



SUBMISSION BY THE NEW ZEALAND CHAMBERS OF COMMERCE ON THE MINIMUM WAGE REVIEW 2015

Introduction

1. The New Zealand Chambers of Commerce welcomes the opportunity to make a submission on the Minimum Wage Review 2015.
2. The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 29 Chambers of Commerce nationwide. These, in turn, represent more than 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.
3. Address for service is:
 - Michael Barnett, Chairman, Management Committee, NZ Chambers of Commerce, email: mbarnett@chamber.co.nz, or phone: 0275 631 150.

Background & Scope

4. NZCCI note that in 2012 Cabinet adopted a cyclical approach for the annual review of the minimum wage with a comprehensive review every fourth year.
5. This year's review will be the first comprehensive review under the new approach. It will focus on inflation, wage growth and unemployment (as in previous years), but also consider additional factors, including:
 - Whether changes in the minimum wage have kept up with labour productivity
 - Effects of minimum wage increases on factors such as social assistance received, business growth, hours worked by employees, and workers that are earning at a rate slightly higher than the minimum wage.
 - Information sought includes:
 - What impacts are likely from a moderate increase in the minimum wage rates on Chamber member businesses?
 - Taking all factors in to account, what does the Chamber consider is an appropriate setting for the 2016 adult minimum wage?
 - What proportion of workers is directly affected by the minimum wage?
 - How long do people tend to remain on the minimum wage? What factors affect the length of time someone is paid the minimum wage?

- Flow on impacts - Are wages of people earning above the minimum wage increased as a result of minimum wage increases?
 - What effect has increases to the minimum wage had on business growth, and hours worked by workers?
6. NZCCI undertook a survey of Chamber members to help inform our response on the information sought. The detailed findings are summarised below.

Need for story-telling to clarify the difference between the ‘minimum’ and ‘living’ wage

7. NZCCI notes that the ***minimum wage*** is part of the Government's general responsibility to ensure socially acceptable employment standards that are prescribed and enforceable. Additionally, there are formal international commitments that establish an explicit obligation on the Government (e.g. as a member state of the ILO Minimum Wage-Fixing Machinery Convention) to ensure an adequate minimum wage.
8. By contrast, the ***living wage*** is highly subjective and is based on what households must pay in order to meet basic needs while living in a particular area or region. We note that there are several public policy concerns over the accuracy of the living wage currently in use and questions as to whether it will achieve what it is intended to do. With a living wage, the amount may be higher in some areas, such as a large city (like Auckland), while a lower wage would allow that same standard of living in a different area such as a rural town. Governments do not set living wages.
9. While both terms are used to describe certain aspects of wages and salaries as they relate to the benefits extended to employees, some confusion about what is meant by each term occurs, and did so in some of the responses to our survey (see below).
10. The point in respect of this submission is to suggest to Government that it needs to be very clear about what the difference is between the terms ‘minimum wage’ and ‘living wage’. In its communications in respect of the 2015 Minimum Wage Review we submit that Government should NOT let it become more than what was intended when the minimum wage setting objective was set; namely:
- “to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts”.

Chamber Survey

11. The NZCCI submission is informed by the findings of a survey we conducted by email among Chamber members. There was an even distribution among the 390 responses across key sectors of manufacturing, retail and professional services.
12. Around 70% of responses were from businesses with between 1-and-20 employees.
13. A major finding was that over 50% of respondents indicated that they do not have anyone on the minimum wage.

Other main findings

14. Other findings of the survey were:

- Most of those who join a business on the minimum wage stay on that rate for between 6 and 12 months – many are short temporary contracts, students, apprenticeships.
- For permanent employees starting on a minimum wage, in most cases, work attitude and feedback from staff are the main factors that affect the length of time someone stays on the minimum wage.
- In respect of the impact the annual increase in the minimum wage has on the business, 56% of respondents indicated it affects pay relativities. There was a lesser response but an even spread of opinion in respect of other factors such as impact on hours worked, reduces productivity, makes recruitment harder and costs jobs.
- In respect of whether businesses undertake a flow-on adjustment of wage rates of other workers as a result of minimum wage increases, there was an even 50:50 split between those that do make an adjustment and those that don't.
- However, of the just under 50% of respondents that do make a flow-on adjustment, 60% indicated that they adjust the wages of all wage earners, while 40% indicated they adjust the pay of only workers earning just above the minimum wage.

15. In two areas, the view of respondents was more clear cut:

- **On staff training**, around 75% of respondents indicated that they encourage staff on minimum or low wages to undertake training. In most cases training was part of the firm's incentives to upskill and increase productivity and growth.
- There was also strong support for Government giving greater emphasis to linking training allowances to those on the minimum wage entitlement.
- **On what an appropriate minimum wage setting would be for 2016**, most mentioned was between \$15 and \$15.50 an hour. That is, an increase of between 25c and 75c an hour on the current adult minimum wage of \$14.75 an hour.
- A number of respondents also recommended linking the minimum wage to the Consumer Price Index (CPI), and locking it in at a level that is (and remains) higher than welfare related assistance, such as 'job seeker support'.

Additional observations

16. NZCCI acknowledges that Government is required under section 5 of the Minimum Wage Act 1983 to annually review the minimum wages rates by 31 December each year.

17. However, the actual number of people on the minimum wage is relatively small, and which our survey confirms. Minimum wages are being paid to approximately 62,700 workers, making up approximately 2.7% of all employees (total of 2,346,000).

18. That is, NZCCI **strongly recommends** that Government not make the minimum wage review into something other than what it is intended to be (as set out in paragraph 10 above). The review's task is NOT to try and determine what an appropriate living wage might be.

19. Second, NZCCI has some sympathy with bench marking the minimum wage to the CPI, as a number of survey respondents suggested. But it is not a straight forward matter.
20. Certainly, we agree that the minimum wage level should be higher (and a better incentive to take up employment) than a benefit, and the differential with benefits should be maintained.
21. However, we note that New Zealand has a moderately high minimum wage – fifth highest in the OECD.
22. Further, we have a concern with the evidence from the survey suggesting that many businesses employing people on the minimum wage make an adjustment for all wage earners when the minimum wage rate is increased. That is, the minimum wage increase becomes a proxy for a wage increase for everyone regardless of productivity for relativity alone. That is not a good outcome, we submit; especially as last year's increase for example meant business had to increase wage costs by approximately \$60 million alone for the 115,100 people who were on less than the increase (\$14.25-\$14.75).
23. Setting the minimum wage is always a balancing act. As an example, we would submit that the 2015 year increase was more than a moderate increase at 3.5 percent, when unemployment remained high at 5.4 per cent, CPI increase was 1 percent, and wage increase was 2.3 per cent.
24. **In summary**, NZCCI is strongly of the view that there needs to be a balance maintained to ensure the increase in the minimum wage doesn't fuel a demand for wage increases across the board, but at the same time delivers on its (statutory) responsibility to protect the real incomes of low-paid from employment impacts.
25. The incentive for someone to have a job on the minimum wage rather than remain on a benefit is one factor to balance. To ensure the increase in the minimum wage is affordable to the economy and doesn't become a proxy wage increase across the board is another factor to balance.
26. In our view, getting the balance right is not simple about the numbers. It is also about the story telling. As we have suggested above, it is also about, perhaps more importantly, ensuring that the story you wrap around the minimum wage increase announcement makes very clear what its purpose is, and also what its purpose is not.
27. To restate, the story telling by Government needs to clearly differentiate between the minimum wage – what it is and why it is required – and the living wage concept (what it relates to, its subjectivity and why it is not the role of Government to set living wages).
28. NZCCI is available to assist in this messaging.

CONCLUDING COMMENT

29. Our submission on the Minimum Wage Review 2015 is put forward in the positive spirit of achieving measurable improvement to resolve New Zealand's productivity concerns.

30. We trust they will help inform the review to reach an appropriate decision. If you would like to further discuss please contact Michael Barnett directly by email or on **0275 631 150**.

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6 October 2015