

16 October 2009

Hon Kate Wilkinson
Minister of Labour
Parliament Buildings
Wellington

Dear Minister

MINIMUM WAGE REVIEW 2009 CONSULTATION

Introduction

1. Thank you for the invitation to make recommendations on the Minimum Wage.
2. In short Business New Zealand recommends that
 - a. no change be made to the current minimum wage or new entrants rate until the minimum wage falls below 25% of the average national wage.
 - b. the youth wage (16 – 18 years) be reinstated as a permanent separate rate set at 80% of the minimum wage and applied until the earlier of the employee;
 - i. reaching age 18, or
 - ii. completing 90 days probation, or
 - iii. completing 90 days employment, or
 - iv. being appointed to a role requiring supervision of others

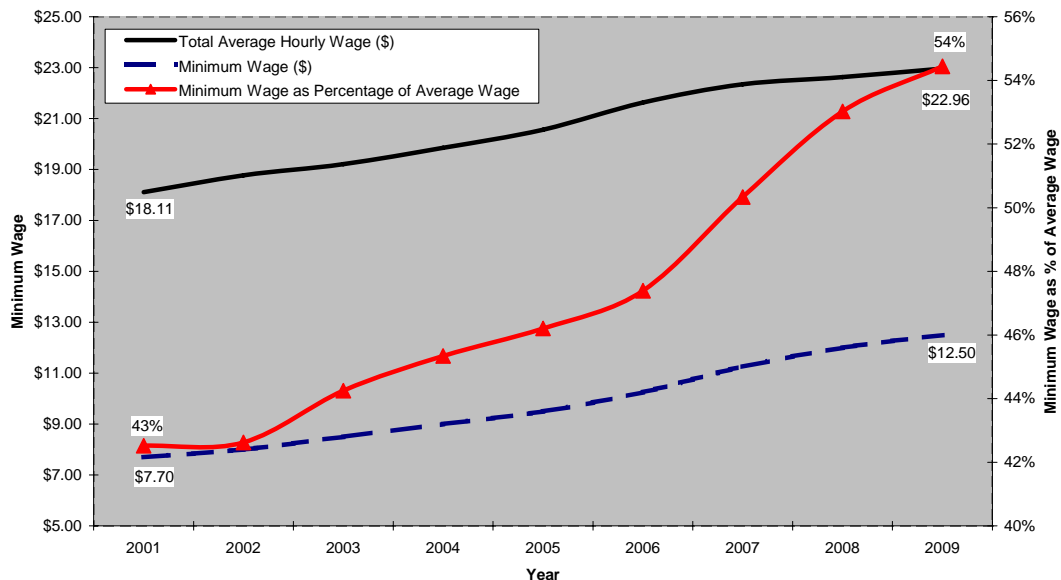
Comment

3. Business New Zealand made comprehensive recommendations in the 2008 review. Apart from the introduction of tax cuts, little, if anything, has changed in respect of the conditions pertaining to minimum wages during that period. The efficacy of the tax cuts to managing wage pressures has and will continue to be negatively impacted by the need to manage ACC costs and other economic demands.
4. For simplicity's sake, Business New Zealand's 2008 submission is appended and this covering letter makes only a few additional comments on the general conditions surrounding the minimum wage, and a more specific suggestion with regard to the Youth Rate.

Impacts of last increase

5. The increase in the minimum wage on 1 April 2009 to \$12.50, while modest, did nothing to ameliorate the issues that have concerned Business NZ for some time. (See Paras 13 – 16 in the attached submission). These centre around the fact that an estimated 1/3 of New Zealand wage and salary earners have their wages set either directly by or in direct relativity to the minimum wage. When the government is the arbitral determinant of the actual wages of such a large proportion of the labour force, the employers of those employees, and all others, are directly impacted in ways they can only manage by making sacrifices in other areas of their business. Ultimately this means that the government is creating unintended wage pressures in the New Zealand labour market, with little regard for the practicalities of that market, particularly in recessionary times.

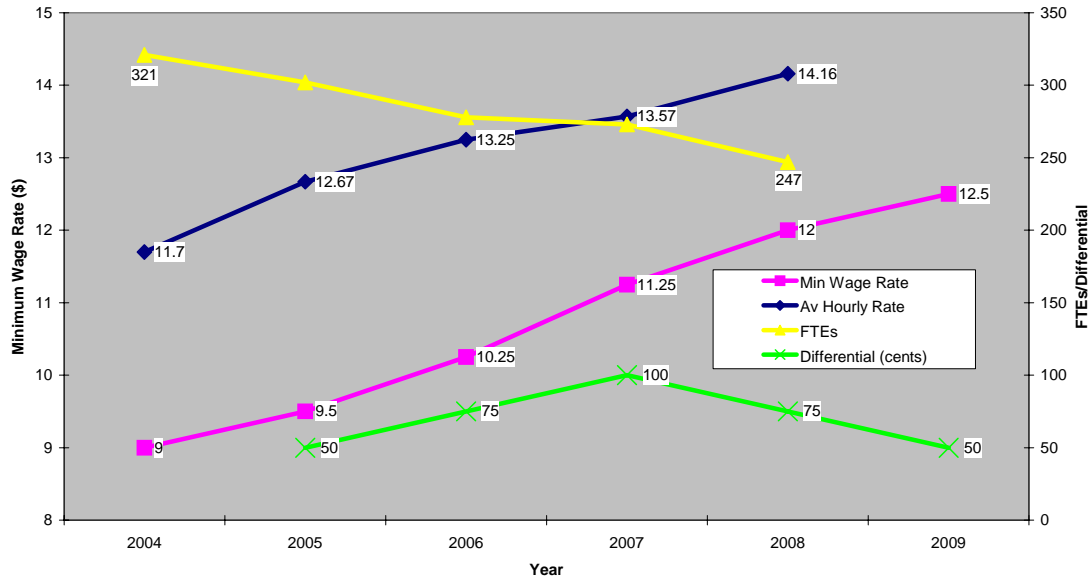
Minimum Wage as Percentage of Average Wage



6. As can be seen in the graph above, a very significant movement in the relativity between the minimum wage and average wage has taken place over the past few years. During the term of the last government the ratio increased by over 10%. If allowed to continue, the impact would begin to remove the ability of the labour market to value itself in favour of the government becoming the national arbiter of all wages. This is not likely to enhance prospects of economic recovery and growth!
7. One effect that many employers have reported in recent times is that movements in the minimum wage are increasingly and directly responsible for reductions in staffing or other service costs (in order to meet wage costs). The graph below shows how one medium sized retailer in the South Island has responded by reducing staffing number as the minimum wage has increased.

Clearly this cannot go on ad infinitum, and this retailer is one of many looking at the long-term viability of their business.

Effect of Minimum Wage on a South Island Retailer



New Entrants Minimum Rate

8. Largely anecdotal evidence to date suggests that there is a further decline in the rate of youth taking up employment (compared to that predicted in the 2008 submission). Notwithstanding the flexibility afforded by the 90 day probation period enacted by the government before Christmas 2008, the extremely short period that any under 18 year old will be paid the new entrants rate of \$10 per hour has had the apparent effect of encouraging employers to concentrate their recruitment of new employees on those who have already gained at least some experience of the workplace. Typically this is employees who are 18 and older.
9. Further work is required to better gauge the extent to which this is occurring. Nevertheless it is a signal requiring caution. From a policy alignment perspective, Business New Zealand suggests that the new entrants rate component of the minimum wage structure should be amended to align it with the 90-day probation period.
10. To that end it is suggested that the New Entrants Rate be paid to under 18 year olds until the earlier of their,
 - a. reaching age 18, or
 - b. completion of 90 days probation, or
 - c. completion of 90 days employment, or

d. appointment to a role requiring supervision of others

11. Alignment with the probation period seems sensible as the well rehearsed arguments for having the probation period largely are the same as those for having the New Entrants Rate, i.e. they both represent a reasonable period of time in which a new employee can get to grips with the realities of the workplace and learn the essential elements of their job.

Minimum Wages in General

12. Recently, Business New Zealand assisted the International Labour Organisation with the development of a training tool for employers' organisations in the setting and management of minimum wages. The result of our work was a booklet on the topic. It sets out many of the benefits and pitfalls of the various approaches to minimum wages. It may be of use to you as well in your deliberations. A soft copy of this is appended to this letter.

13. Business New Zealand would be pleased to discuss any aspect of the attached with you.

RECOMMENDATIONS

14. It is recommended that the

- a. Minimum Wage and New Entrants Rate be maintained at their present level until such time as the minimum wage falls below 25% of the average national wage
- b. New Entrants Rate be paid to under 18 year olds until the earlier of their,
 - i. reaching age 18, or
 - ii. completion of 90 days probation, or
 - iii. completion of 90 days employment, or
 - iv. appointment to a role requiring supervision of others



Paul Mackay
Manager Employment Relations Policy
Business New Zealand