



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

**Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi**

to the
Minimum Wage Review 2020

15 October 2020

This submission is made on behalf of the 30 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 320,000 members, the CTU is one of the largest democratic organisations in New Zealand.

The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (CTU), which represents approximately 60,000 Māori workers.

Summary of recommendations

The CTU recommends that:

The Minimum Wage be increased on 1 April 2021, with declining preference, to:

- a. 2/3 of the average wage - \$22.29; or
- b. the Living Wage - \$22.10 or
- c. the currently signalled rate of \$20.

1. Introduction

1.1. The CTU strongly supports a rise in the minimum wage on 1 April 2021. Our preference in declining order is:

- 2/3 of the average wage – \$22.29¹
- The Living Wage - \$22.10
- The currently signalled rate of \$20

This is because such a rise:

- Explicitly values the work of many of our essential workers under Alert Level 4.

¹ Two-thirds of the average wage at March 2020 (\$33.14) increased by the Treasury PREFU forecast of a 0.9% increase in the average ordinary time hourly wage in the year to June 2021.

- Provides a wage floor for the labour market as a whole and helps address the leftward skew of the wage and salary distribution. In our low wage economy.
 - Does not necessarily increase unemployment and to the extent it does Government needs to provide alternative socially productive employment.
 - Promotes productivity and provides incentives for businesses to innovate and invest in capital.
- 1.2. Given that decisions have already been made by the two major political parties – Labour \$20²; National – no increase³ - this year’s submission is simply an outline of the reasons for our support. Greater detail can be found in our 2019 and 2015 submissions which are attached.
- 1.3. We note, however, that in previous years the CTU had indicated that a rise in the minimum wage was appropriate, given that the economy was growing, to enable those on the lowest wages to share in the growth.
- 1.4. The CTU stands by this for the growth years and acknowledges that this is not the current situation.
- 1.5. However, our view is **not** that the converse applies in 2020/21 i.e. that the minimum wage should be reduced or deferred. This is because the minimum wage is currently below what could be considered a ‘fair’ rate of 2/3 of the average wage - \$22.29.
- 1.6. The increase to \$20 has also been well signalled. The Government announced 3 years ago that the minimum wage would be set at \$20 next April giving businesses certainty and plenty of time to adjust.
- 1.7. We also note that in a recent Business NZ survey, 61% of businesses indicated that they were prepared to pay a living wage as a minimum in their business in the near future.⁴

²https://www.labour.org.nz/workplacerelements?gclid=CjwKCAjwwab7BRBAEiwAapqpTAJixmEze8WbGiydFUoerzBObGRU9gD9kzdDyIJP469JhA7ZQ4zQXBoCKvgQAvD_BwE

³ <https://www.tvnz.co.nz/one-news/new-zealand/collins-and-ardern-divided-merits-minimum-wage-increases-in-first-leaders-debate>

⁴ https://www.businessnz.org.nz/_data/assets/pdf_file/0010/201502/200911-Deloitte-Chapman-Tripp-BusinessNZ-Election-Survey.pdf Page 60

- 1.8. We are aware that for minimum wage workers with children in receipt of Working for Families, accommodation supplement and with a student loan; any increase in the minimum wage will be clawed back (including tax) at a rate of between of between 42.5% and 79.5%⁵. For that reason, the CTU also strongly supports an increase in either (or both) abatement thresholds or abatement rates for Working for Families and the accommodation supplement.
- 1.9. However, the CTU does not support such changes as an alternative to an increase in the minimum wage. Such changes are complimentary and should be advanced together or independently of the minimum wage review.
- 1.10. The Minister has indicated that this year's review will focus on *inflation, wage growth, fiscal costs and the disemployment impacts of a minimum wage increase*. Our submission explicitly addresses wage growth and disemployment and we have made some comments at the end to address inflation and fiscal costs.⁶
- 1.11. However, as per our 2019 submission, we urge the Government to expand its consideration to recognize the importance of increasing the minimum wage to explicitly value the work of those who are currently paid the least, realign the wage and salary distribution and improve productivity. All with a view to improving social justice in New Zealand.

2. Explicitly values work

- 2.1. The rate of remuneration for employment, in a market-based economy, is the key way of indicating society and the economy's view of the value and worth to it for the work provided by the individual concerned.
- 2.2. However, as we saw during Alert Level 4 the workers who were truly essential to the functioning of our economy and society; cleaners, supermarket workers, security guards and bus drivers were also some of the lowest paid. Many were on about the minimum wage with very few even on the Living Wage.

⁵ 25c abatement for WfF and 17.5% tax = 42.5%, also allowing for student loan at 12c and accommodation supplement of 25c gives a possible clawback of 79.5% of any increase in the minimum wage.

⁶ We appreciate the provision of the MBIE questionnaire to potentially guide and assist us in preparing this submission; however we have chosen to frame our response in a way that more directly speaks to the CTU's perspective on the minimum wage.

- 2.3. This disconnect between value and pay is not sustainable in a functioning society. Such a disconnect is all the more stark given that MBIE have shown that women are disproportionately represented among minimum wage workers indicating a structural disrespect for the paid work of women in these areas.⁷

3. Wage Floor

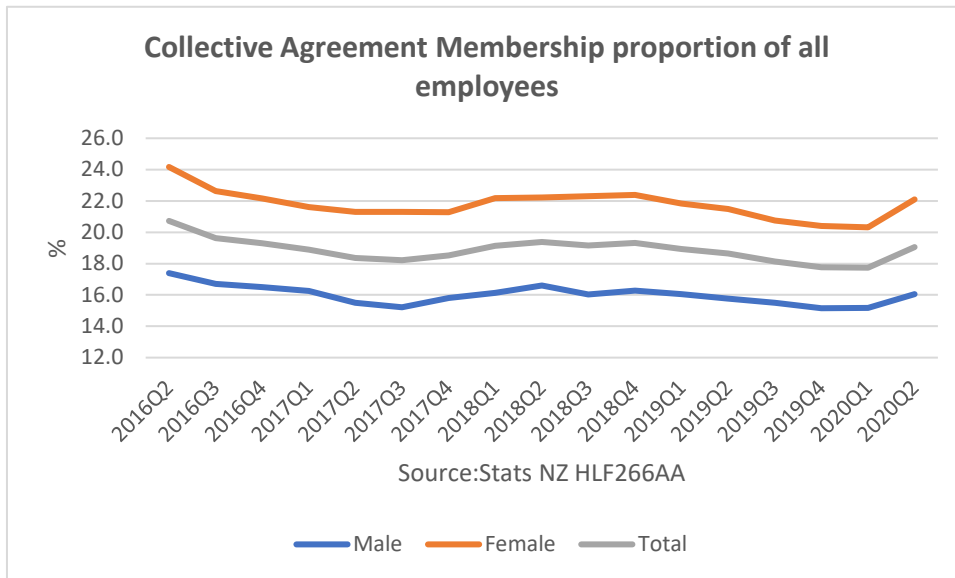
- 3.1. Currently wages and salaries have a left skewed distribution indicating that many more people earn below the average wage than above it. In general two-thirds of employees (65-67%) have earned below the average hourly wage since 1998 according to the HLFIS/NZIS income survey. For that reason, the CTU's first preference is a minimum wage set at 2/3 of the average wage; pushing the distribution rightwards.

Graph of aggregate wage and salary income paid by income band from 2001 to 2019

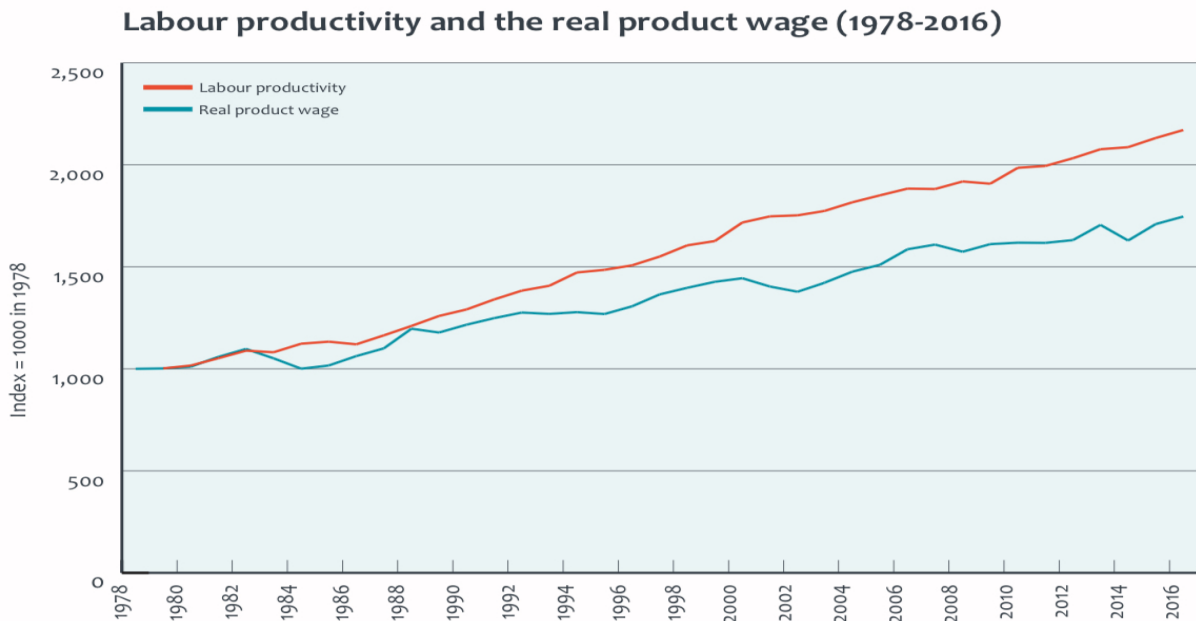


- 3.2. In the CTU's view the leftward skewed distribution is a combination of low levels - albeit recently increasing - of membership of collective agreements,

⁷ <https://www.mbie.govt.nz/assets/Uploads/minimum-wage-review-december-2019.pdf> Page 32



combined with wages not keeping up with labour productivity since the early 1980's, means that workers have not been receiving the benefits from their increased productivity.⁸ That is, there is some way to go for wages to catch up.



3.3. All of which means that it is a regulated minimum wage, and not other features of the labour market, which provides the structural floor for wages and is the only mechanism the government currently has to address this misallocation of resources.

⁸ <https://www.mbie.govt.nz/assets/695e21c9c3/working-group-report.pdf>

- 3.4. And it is this mechanism which ensures that the prevalence of poverty in households with paid work is significantly below those without paid work.
- 3.5. In future, Fair Pay Agreements; which the CTU hopes will initially cover sectors such as supermarket workers, cleaners, security guards and bus drivers, more widespread collective bargaining; the rollout of the Living Wage to contractors to the government; and the rise of pay equity claims to address the historical and current undervaluation of the paid work of women – the minimum wage may no longer be as structurally important as a wage floor.
- 3.6. However, we are still many years from this being the case and so the minimum wage should be set at 2/3 average wage in the interim or at a minimum the signalled \$20 rate.

4. Interface with unemployment

- 4.1. In very simple models of the (labour) market with a downward sloping demand curve; an increase in the price of labour would reduce the demand for it – all things being equal. On the basis that there was also static supply of labour; this would cause unemployment.
- 4.2. In real life, of course, nothing is that simple and this is acknowledged by MBIE when they said [there is] no consensus in the international literature of the disemployment effects of minimum wage increases.⁹ The CTU has a stronger view on this which is outlined in section 5 of our Minimum Wage review submission in 2015.
- 4.3. Pre Covid, factors such as reducing immigration, education, or fertility decisions could also impact the supply of labour reducing any impact on unemployment. On the demand side, the ability for firms to increase prices or simply absorb the additional costs are potential counters to a reduction in demand. And this is before the impact of the most recent increase having been signalled up to 3 years in advance of it coming into effect.
- 4.4. Post- Covid, it is true unemployment, or underutilisation, is increasing but the CTU's view is that this as a result of the large scale impact of the borders being closed and global pandemic affecting the economies of our trading partners rather than any current or signalled increase in the minimum wage.

⁹ <https://www.mbie.govt.nz/assets/impact-statement-increasing-the-minimum-wage.pdf> Page 8

- 4.5. We note that the Government has, and is, providing significant support to business in the form of low interest loans, enhanced tax settings and previously the wage subsidy to help counter the impacts and allow for a transition for vulnerable firms.¹⁰
- 4.6. The CTU has also been calling on the government to invest in areas that support job creation in areas that support high quality, skilled, well paid jobs that move us to a zero carbon future. We would also like to see an acceleration of active labour market policies to match people with the jobs that do exist such as horticulture – many of which would normally be in the category that would pay the minimum wage; and creative ways such as increasing eligibility and length of paid parental leave to temporarily reduce labour supply.
- 4.7. In our view these initiatives would have a far greater impact on reducing unemployment than deferring or cancelling the previously signalled increase to the minimum wage.

5. Interface with productivity

- 5.1. The received wisdom is that wages are low because productivity is low – putting aside the fact that wages have not increased consistent with the even low levels of labour productivity.
- 5.2. The CTU's view however is the converse. Productivity is low because wages are low, thereby giving firms no incentive to innovate or invest in capital which would increase productivity. The CTU's detailed analysis of the role of increased wages in enhancing productivity can be found in section 7 of our 2015 submission.

6. Inflation

- 6.1. Given that the Reserve Bank is undertaking quantitative easing and signalling negative interest rates due to the deflationary pressures in the economy, the CTU is of the view that a 5.8% increase to the lowest paid workers will help the Reserve Bank resist deflationary pressures. We also note that as 61% of the businesses surveyed by Business NZ, were looking to pay their staff at least the living wage in any case.

¹⁰ <https://www.business.govt.nz/covid-19/financial-support-for-businesses/>

7. Fiscal Costs

- 7.1. The CTU expects any increase to the minimum wage to be fiscally positive for the government.
- 7.2. This is because the Government has already agreed to pay all directly engaged and contractors in the Public Sector a Living Wage.¹¹ As the Living Wage is currently higher than the signalled increase of \$20 there would be no additional fiscal cost to the Government.
- 7.3. The fiscal positivity will arise because any increase in the pay of minimum wage recipients will be clawed back by the Government at a rate between 17.5% and 79.5% depending on whether the person concerned receives Working for Families, accommodation supplement or has a student loan.
- 7.4. For this reason, the CTU supports a raising of the thresholds and abatement rates to lessen this transfer from low income workers to the government.

8. Conclusion

- 8.1. That the minimum wage should be increased to at least the signalled rate of \$20 on 1 April 2021.

¹¹ This is on the assumption that the next Government is a Labour-led one. However, in the event it is a National led one, as they plan to defer or cancel the next minimum wage increase – all analysis on the fiscal effects become no longer relevant anyway.