12 November 2018

Aaron Hissey
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via email: aaron.Hissey@mbie.govt.nz

Dear Aaron

Minimum wage review 2018

Thank you for the opportunity to submit regarding MBIE's 2018 minimum wage review.

The Wellington Chamber of Commerce (the Chamber) has been the voice of business in the Wellington region for 160 years since 1856 and advocates for policies that reflect the interest of Wellington's business community, in both the city and region, and the development of the Wellington economy as a whole. The Chamber is accredited through the New Zealand Chamber of Commerce network.

Business Central represents business interests throughout central New Zealand from Taranaki across to Gisborne and down to Nelson. Business Central is one of the four regional organisations comprising New Zealand's peak business advocacy group, BusinessNZ. In Wellington, our organisation operates the Wellington Chamber of Commerce, accredited to the New Zealand Chamber of Commerce network. Our organisation also delivers ExportNZ to Wellington and the Hawke's Bay.

Our two organisations write regarding the MBIE-led review of minimum wage rates as required by the Minimum Wage Act 1983. We wish to support the comments made by BusinessNZ in their submission and provide a few of our own views.

We support the government's objective for the minimum wage review to "keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses". As a prosperous and equitable country, it is good public policy to maintain a realistic floor for wage rates that is periodically adjusted.

Given the more comprehensive nature of this year's review, it is worth revisiting a few of the underpinning principles and key environmental factors behind 2018's minimum wage level.

Firstly, it is worth reconsidering how the minimum wage level interacts with government policies, such as Working for Families, and with evolving case law, particularly the Idea Services "sleepover" and Woodford House cases. Working for Families comes with necessary threshold and abatement calculations which add to the complexity of someone attempting to work out their income level currently and in the event of a potential pay rise. An overall strategic goal of the tax system should be to make clearer the link between effort and reward; not introduce greater complexity which takes money away from people as they make marginal increases through pay rises.

Working for Families demonstrates the point the government has more than just the minimum wage lever available to it to boost family incomes. It is worth the government, whether through the Tax Working Group or elsewhere, considering broader reforms to the tax system, tax credit abatements, the Accommodation Supplement, etc. These policies particularly impact low-income workers who are also subject to changing levels in the minimum wage.

It is worth pointing out New Zealand is at a point where higher numbers of people are being paid the minimum wage. Yet, this is not a failure of employers or the productivity of the wider economy, but a reflection of a long period of continual real increases to the minimum wage. Obviously, as the minimum wage rises in real terms, so too does the number of workers it applies to. To achieve the goal of a higher-wage economy where fewer people are paid the minimum wage, the focus should be on training and productivity improvements; rather than simply relying on increasing the minimum wage to increase overall wage levels by decree.

New Zealand needs to be careful not to price unskilled labour out of the market. Further incentivising the very automation and innovation which is changing "the future of work", as labour costs escalate to make capital investment in labour-saving devises worthwhile. International literature shows minimum wages do correlate with increases in unemployment, hitting younger people and minority groups disproportionately. This shows no increase is without cost to the very people the policy is attempting to help; a factor amplified by the minimum wage heading towards $20 per hour.

In our last quarterly survey of members, we asked what barriers were affecting their own level of confidence over the next twelve months. The third-highest ranking answer from businesses was "concern around future industrial relations changes" which included forecast increases to the minimum wage level. This shows a heightened level of concern among businesses as not only is the minimum wage expected to rise steeply, but additional employment law changes are coming affecting contract terms and conditions.

In addition, higher minimum wage levels place pressures on large segments of the workforce due to their proximity to the minimum wage and a desire for those workers to maintain their higher relativity. This could affect around one-third of all workers, a massive slice of our labour market.

Viewing minimum wages (and any so-called “living wage”) in the context of family-based expenses is a mistake because of the many younger people just trying to get a foothold in the labour market or who will transition to higher wages over time. Most young people do not stay on the minimum wage long-term. The Treasury’s research shows a living wage to be poorly targeted and a driver of unrealistically high wage rates generally.

Yours sincerely,

John Milford
Chief Executive
Wellington Chamber of Commerce, Business Central