Minimum wage review questionnaire 2021

- This questionnaire is designed to assist you in providing a submission on this year's minimum wage review.
- You may make your submission on a separate document if you prefer.

1.	What effects have you observed as a result of changes to the minimum wage? (You may wish to comment on the April 2021 increase, and/or increases over the past 5 years).

New Zealand already has one of the highest minimum wage rates in the world, yet we are one of the worst-off in terms of productivity growth in the OECD. Despite assertions to the contrary simply increasing pay does not lead to increased productivity.

The full effects of the most recent significant three-year increases in the minimum wage have clearly been masked by the very tight labour market, switching off the immigration tap and the impacts of covid 19 in the workplace.

At the beginning of the three-year cycle that led to a 27% increase in the minimum wage to its current $20 per hour, the feedback from our members was that it would impact on their hiring decisions and that proved to be the case as many of our employers – in our annual surveys – indicated they had not replaced a minimum wage staff member or had hired someone with some experience in the workplace at a slightly higher hourly rate.

As we worked through years two and three of the cycle and the labour market became tighter that changed.

Rather than hire minimum wage, employers opted to hire someone with some experience at a slightly higher rate.

The evidence to support that can be seen in the more than 50% increase in NEETS in the past 18 months or so.

As NEETS tend to be those seeking to enter the workplace for the first time in the 18-24 age bracket, or returning after an absence, minimum wage roles are often the entry level point for these workers. That they are not accessing the workplace in a very tight labour market indicates the rates of pay are too high for some employers.

It is also significant that despite the huge demand for labour across all sectors and skills levels in the workplace, these people are not being given opportunities. Some employers have suggested a return to youth rates to enable this sector better access to potential employment.

The other key issue for employers with a high minimum wage rate is the relativity argument. Maintaining relativity among existing staff in the workplace has proved a disincentive to hiring minimum wage workers at $20 per hour.

Hiring a minimum wage worker at $20 instead of the previous lower rates means workers a slightly higher rates want their hourly margins retained. If the minimum wage rises the expectation among the existing workforce is that their rates will rise accordingly to maintain that margin.

If an employer already has a percentage of staff on $22-25 per hour it works out less costly to hire another worker on say $23 per hour instead of hiring a $20 per hour working and having to adjust relatively throughout the workplace.

This is what our employers are telling us they are doing.

Two other trends are emerging through our employer base, wage compression and reductions in benefits for new hires.

To manage the higher minimum rate employers are choosing not to alter the relative pay rates of those on higher hourly rates or raise them by less. The pay bands are being compressed and those on slightly higher rates are not getting the increases that had previously been in place to manage relativity.

Additional benefits are no longer being offered to new hires as employers choose to only offer or keep in place those benefits to employees on higher rates or with a minimum tenure – two years seems about average – with the company. The benefits are used as a signal of relativity rather than the previous increases.

We're aware of a number of businesses who no longer offer benefits such as health or life insurance to new hires.

Employers who do hire minimum wage workers are also telling us that increasing the minim impacts their ability to provide more meaningful progression based on training, experience, length of service and performance, particularly when coupled with the compression factor mentioned above.

They are also hiring temps through agencies at a slightly higher rate and, in the absence of the 90-day trial, using the temp period as an assessment for suitability in the workplace before offering them a permanent placement. Losing the 90-day trial is also costing opportunities for minimum wage workers.

So, you can argue that raising the minimum wage doesn't cost jobs but there is no doubt it is costing a potential part of the workforce the opportunities to enter or engage in the workplace.

2.	What positive effects are likely to result from increases in the minimum wage rates, for both employers and workers? Is the current COVID-19 environment likely to change these effects?

There are no positive effects for employers from a mandated additional cost to their business.

The positive effects for minimum wage workers are also potentially minimal. Tax and loss or reduction in other benefits i.e., Working for Families eat into any increase in the minimum wage.

Inflation is now eating into that increase as well.

3.	What negative effects might be caused by an increase in the minimum wage rates, for both employers and workers? Is the current COVID-19 environment likely to change these effects?

Employers are currently under massive pressure on many fronts as the costs of doing business are increasing in New Zealand and around the world. That is one of the significant impacts of covid.

Margins are being eroded, many businesses have been unable to operate or are operating at reduced levels with their financial resilience and reserves at a very low ebb.

Business debt levels are high and despite the macro-economic numbers looking good, the micro level – the SMEs who are the more likely hirers of minimum wage staff – is struggling and in many cases closing down. While only a small change in the policy settings. the change to the minimum wage has a greater impact on SMEs and their hiring decisions, especially at a time of immense pressure on the SME community

If we see an increase in unemployment figures after the current extended lockdowns it won't be through redundancies but will be driven by businesses simply closing down.

We know many businesses are holding onto their staff through the current lockdowns because it will be too hard to find replacements if they let them go now.

In addition, the pool of labour currently available in New Zealand tends to be those that can't access the employment pool for a variety or social reasons and in many cases may need wraparound services to get them back into the workplace. Employers don't have the time or resilience to engage with these potential workers.

It would be interesting to hear what, if any, plans Government has to provide the wraparound support this sector of the unemployed needs and how employers might be able to engage with and support those measures.

An increase to the minimum wage now will just add further costs and further erode margins at a time when business in NZ has never been under more pressure.

Supply chain costs, electricity costs (average increase of 70% plus for commercial contracts), a closed immigration market, staff poaching, rising wage costs, increasing local government rates and lease costs are all eating into employers' margins.

In addition, since June last year we've seen 10 days domestic violence leave, an extra month of paid parental leave, an additional five days sick, an additional public holiday and another rise in the minimum wage (April 21) added to employer obligations to staff.

Even considering another increase to the minim wage, let along another three-year cycle, seems counter intuitive when Government is having the prop up many businesses through the wage subsidy.

Employers' resilience, ability to fund wage increases and ability to cope with further change are at an all-time low.

An increase to the minimum wage now will increase the number of NEETS and will cost opportunities for employees.

4.	Similar to the previous Government in 2018, the Government is now considering setting indicative rates until 2024 to provide businesses and workers with more certainty about the potential trajectory of future increases. What are your views on this approach? If you agree, what would you consider an appropriate index (e.g., inflation, wage growth, or price indices) to use to inform these rates?

Setting indicative rates over a three-year cycle is helpful in that it at least allows businesses to plan for the increases and match that with their likely hiring requirement in one-to-three-year time frames.

But the EMA recommends against any increase to even be considered until the start FY 23 with a hold on the minimum wage until April 1, 2023.

We already have one of the highest minimum wages in the developed world economies.

We have just gone through a cycle that increased the minimum wage by 27% in three years.

The ability of the employers to fund an increase of any scale for the 150,000 or so on the minimum wage is at its lowest ebb in decades as many businesses likely to hire minimum wage workers are under extreme financial pressure.

Any increases after April 1, 2023, should either return to the previous index-linked system used and agreed across political parties prior to latest three-year cycle of large increases. A better alternative would be a market test with the increases to be no more than the market rate.

We have no issue with certainty over a period of time and returning to an index linked system returns that certainty, regardless of the length of the cycle.

5.	Are there other changes the Government could make alongside an increase to the minimum wage that would be helpful in the current environment?

There is a common-held fallacy among some sectors involved in the workplace market that raising pay rates increases productivity.

That doesn't happen.

The EMA's firmly held belief is that upskilling, in-work training, re-training older and existing workers and better guidance and preparation of our emerging workforce are the keys to higher wage and salary rates.

A singular focus on mandatory increases to minimum and other wage scales is not the answer to New Zealand's lingering productivity issues or our perceived low-wage economy.