New Zealand Chambers of Commerce (Inc)

Submission to the Minister of Labour

Minimum Wage Review

October 2009

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.

We welcome this opportunity to provide input into the annual review of the minimum wage under section 5 of the Minimum Wage Act 1983.

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. If set too high the minimum wage will:

- hinder employment growth
- impose costs on business (which will either impact on profitability or be passed on to customers).

Unemployment is expected to increase over the next year and raising the minimum wage may exacerbate that.

Accordingly, NZCCI submits that the minimum wage should be maintained at its current level for 2010.

NZCCI supports the retention of the new entrant rate differential to give young new entrants employment opportunities and considers maintaining 80% relativity to the adult rate is appropriate.

Submission

Since April 2009 the minimum wage has been set at $12.50 per hour. The government is undertaking a review of this minimum wage level with the underlying objective that the minimum wage should balance “the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts”. On the basis of this objective NZCCI submits that the minimum wage should be maintained at its current level for 2010.

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.

A rise in the minimum wage will constrain employment growth. This is especially so in the difficult economic environment the New Zealand economy is currently facing. A sluggish economy means that employers will be less likely to be capable of carrying the cost of overpriced labour.

Recent increases to the minimum wage, including the most recent increase in April 2009, have almost certainly contributed to the rising unemployment that has eventuated since then and aggravated the effects of the recession on unemployment.

Unemployment is expected to continue increasing over the coming period and raising the minimum wage may exacerbate that further.

Furthermore, in the current economic climate where recovery is fragile, New Zealand businesses generally can not afford wage rises imposed upon them in this way.

As the minimum wage rises, its goal of providing protection to a relatively small number of vulnerable workers becomes less of the primary focus. A greater proportion of the workforce is affected.

The closer the minimum wage gets to the average wage, 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 also 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.

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 or invest in technology rather than take on lower skilled employees whose wages are artificially high.

A minimum wage provides an important 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, especially in light of the current economic climate. 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.

Accordingly, NZCCI considers that there should not be any change to the minimum wage level under this review. Any increase to the minimum wage would produce losses far more significant than any gains that would be produced.

Comments on the New Entrants' Minimum Wage

Submitters are asked to comment on the operation of the new entrants' minimum wage which came into effect in 2008. This applies to new entrants to the workforce aged 16 or 17 until they have worked three months and is set at a minimum of 80% of the adult minimum wage.

Overall, NZCCI remains supportive of the lower rate for new entrants as it considers that it 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.

NZCCI does not support any increase to the current new entrants' minimum wage. We consider the 80% relativity to the adult rate to be appropriate. Raising this wage too high would diminish the incentive for employers to take them on. It would also deter young people from pursuing education and training and in the long-run education is a better way to achieve higher wages than through a minimum wage.