

SUBMISSION

By



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

To the

MINISTER OF LABOUR

On the

**2011 MINIMUM WAGE REVIEW
CONSULTATION**

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2009 Annual Review of the Minimum Wage

1. Introduction

The National Association of Retail Grocers and Supermarkets of New Zealand Incorporated (NARGON) is pleased to accept the Minister of Labour's invitation to submit to the annual minimum wage review consultation. NARGON regularly takes the opportunity to comment on this issue, particularly as any increase in the minimum wage has considerable significance for the retail grocery sector. All else aside, such an increase will inevitably translate into increased levels of pricing.

NARGON represents the interests of around 40% of the food retailing industry in New Zealand. The organisation'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 with the franchised retail operations of Foodstuffs (Pak 'N Save, New World, Four Square) and Progressive (Supervalu, Fresh Choice). Many of NARGON's retail members are the owners of smaller stores.

NARGON also has a number of associate members who are major suppliers of products and services to its retail members.

2. Recommendations

NARGON recommends that:

- (1) There be no increase in minimum wage rates but, instead
- (2) An increased focus on training for young people.
- (3) If the government is intent on making an increase, the increase should be modest and certainly no more than CPI

3. Specific Comments

- 3.1 As NARGON has frequently pointed out, the retail grocery industry is a critically important sector of the New Zealand economy. The industry is labour-intensive and though characterised by a high level of casual and part-time employment, is a major employer. This is particularly so because the nature of the industry means it is able to offer the kind of flexible employment many employees are seeking. Industry employees represent a broad cross-section of the general community and the industry has been a good source of employment for young people, as well as for women returning to the workforce. For many young people a job in their local supermarket or dairy is their first experience of paid employment, providing them with valuable work experience for the future.

- 3.2 However, the retail grocery industry is a low-profit margin industry and therefore increases in fixed costs such as wages have a significant impact on bottom line profitability. And as NARGON has many times pointed out, profitability is essential if employers are to stay in business and continue to employ. Because the grocery industry deals largely with essential items, passing minimum wage costs on to customers is often more difficult than it might be if the industry provided a less essential service. 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.¹ Neither outcome is satisfactory, not for the industry itself nor for the general public whose members not only purchase essential items from grocery stores but in some cases are employed there.
- 3.3 NARGON supports a legislative environment that ensures proper legal protection for employees but would point out that a minimum wage too often has the opposite effect to that intended. As is self-evident, a minimum wage guarantees a minimum payment level but it cannot guarantee jobs. This is particularly so in the current environment when many of NARGON's members have experienced a decline in sales and in some cases have been forced to reduce staff hours or make staff redundant. An arbitrary minimum wage increase, by contributing to the problems businesses are already experiencing, simply reduces the ability of business owners to provide employment opportunities.
- 3.4 Not all employees have the same skills or work experience and minimum wage laws will have more impact on some than on others. For example, earlier claims about the unfairness of paying young persons doing 'adult' work a lesser minimum wage resulted in the effective abolition of the youth minimum rate. However, a marked increase in the rate of youth unemployment suggests that the removal of the youth minimum wage has done young people few favours.
- 3.5 A high minimum wage (and the rate has increased exponentially over recent years) not only has an adverse effect on the employment of young people but also makes it harder for employees who lack skills and work experience to get a job. Employers will always be reluctant to pay more than the

¹ Employment levels are always likely to be adversely affected by an arbitrary increase in wages. New Zealand's minimum wage, at 52% of average hourly earnings was, in 2009, already more generous than the minimum in 24 other OECD countries. (OECD StatExtracts: Minimum relative to average wages of full-time workers. By contrast, the UK Low Pay Commission recently suggested that there, the increased minimum wage bill might be making firms reluctant to create jobs by recruiting inexperienced staff.

perceived value of an employee's productivity and often with younger persons, than their perceived reliability. While there have been studies that claim minimum wages have little if any effect on unemployment, others show this is far from the case, particularly where young people are concerned..

- 3.6 A 2006 OECD Report 'Boosting Jobs and Incomes – Policy Lessons from Reassessing the OECD Job Strategy' noted the following (on page 13 of the Report):

'Recent developments suggest that a moderate (emphasis added) legal minimum wage generally does not undermine employment, but also that adequate allowance for wages below that level for youth and possibly other vulnerable groups is essential ... recent analysis confirms that overly high minimum wages together with high payroll taxes may affect the employment prospects of vulnerable groups.'

If that statement was true at the time, it is without doubt even more so now. The level at which any minimum wage is set (and in New Zealand it is set a high level, see footnote 1) will obviously have an effect on outcomes.

- 3.7 While gaining a first job is of considerable benefit to young people many 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. The same is often also true of people re-entering the workforce after periods of unemployment. Necessary training will include both job specific training and general work readiness training, to ensure 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 future employability but is costly for employers to provide owing to the time involved, additional expense incurred, and the lower productivity of an employee who requires the training.
- 3.8 Thus the reduction in the age of eligibility for the adult minimum wage has had its own negative impact, as supermarket owners are now somewhat more reluctant to employ younger persons than they may once have been. The effective abolition of the youth minimum rate has done little for those it was meant to help.
- 3.9 The following points should be noted:
- Of those young people who do receive the minimum wage, many are after-school workers, not reliant on the minimum wage as a long-term source of income. Frequently such employees have no intention of staying

in the retail grocery industry but nonetheless are gaining valuable skills and work experience.

- Paradoxically, continued increases in the minimum wage rate could send a signal to some younger people that further formal education and training is not warranted.
- Another minimum wage increase is likely to see many of NARGON's members thinking seriously not only about employing unskilled labour but also about the number of staff they can afford to employ.
- Any minimum wage increase has its own flow-on effects in terms of the increased costs of goods and services.
- It is an inescapable fact any wage rate increase is sustainable only if based on a corresponding increase in productivity.

4. Conclusion

It is NARGON's firm belief that any further increase in the minimum wage rate would have an adverse effect on the labour market by further reducing jobs and therefore employment opportunities. This is in direct conflict with what should be the Government's aim of promoting job opportunities through greater productivity and increased economic growth. Young people, but also others seen as suffering labour market disadvantage, need to have every opportunity to raise their skill levels. To this end formal education is, of course, important but for many it will be their work experience that provides the skills necessary to progress in the world of work. This is particularly true given that New Zealand's literacy and numeracy problem means it is through paid employment that many young people are first encouraged to develop those essential skills. Further increases in minimum wage rates (both the adult and new entrant rate) would, by reducing the supply of jobs, see more young and unskilled individuals deprived of the ability to gain a foothold on the employment ladder. NARGON therefore opposes any increase in the minimum wage.