

# Newman Weekly

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The New Zealand Centre for Political Debate

## Questions of Governance

Last week NZ Post announced it will be increasing the price of stamps: on June 1st, the cost of stamps for standard domestic letters will rise from 45 cents to 50 cents and fastpost stamps will increase from 90 cents to \$1. Accordingly to the mail chief, Peter Fenton, while the company has absorbed a number of business cost increases over the last three years, wages and other employment expenses - which make up around 40 per cent of the cost of mail delivery - must now be passed onto the customer.

A major factor in their decision is the 10% increase in the minimum wage - from \$10.25 to \$11.25 - that came into force on April 1st. This new rate means that New Zealand's minimum wage is now set at 66% of the median weekly wage. In comparison, the United States has a minimum wage that is set at 34.4% of the median weekly wage, in the United Kingdom the rate is 47.9%, and in Australia the rate is 63.9%.

Minimum wages are adjusted by government decree, through an Order in Council. With the proposed increase not having to be justified in Parliament, and not having to be paid for out of government coffers, it is easy for a party like Labour - that is keen to please the union movement and keep in sweet with its voter base - to be generous.

But the question that springs to mind is why \$11.25? Why not increase the minimum wage to \$12 an hour, which is what Labour intends to do next year? Or what about \$14.60 an hour, which is the goal of the New Zealand Council of Trade Unions? In fact why not \$20 an hour or \$100?

In economics, as in life, there are no free lunches, and wage increases that have not been generated through a lift in the productivity of the employees, becomes a net cost on society. In a normal employment market, wages are paid as compensation for the services supplied by employees. The more effective and productive employees are, the greater the benefits they provide to their employer and the more generous their remuneration packages can be. These employees are protected by the market - their bosses know that if they don't look after

their good staff properly, then they risk losing them to their competitors.

Wage increases are therefore normally tied to productivity increases, and countries that have productive workforces that generate high value goods and services, can expect rising wages and rising living standards. A high rate of employment on its own is not enough. All too often, politicians, desperate to lower unemployment in order to make themselves look good, will create unproductive government jobs. The problem is that these jobs create additional bureaucracy and rather than increasing economic output, they will decrease it.

This is undoubtedly one of the reasons why New Zealand's latest measure of productivity growth is so dismal. At 0.4%, it is the worst since records began. Our economic growth rate has also fallen, and at 1.9%, it is the lowest rate since 2002.

In December of last year, the Labour Department warned the government that increasing the minimum wage could have significant negative effects including the loss of between 700 and 3,100 jobs. These are basic jobs that are no longer economical at the higher wage rates. That means that the biggest losers from high minimum wage policies are the groups in society who are the most disadvantaged in an employment sense. These include school leavers who have had no experience, unskilled workers who lack a good employment track record, women returning to the workforce after raising a family, the long-term unemployed, and former prisoners. With higher minimum wage rates, well-meaning employers can no longer afford to give these people a go as cost pressures reduce their ability to 'carry' them.

In writing about the detrimental effects of minimum wage rates on teenagers, renowned economist Milton Friedman in his book *Free to Choose*, put it this way: "The high rate of unemployment among teenagers, and especially black teenagers, is both a scandal and a serious source of social unrest. Yet it is largely a result of minimum wage laws".

But the negative impact of increasing the minimum wage does not stop with job losses: firms will

come under increasing wage pressure as other employees seek pay rises in order to preserve their pay relativity; costs may need to be reduced; paid hours per employee may need to be cut; weekly rosters may need to be tightened; workers who resign may not be replaced; and in extreme cases, businesses may need to retrench or close.

It is highly likely that even more manufacturers will relocate to countries like China with low labour costs, and that organisations operating in industries where there is a cap on government funding, such as the aged care sector, will be squeezed out and forced to close. (To read the Minimum Wage Review 2006 Cabinet Paper see [www.nzcpd.com](http://www.nzcpd.com))

But there is another group of New Zealanders who are suffering as a result of the application of minimum wage policies - disabled workers who used to be happily employed in sheltered workshops. These organisations were established during the 1920s to provide employment for disabled people who wanted to work but were not able to hold down regular paid jobs. Many of these workers need significant additional support including health and hygiene assistance.

Back in 2005, however, Labour introduced legislation to prevent what the unions described as the 'exploitation' of disabled workers: the blanket minimum wage exemptions for sheltered workshops were to be revoked and workers were either to be regularly assessed and paid according to the minimum wage regulations, or sent home. Neither the 4,000 or so largely intellectually disabled workers, nor their parents, were properly consulted over the proposed changes. When they finally learnt what was being proposed, parents explained that sheltered

workshop jobs were important, not for the money - because in reality, the productivity of many intellectually disabled workers is very limited - but for their pride in employment.

Former Southland Regional Council Chairman, Marion Miller, and her husband Russell, launched a nationwide petition supported by over seven thousand people, that asked the government to back off and leave the sheltered workshops alone. They worried that the proposed law would result in disabled workers losing jobs and sheltered workshops closing down.

Marion is the NZCPD Guest Commentator this week. In her article "Unintended Consequences" (see [www.nzcpd.com](http://www.nzcpd.com)) she notes that "Locally 50% of those who have been placed into employment have resigned from their jobs because of their inability to manage the extra pressure of being 'employed' in the workforce".

She also notes that the endless 'assessments' is taking its toll on extremely vulnerable workers who, more than anything else need stability and caring support, rather than bureaucratic state harassment!

As we look ahead and see cost increases and job losses, that will be the result of the minimum wage increase, maybe it is time to question the wisdom of minimum wage policies as a means of providing income assistance. Surely there are better ways to provide help to people in need that do not distort the labour market nor ruin the opportunities for disadvantaged workers trying to get into the workforce.

**The poll this week asks:** Do you believe that increasing the minimum wage will increase productivity?

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