



New Zealand Chambers of Commerce (Inc)

Submission to the Minister of Labour

Minimum Wage Review

October 2007

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

Summary

A high wage economy is in New Zealand's interests but raising the minimum wage is not the way to achieve this. Policies that focus on increasing productivity, improving skills and enhancing the business environment are far more effective ways to raise the overall level of wages in New Zealand.

NZCCI supports the existence of a minimum wage to protect vulnerable workers but warns of the negative consequences for the economy if it is set too high. As the minimum wage increases, larger numbers of people are being brought into the wage rise so it is now not just the vulnerable who are being protected.

Just as wage rises generally should reflect productivity growth, so too should the rise in the minimum wage.

NZCCI supports the adult rate-new entrant rate differential to enable young new entrants to get a foot in the door for employment and thinks the 80% relativity to the adult rate is appropriate.

We support the removal of discrimination between young and old, as well as male and female employees. However, we do not consider adjustments to the minimum wage to be the appropriate tool to address the gender pay gap.

General Comments on the Minimum Wage

NZCCI supports the existence of a minimum wage but warns of the negative consequences for the economy if it is set too high.

Where a government imposed minimum wage exceeds the value of a person's labour it is inevitable that demand for labour will be reduced. As well as hindering

employment growth, a minimum wage can also impose costs on business which will either impact on profitability or be passed on to customers.

Balanced against this, there may be a tiny minority of employers who are able to take advantage of low wage workers. For this reason NZCCI acknowledges the case for a minimum wage floor as a means of protecting vulnerable workers.

Significant care needs to be taken in setting the minimum wage level. It needs to be emphasised that any minimum wage will constrain employment growth. The government needs to be strongly mindful of this point when it makes its decisions relating to this review. This is especially so in the economic environment the New Zealand economy is expected to face over the next couple of years. The slowing economy means that employers will be less likely to be able to carry the cost of overpriced labour.

The minimum wage impacts most heavily upon low-skilled and less experienced workers and their employers. Where, through the minimum wage, the wages of these employees are higher than the value they can add, employers may prefer to pay more for higher skilled employees who are not directly affected by the minimum wage than take on lower skilled employees whose wages are artificially high. This is especially likely as the labour market eases as it is expected to do over the forthcoming period of time.

A minimum wage provides a safety net for a small minority, and this should be its core objective. It should not be seen as an instrument for raising wage levels. A high wage economy is in New Zealand's interests but raising the minimum wage is not the way to achieve this. Policies that focus on increasing productivity, improving skills and enhancing the business environment are far more effective ways to raise the overall level of wages in New Zealand.

The Government's Goal

The government's goal is to raise the minimum wage from \$11.25 currently to \$12.00 per hour by the end of 2008 provided economic conditions permit.

The "provided economic conditions permit" proviso in the government goal is crucial. While business values certainty, it is important that there is sufficient flexibility to waive the increase should economic conditions make it undesirable.

The proposed increase from \$11.25 to \$12.00 represents a 6.7% increase. This would be greater than forecast increases in the average wage, productivity and inflation – potentially significantly so depending on the date the new rate applies. Just as wage rises generally should reflect productivity growth, so too should the rise in the minimum wage.

The proposed increase would bring the minimum wage closer to the average wage. When the minimum wage was lower it affected a smaller proportion of the workforce. As the minimum wage gets closer to the average wage larger numbers of people will be affected as more are brought into the wage rise. The impacts on the economy this time round are therefore likely to be more substantial than from previous increases.

As the minimum wage rises, its goal of providing protection to a relatively small number of vulnerable workers becomes less of the primary focus and the negatives associated with minimum wage rises come to the fore as they have a greater impact on a larger number of people – both employees and employers.

It is important to note that people on wages just above the progressively rising minimum wage will also demand pay rises to maintain the relativity with their lower paid counterparts. This would raise wages generally and as the minimum wage covers more people, the domino affect would be even greater.

New Entrants' Wage Rates

Under the Minimum Wage (New Entrants) Amendment Bill, the minimum wage for new entrants aged 16 or 17 will be set so it is not less than 80% of the adult (18 years plus) rate.

This differential provides an incentive for employers to give young people a "foot in the door" - increasing opportunities for them to gain work experience.

It is important to remember there is nothing stopping employers paying young new entrants more than the minimum wage of their older co-workers should they be productive enough to earn it.

Overall, NZCCI supports the differential to enable young people to get a foot in the door for employment and thinks the 80% relativity to the adult rate is appropriate.

We also support in principle the removal of discrimination between young people and adults with respect to their minimum hourly earnings in situations of equal work and especially in full time employment.

Raising the new entrants minimum wage too high would deter young people from pursuing education and training. In the long-run, education is a better way to achieve higher wages than through a minimum wage.

Reducing the Gender Gap

Submitters are asked to comment on the government's proposed new objective of reducing the gender pay gap.

NZCCI opposes any discrimination between male and female employees doing the same work. Removal of such discrimination would contribute towards the government's objective of decreasing the wage gap between men and woman. However, we do not consider adjustments to the minimum wage to be the appropriate tool to address this issue.