking a tax adjustment approach would simplify administrative issues and reduce government social spending (and its associated administration and compliance costs). It would largely remove the disincentives attached to WFF or the cross over effects into other assistance programmes.

Ends