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Minimum wage raise will force business costs on to consumer

Chris Hipkins, as new leader of the Labour Party, has seized the opportunity to freeze a number of significant initiatives, including the proposed income insurance scheme.

At the same time, he announced another increase to the minimum wage by $1.50 per hour to $22.70. This was a significant increase of about 7% on top of successive increases each year since Labour's election in 2017. The main reason given for the increase was to keep wages in line with inflation.

Some commentators have noted that Mr Hipkins' freeze was a response to criticisms that Labour had done too much, too quickly.

Certainly, in the employment sphere, there have been significant changes since 2017. The Employment Relations Amendment Bill increased union powers, made it mandatory for collective agreements to specify agreed rates of pay, reinstated the right to set rest and meal breaks, limited 90-day trial periods to employers with fewer than 20 employees, reintroduced the 30-day rule meaning new employees are covered by the collective agreement for the first 30 days of their employment and restored reinstatement as a primary remedy.

In addition, the Employment Relations (Triangular Employment) Amendment Act and the Equal Pay Amendment Act have been implemented and, more recently, the Fair Pay Agreement Act took effect.

Sick leave entitlement has been increased to 10 days per year. We have a new public holiday (Matariki Day) and parental leave has increased from 18 to 26 weeks. These have all resulted in additional cost for businesses.

The Holidays Act review is still a work in progress. There is also work being done on providing better protections for independent contractors.

While these changes have increased unions' powers and improved workers' conditions, they have also undoubtedly come at a cost to employers and to the business community.

Some argue that the increase to minimum wage will actually contribute to inflation. Following several years of Covid lockdowns, followed by the traffic light system and recent weather events, a number of businesses do not have the ability to absorb extra cost and will be forced to pass that cost on to the consumer. Labour shortages, due to a combination of factors, have affected productivity and supply.

New Zealand is enjoying its lowest unemployment in years. But with restrictive immigration settings, the borders reopening and some workers re-evaluating their lifestyles, there is already significant upward pressure on wages.

Some argue the increase is unlikely to have a significant effect because employers already pay above minimum wage.

The hospitality sector is one example. However, as with migrant workers being guaranteed minimum wage rates, the increase in minimum wage for New Zealand residents is likely to have ripple effect.

If a worker on minimum wage receives an increase then their colleagues also expect a corresponding increase in their wages. Inevitably, these increased costs are passed on to the consumer.

At the same time, the ability to generate profit is compromised by labour shortages, supply chain issues and other increased costs.

Compromised service and increased costs not only potentially cause reputational damage to individual businesses but, overall, to New Zealand's reputation in anderson lloyd.

Minimum wage raise will force business costs on to consumer
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certain sectors such as hospitality and tourism. That, in turn, affects profitability.

A number of business have announced significant redundancies. Other businesses have been placed in liquidation. While few would argue that workers are entitled to fair pay, where a combination of factors (including increased wage rates) results in the collapse of a business, workers are among those who suffer.

One silver lining is that increased unemployment is said to stall interest rate hikes.

We have yet to see the effect of the Fair Pay Agreement Act. However, it is predicted to result in costly and lengthy negotiations. While the legislation provides for government financial contribution to bargaining, it is likely that a number of businesses will incur substantial costs while engaging in negotiations.

Again, it's hard to imagine that those costs will not be passed on to the consumer. At the same time, rising interest rates and inflation will motivate unions to secure the best possible pay rate for their members.

On the other hand, the freeze placed on the proposed income insurance scheme may bring relief to employers and employees alike. Like ACC, the scheme was to be funded by levies on wages and salaries, with both workers and employers required to make a contribution. Workers would be eligible in the event of redundancy or loss of work due to health condition or disability.

With a number of multinationals signalling redundancies (such as Twitter and Amazon) and examples in our own backyard such as AUT, Mr Hipkins' decision to freeze the proposed income insurance scheme will be seen as a blessing by some and a curse by others.

Want to know more?

If you have any questions about this article, please contact John Farrow or any member of our specialist Employment Team.