

Review of the Minimum Wage 2022

Submission to the Ministry of Business Innovation and Employment (MBIE)

23rd September 2022

1. Summary

- 1.1. The Salvation Army supports increasing the minimum wage to maintain its real value after inflation and wage increases.
- 1.2. The rationale for the minimum wage should be based on a return from labour that enables income adequacy for lower paid workers such as that used for setting the Living Wage.
- 1.3. Wellbeing analysis needs to more closely inform decision making about minimum wage rates. Applying He Ara Waiora framework would give the review a more holistic perspective on the impacts of minimum wage increases.

2. Background

- 2.1. The mission of The Salvation Army *Te Ope Whakaora* is to care for people, transform lives and reform society by God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.
- 2.2. The Salvation Army employs almost 2,000 people in New Zealand, and the combined services support around 140,000 people annually. In the year to June 2021, these services included 70 centres providing around 88,000 food parcels including more than 33,000 families and individuals as well 19,000 to other agencies, 4,000 people with transitional housing, almost 600 in social housing, over around 4,000 families and individuals were supported with whanau support/social work, around 7,600 people received help with addiction services, over 800 assisted with prison reintegration services, almost 4,400 families and individuals were helped with financial mentoring.
- 2.3. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's Aotearoa New Zealand Fiji Tonga and Samoa Territory.
- 2.4. The Salvation Army works for a fair and just society founded on faith in God's compassionate love and justice. This includes seeking change to the national level policy and structural issues that cause poverty and exclusion. The social and economic system should be able to provide a modest but decent standard of living for everyone who is able and prepared to work while income support and labour market policies should provide the means for people outside the workforce to find employment or an adequate income when they cannot.

3. Effects of changes to the minimum wage

- 3.1. The 2021-22 increases in the minimum wage have occurred during the ongoing Covid-19 pandemic over the past two and a half years. This time has exposed just how precarious the

incomes are for many households in this country. Disruptions to employment and extended periods of lockdowns and other pandemic restriction have meant people have needed to turn to The Salvation Army for help who have never had to engage with our support before. Some of these people have had employment of various kinds but often limited and irregular hours with few rights. Overall, around 12% of clients of our Community Ministries services in the year to June 2022 reported some earnings from employment. Half of the clients during that time were seeking out our services for the first time and the proportion who reported earnings from employment was higher at 18%. Sometimes people are holding down multiple part-time jobs and they are stressed simply getting through their day. Community-based organisations like the Salvation Army end up having to provide food and other welfare assistance to help fill gaps in the poor wages and conditions for lower paid workers as well as gaps in the welfare support they need.

- 3.2. Lifting the minimum wage has helped provide a measure of relief for lower paid workers under pressure from rising living costs including food and housing. Many have been at the frontline of the health crisis working as cleaners, security guards, in retail and transport. They have been living in communities most impacted by Covid while trying to continue to earn a living. For example, in our Manukau Community Ministries the number of clients increased dramatically at the start of the pandemic in 2020 and two years later numbers have not returned to pre-pandemic levels, as the waves of pandemic restrictions and illness have swept across the communities of South Auckland.

4. Wellbeing Analysis - He Ara Waiora

- 4.1. Minimum policy needs to be viewed through the wellbeing policy lens and He Ara Waiora is a framework used by Treasury that provides a way to do this¹. The minimum wage policy can be seen as making positive contributions to lifting wellbeing across at least three of the four domains of He Ara Waiora. Any assessment of the impact of increasing the minimum wage must give priority to these very real if not always readily quantifiable effects on wellbeing seen through the lens of te Ao Māori. In the timeframe available to comment on the review, we have not had the opportunity to explore this in more depth with Te Rununga of The Salvation Army or with Māori staff and clients. Our February report *State of the Nation 2022 Navigating the Rapids Whakatere Ana NgāTere*² looked at available data on wellbeing and grouped these under the domains of He Ara Waiora. What is clear from that analysis is that minimum wage policy has important impacts across three of the four domains of wellbeing (see table below). The Ministry needs to share the decision making on minimum wage policy with Māori in a way that meaningfully accounts for these dimensions of wellbeing.

<p>Mana Āheinga (capacity)</p> <ul style="list-style-type: none"> • Increase income • Increase employment 	<p>Mana Taūtūtu (reciprocity)</p> <ul style="list-style-type: none"> • Income distribution -reduce inequality • Whanau wellbeing improved
<p>Mana Whanake (growth and development)</p> <ul style="list-style-type: none"> • Youth employment decrease • Not in education, employment or training (NEET) decrease 	<p>Mana Tuku Iho (inherited knowledge)</p>

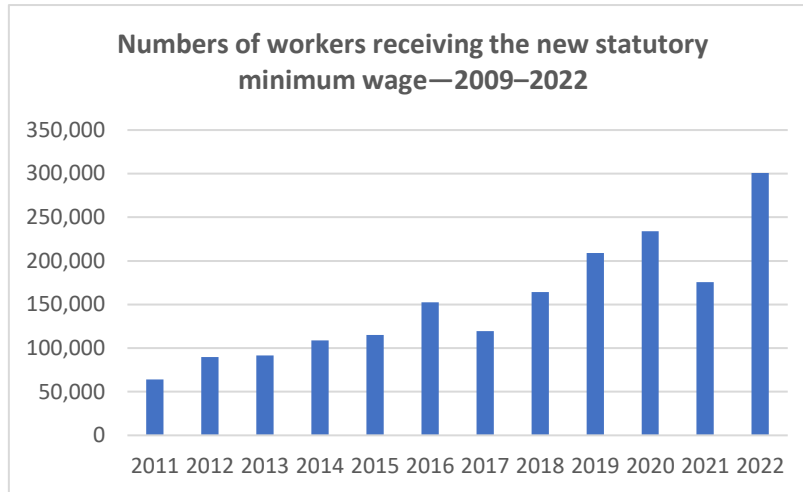
5. Income Adequacy

- 5.1. Income adequacy for all people in this country needs to be a guiding policy principle that informs minimum wage policy and all income support policy. The Salvation Army strongly supports continuing to lift the minimum wage to help ensure lowest paid workers real incomes genuinely increase and are not eroded by rising living costs (inflation) or through not keeping pace with overall wage increases across the workforce (average hourly wages/median hourly wages). The methodology used to set the Living Wage provides a useful template for assessing adequacy of wage ratesⁱⁱⁱ.
- 5.1. Minimum wage policy needs to be combined with the other income support and employment policies that aim to lift incomes and increase skills and productivity. Other current government policy initiatives such as the focus on maintaining high levels of employment during the pandemic through supporting employers with wage subsidies, increasing training for young people, introducing legislation for sector-based Fair Pay Agreements, and efforts to improve competition in sectors such as the grocery and building sectors are all part of what can be described a “pre-distribution” policies addressing the incomes earned by workers in the market <https://www.interest.co.nz/public-policy/116794/economist-brian-easton-says-ongoing-decline-market-income-inequality-stopped>. This needs to be supported by a stronger approach on redistribution policies through transfer and tax policy. Redistribution policies such as welfare and income support payments are not keeping pace with the level of need and rising living costs. They are still in catch-up mode after decades of neglect.
- 5.2. Increasing the minimum wage underlines the urgency in reviewing settings for targeted welfare support for those on low incomes. Increasing the minimum wage to \$22.55 or higher equates to an annual income for a 40 hour week of \$46,904 or higher. This is above the current threshold for abating WFF assistance (\$44,700) which equates to an hourly rate for a 40 hour week at \$21.50, just above the current minimum wage rate of \$21.70.
- 5.3. Similarly, the thresholds for additional earnings for those relying on welfare support (e.g \$160 per week for a single earner) need to be adjusted to ensure that the benefit of increased hourly pay rates is not eroded by claw-backs of welfare support.
- 5.4. The group of people earning on or just above the minimum wage is disproportionately younger, women, Pacific and Māori. Lifting the minimum wage contributes to reducing long-standing income disparities they face. The impact of these income disparities is also seen in over-representation of Pacific people and Māori among those seeking support from The Salvation Army. More than 40 percent of our Community Ministries clients identify as Māori and 12 percent as Pasifika, and they are among those who will directly benefit from higher earnings from employment.

6. Employers and the minimum wage

- 6.1. The re-structuring of our employment market must continue to reorient employment practices towards providing quality employment at fair rates of pay that deliver liveable incomes for workers. The past year has seen the inflation exceed the rate of growth in wages. The increase in the annual labour cost index has been less than annual inflation over the year to June 2022, the first time this has happened since 2011^{iv}.

6.2. Employers do not appear to be responding sufficiently to the pressure to lift lowest wages by designing their business and employment models to ensure workers further up the pay scale receive higher increases. In recent years the number of low paid workers estimated to be earning less than the proposed minimum wage has been rising. The 2021 review estimated 300,700 workers would be affected by raising the minimum wage to \$21.25 (see chart below^v).



- 6.3. The significant increases in the minimum wage are having the effect of further compressing the distribution of wages in the lower half of the distribution. The gap between the lowest 10 percent of wage earners and the mid-point at 50 percent is closing much faster than the gap between the highest wage earners at the 90th percentile^{vi}. Further work is needed to reshape the pay and conditions for employment to shift to a higher wage model.
- 6.4. The Salvation Army employs approximately 2,000 people around the country and supports continuing to raise the minimum wage. As a charity and NGO, The Salvation Army faces the same challenges of other not-for-profit organisations in that our services are not ‘priced’ in the open market, so recovering increase wage costs through increased prices is at best a limited option or not available at all. An increase in the minimum wage sufficient to cover the wider increase in living costs and wages would affect a significant proportion of our staff. We estimate around 35% of our employees receive an hourly rate below the current Living Wage rate of \$23.65. The Salvation Army policy is to pay at least \$0.50 above the minimum wage so a 6.4% increase in the minimum wage would mean a base rate for our organisation of over \$23 per hour. It will be a significant financial challenge for our organisation to pay these increases, but we recognise the need to look after the wellbeing of those working for us, as well as the communities they work with.
- 6.5. The ability of NGOs to respond to increases in the minimum wage is strongly influenced through funding agreements with government, that are usually agreed to span a number of years. These agreements may not include provisions that fully cover minimum wage changes. Examples of the kinds of work The Salvation Army does as a partner with government are such programmes as supported and transitional housing, financial mentoring, food security and a range of community-based social programmes. Government policy must include a clear commitment to resource organisations funded by government agencies in a way that means NGO employers can pay fair wage rates ideally the Living Wage or higher. The Salvation Army and other similar organisations are working with many of the most vulnerable in our communities and employ

people from the communities we work with. Higher wages for workers in those communities directly benefits the communities where they are living and working.

ⁱ He Ara Waiora <https://www.treasury.govt.nz/information-and-services/nz-economy/higher-living-standards/he-ara-waiora>

ⁱⁱ *State of the Nation 2022 Navigating the Rapids Whakatere Ana NgāTere* <https://www.salvationarmy.org.nz/research-policy/social-policy-parliamentary-unit/state-nation-2022> (p.58-62)

ⁱⁱⁱ *Report of the Measurement Review for a New Zealand Living Wage*, Family Centre Social Policy Research Unit, March 2018 https://www.livingwage.org.nz/reports_and_research_lv2019

^{iv} *Widest wage and inflation gap on record*, BERL Insights, August 2022 <https://www.berl.co.nz/economic-insights/widest-wage-and-inflation-gap-record>

^v Data for chart from *Minimum Wage Review 2021*, Ministry of Business Employment and Innovation, Nov 2021, p.11 and *State of the Nation 2022* (op. cit) Figure 50, p.23

^{vi} *Has the minimum wage helped to lower wage inequality?* Infometrics June 2022 <https://www.infometrics.co.nz/article/2022-06-has-minimum-wage-helped-lower-wage-inequality>