NEW ZEALAND CHAMBERS OF COMMERCE
Business Vitality

NZ CHAMBERS OF COMMERCE SUBMISSION ON THE ANNUAL REVIEW OF THE MINIMUM WAGE

1. Introduction

The New Zealand Chambers of Commerce and Industry appreciates the opportunity to make a submission on the annual review of the minimum wage.

The New Zealand Chambers of Commerce is an umbrella organisation serving the interests of 34 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses – most of the small to medium enterprises that are the backbone of business in New Zealand.

The focus of the Chambers' submission is on issues of direct concern to the local business community and matters the Chamber has been invited to consider. These include:

- The objectives of a minimum wage
- The Government's goal for the adult minimum wage
- Youth minimum wage rates

2. The objectives of a minimum wage

The NZ Chambers of Commerce supports the principle that any wage needs to be fair and a reasonable reward for the tasks performed.

Accordingly, having a minimum wage has the potential to distort the economy in a number of ways.

For example, where a minimum wage imposed by a government 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. It is for these reasons that the Chamber acknowledges the case for a minimum wage floor as a means of protecting vulnerable workers.

However, in setting the level of the minimum wage significant care needs to be taken to minimise the potential to distort the economy and especially in regard to constraining employment growth.

The impact a minimum wage will have on employment growth needs to be a key consideration of the Government 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 three years.

On the one hand, the slowing economy means that employers will be less likely to be able to carry the cost of overpriced labour. The expected softening of the labour market means that employers may prefer to pay more for higher skilled employees who are unaffected by the minimum wage than lower skilled employees whose wages are artificially high.

On the other hand, there is a shortage of both skilled and unskilled workers. It would be unfortunate if a consequence of the minimum wage is that it denies genuine opportunities for recruiting people into the workforce. For example, school leavers without qualifications may miss the opportunity to secure employment if the minimum wage is too high in respect of the tasks they might be expected to undertake in gaining a first entry into employment.

Clearly, 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 people are higher than the value they can add, employers will opt for skilled/experienced workers ahead of low-skilled or younger ones.

In summary, the Chambers acknowledge that *a minimum wage* provides a safety net for a small minority, and this should be its core objective. It should not be seen as a means of raising wage levels. Rather, a high wage economy is in New Zealand's best economic interests and raising the minimum wage is not the way to achieve this. Instead, 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.

3. The government's goal for the adult minimum wage

The government's goal is to raise the minimum wage from $10.25 currently to $12.00 per hour by the end of 2008 provided economic conditions permit.

In keeping with the convention of recent years, the Chambers assume that the path from $10.25 to $12.00 would be in three steps with decisions taken at the end of each year and a final increase in March 2009. Two increases of 50c and one of 75 cents would achieve this (and would be in keeping with the 50c steps of recent years and the 75 cent step in March 2006).

Such increases, though declining in percentage terms, are greater than forecast wage increases. They would also bring the minimum wage closer to the average wage and closer to the middle part of the distribution where larger numbers of people will be affected.

As the minimum wage is progressively lifted to $12.00 more and more people will be brought into the wage rise. The impacts on the economy are therefore likely to be

more substantial than previous increases (where a smaller number of people were affected.)

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

People on wages just above the progressively rising minimum wage will also demand pay rises to maintain the relativity with their lower paid counterparts. As the minimum wage rises, so too would wages generally as relativities are retained. The domino affect of this is greater as the minimum wage moves closer to the middle part of the distribution affecting more people.

Accordingly, 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.

In summary, the Chamber acknowledges the objective of the minimum wage as an instrument to ensure wages paid are *"no lower than a socially acceptable minimum"* that gives protection to potentially vulnerable workers. In that sense, the Chambers suggest that the minimum wage should NOT be promoted as a way to achieve the government's broad economic objectives. Instead, the Chambers contend that a policy thrust aimed at lifting productivity and improving skills would help ensure businesses set wages that are a fair and a reasonable reward for the tasks performed. That is, lifting productivity and improving skills is a better option for increasing wages than through an increase in the minimum wage.

4. Youth minimum wage rates

The youth rate, for employees aged 16 or 17, is fixed at 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 young people to gain work experience. On the other hand, the Chambers note that many young employees on the youth rate feel they are disadvantaged relative to their higher-paid, older co-workers especially where their productivity is greater.

There are two points here. Firstly, youth rates are often just starting rates with a fair proportion moving off this rate as experience is gained soon after commencing employment. Secondly, there is nothing stopping employers paying youths more than the minimum wage of their older co-workers should they be productive enough to earn it.

A rise in the youth rate won't have the same overall impacts on the economy that an equivalent rise in the adult rate would have. Nevertheless, the implications for youth and those who tend to employ them will be significant. While many youths are currently disadvantaged by the differential and would still be employed at higher rates, removing the differential has the potential to significantly raise youth unemployment which the Chambers would not want to see happen. Instead, the Chambers would welcome greater numbers of young people entering the job market while still at school.

Furthermore, raising the youth minimum wage too high could deter many young people from pursuing education and training. In the long-run, education and training is the obvious path for individuals to achieve higher wages than through reliance on a minimum wage.

Overall, the Chambers support the youth rate differential to enable young people to get a foot in the door for employment and thinks its relativity to the adult rate is appropriate. The Chambers 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.

Perhaps, then, an education programme aimed at encouraging employers to pay a fair and reasonable reward for the tasks performed could be considered as a positive way to address the anomaly caused by the youth differential? That is, the Chambers would support an initiative along these lines that also emphasised the case for retaining a youth minimum wage as a pragmatic incentive for employers to give young people a "foot in the door".

In respect of whether *a* minimum wage should apply to employees under the age of 16 (who are NOT currently covered by minimum wage legislation), the Chambers' overall position is to support the core principle that any wage needs to be fair and a reasonable reward for the tasks performed. That is, age should not of itself be a determining factor.

Instead, the Chambers suggest that the key determinant of the wage of young people should be based on their ability and experience. As a relatively new entrant into the workforce it follows that experience of many young peoples – whether aged under or over 16 - will be limited but many will quickly learn on the job. The extension of the youth rate to these young people may impact adversely on the availability of after school work for them and the good experiences gained for later full time entry into the workforce.

5. In conclusion

Our suggestions to the Minimum Wage Review consultation are put forward in the positive spirit of continuous improvement to the business environment. We look forward to their consideration in the finalisation of the review.

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NZ Chambers of Commerce

5 October 2006