

# **SUBMISSION**

By



**NATIONAL ASSOCIATION OF RETAIL GROCERS AND  
SUPERMARKETS OF NEW ZEALAND (INCORPORATED)**

To the

**MINISTER OF LABOUR**

On the

**MINIMUM WAGE REVIEW**

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# Review of the Minimum Wage

## 1. Introduction

The National Association of Retail Grocers and Supermarkets of New Zealand Incorporated (NARGON) represents the interests of approximately 40% of the food retailing industry in New Zealand. NARGON's approximately 500 retail members are owner-operators of retail food warehouses, supermarkets and grocery/convenience stores. In the main, retail members of NARGON are aligned to a banner/advertising group of stores such as Pak 'N Save, New World, Write Price, Four Square, Supervalu, or Fresh Choice. Many of our retail members are the owners of smaller stores.

We also have a number of associate members who are major suppliers of products and services to our retail members.

NARGON welcomes the invitation by the Minister of Labour to make a submission on the 2008 minimum wage review. We regularly take the opportunity to comment on this issue, particularly as any increase in minimum wages has considerable significance for the retail grocery sector.

Minimum rates have increased steadily and significantly since 1999. NARGON is concerned that, especially in the face of a slowing economy, further rises will negatively impact on the ability of businesses to provide jobs and training opportunities for those less skilled.

We believe a period of consolidation is required before further increases are contemplated. In the interim (and beyond) the Government would ideally focus on increased access to training and employment to achieve higher productivity and hence increased real earnings over time.

The Government has outlined four main objectives for the minimum wage, namely fairness, protection, income distribution and work incentives. It has also proposed a new objective for the coming review; reducing the gender pay gap.

The remainder of this submission sets out our views on these issues.

## 2. Recommendations

NARGON recommends that:

- a. **There be no increase in minimum wage rates.**
- b. **That there be an increased focus on training for young people.**
- c. **That the proposed new objective of Reducing the Gender Pay Gap not be included in the forthcoming review of the minimum wage.**
- d. **The Government seriously considers tax cuts rather than increases in the minimum wage rates as a more effective way of increasing real wages for relatively low paid workers**

### 3. The Government's Goal

- The benefits of minimum wages have been (and will continue to be) debated for many years.
- The grocery retail industry is a fast-growing, dynamic and critically important sector of the New Zealand economy which is labour-intensive and, though characterised by a high level of casual and part-time employment, a major employer. Employees represent a broad cross-section of the general community and the industry employs a significant number of young people. Indeed, for many young people a job in their local supermarket or dairy is their first paid employment.
- As NARGON has pointed out on previous occasions, because the grocery retail industry is a low-profit margin industry, increases in fixed costs such as wages have a significant impact on bottom line profitability – essential if employers are to stay in business and continue to employ. With an industry such as the grocery retail industry, which largely deals with essential items, passing such costs on to customers is often more difficult than it would be in industries dealing with less essential items. Consequently, any increase in fixed costs can threaten business viability (particularly for more marginal businesses) or require a reduction in staffing levels, adversely affecting service and employment levels. Neither outcome is satisfactory either for the industry itself or for the general public, which is employed by, and purchases essential items from, the retail grocery industry.
- While NARGON supports a robust legislative environment that ensures proper legal protection for employees and considers reasonable minimum wage rates an important part of such an environment, the organisation nevertheless believes there is a need for balance. In NARGON's view, the level at which minimum wages are set should provide appropriate employee protection but should not, at the same time, undermine business viability, thereby reducing the ability to provide employment opportunities.
- It is certainly the case in New Zealand that youth unemployment and the unemployment rate of Maori youth in particular is far higher than the rate of unemployment generally. It is also the case that minimum wage rates have increased exponentially over the last five years<sup>1</sup>.
- NARGON believes that gaining employment is of considerable benefit to young people but many, unfortunately, are less productive than older employees. Often they require a great deal of training and supervisory input to be able to reach, and maintain, the productivity levels and reliability of their more experienced counterparts. Necessary training will include both job specific training and general work readiness training, to ensure that staff can work effectively in teams, interact appropriately with customers, handle cash and take personal responsibility for their work performance. Such training adds immeasurably to the future employability of young people but is costly for employers to provide due to the time involved, additional expense incurred, and lower productivity of an employee who requires the training.

1. <http://www.stats.govt.nz/products-and-services/hot-off-the-press/household-labour-force-survey/household-labour-force-survey-jun07qtr-hotp.htm?page=para004Master>

- When deciding whether to employ a particular individual, employers must determine whether that individual's level of productivity is likely to be commensurate with the wage level he or she – or minimum wage legislation – requires. The reduction in the age of eligibility for the adult minimum wage has had its own negative impact, as supermarket owners are less likely to employ 18 and 19 year olds, preferring instead to employ those aged 20 years or over who tend to be more mature, more productive, have a better work ethic and require less supervision. (The abolition of the youth minimum rate would have the same effect for 16 and 17 year olds, for the same kind of reason. The reduced application of the youth minimum rate will inevitably also have that effect.) As a result, opportunities for valuable workplace learning and skill development are becoming increasingly rare.
- It needs to be noted that:
  1. Many receiving the youth minimum wage are 'after-school' workers and do not rely on the minimum wage as a long-term source of income. Frequently such employees will have no intention of remaining in the retail grocery industry but nonetheless are gaining valuable work experience.
  2. Paradoxically, continued increases and extensions of coverage to the minimum wage rate could send a signal to some younger people that further education and training is not warranted.
  3. Any minimum wage increases would mean smaller businesses in particular would have to think seriously about employing unskilled labour, with a corresponding reduction in the opportunity to gain work skills.
  4. Any minimum wage increase has its own flow-on effects in terms of increased costs of goods and services
  5. Significant increases in wage rates are sustainable only if based on increases in productivity.

***Recommendation:* that there be no further increases in the minimum or youth rates.**

#### **4. Minimum Wage Rates and Productivity**

- While NARGON believes further increases to minimum wage rates are effectively increasing the chances of job losses for those who are young and/or unskilled, we also believe continued minimum wage increases are inconsistent with the Government's priority placed on raising productivity and growth.
- Action on labour productivity is needed sooner rather than later. New Zealand's labour productivity growth has been consistently less than the OECD average from the late 1970s. Comparing New Zealand with our closest economic neighbours shows that Australia's average annual productivity growth rate over the period 1998-2006 is 1.9%, compared with 1.6% for New Zealand. Clearly, New Zealand has to do better to compete on an international setting.
- Remuneration is a key factor in getting higher productivity, but only where it can be linked to specific individual or team outcomes. Increases in minimum wage

rates boost wages but of themselves do not boost productivity. Furthermore increased costs that are not offset by increase productivity typically flow through either into increased prices or, if the market cannot sustain higher prices, cost cutting and, often, job losses.

- We believe Government should focus on providing employment opportunities and training schemes, aimed at equipping young people with higher skill levels at the point of entry to full time employment, thus enhancing their productive capacity and, ultimately, earning potential.

***Recommendation:* The Government should focus on increased access to training and employment opportunities, particularly for young people**

## **5. Proposed New Objective; Reducing the Gender Pay Gap**

- The proposed objective overlooks the fact that while minimum wage laws can and do set wages they cannot guarantee jobs. Equally valid is that, while some may consider that raising the minimum wage helps to reduce the difference between male and female earnings (commonly misnamed the “gender pay gap”) this is by no means a universally accepted view.
- Government, as a consequence of its state sector pay and employment equity exercise, may be in a position to increase wages through the use of taxpayer-funded resources. By contrast, the retail grocery sector lacks any similar capacity to respond to arbitrary wage increases. It must generate its own income if it is to fund any such increases.
- In simple terms, reducing the pay gap can only occur if pay rates for men and women move at different rates. However, to require that to happen through legislative means through a gender based splitting of the minimum wage would arguably constitute gender based discrimination in terms of the Human Rights Act (and would not be saved by the operation of s73 of that Act).
- Introducing a split rate (the only logical way a minimum wage increase could affect the so-called “pay gap”) would have longer-term consequences too. If, as argued earlier, a minimum wage increase reduces job opportunities, more women will be affected than men, given that more women occupy the low end of the pay spectrum than men. This increases the likelihood of women, if they can get work, either needing to find more than one job, being forced to work in contracting capacities, or resorting to the black economy. Their remaining choice is benefit dependency (and it remains true that beneficiaries typically experience the lowest living standards).

***Recommendation:* That the proposed new objective of Reducing the Gender Pay Gap not be included in the forthcoming review of the minimum wage.**

## 6. A Better Approach – Reducing Tax Rates

- NARGON believes there is a more viable alternative for ensuring a highly productive and high wage economy than raising minimum wage rates to ensure a highly productive and high wage economy – the reduction of taxes on both individuals and businesses.
- If the Government is focused on raising New Zealand's productivity and growth rate, we believe a better way in which to provide all New Zealanders with the opportunity to save and invest more is through personal and company tax rate cuts.
- By instigating a broad-base, low rate approach to taxes while containing Government spending to levels around 30% of GDP, most New Zealanders will have more cash in hand with which to repay debt, save for a house deposit or invest for retirement savings. For example, consider a person working a typical 40-hour week at the current adult minimum wage of \$11.25. After tax of 19.5% (excluding any rebates and ACC payments that may come into account), the person ends up with \$18,837 cash in hand. With a low personal tax rate of say 15%, cash in hand would rise to \$19,890 a year - an increase of \$1,053. This raises the hourly rate from \$11.25 to \$11.83 an hour.
- The advantages of a tax cut over an increase in the minimum wage rates for low paid workers are numerous. First, the rise in the hourly rate through a tax cut does not increase the wage costs for the business. Therefore, there is little likelihood of the position being made redundant, and even less likelihood of the position being withdrawn once the current employee takes on another position. Second, the relativity of those earning slightly more than those on the minimum wage because of extra responsibilities or qualifications is kept as their wages also experience an increase.

***Recommendation:*** That the Government seriously consider tax cuts rather than increases in the minimum wage rates as a more effective way of increasing wages for relatively low paid workers.

## 7. Conclusion

As NARGON said in its 2006 submission, it is our firm belief that any increases in, or extensions of, the minimum wage rate would distort the labour market by reducing jobs and therefore employment opportunities – an effect that conflicts directly with the Government's own aim of promoting greater productivity and increasing economic growth. Young people should be given every opportunity to raise their skill levels but for many, skills are gained through work experience. Further increases in minimum wage rates, would, by reducing the supply of jobs, see more young and unskilled individuals and older persons lacking work experience because of time away from the labour force, deprived of the ability to gain that experience. NARGON therefore opposes any increase in the minimum wage.