

***Minimum and living wage rates current at the time of writing.***

The issue I am exploring is **the pressure on businesses to introduce a living wage** for their lowest-paid employees.

The living wage is a wage that was decided as being appropriate for a 'typical' family of four (two adults, one working full-time and the other part time, and two school-aged children) to get by on. The living wage is an issue that affects businesses that currently paying below the living wage of \$18.40. This is almost \$4.00 more than the legal minimum wage and yet still considered only just enough for the family to buy the necessities they need, i.e. feed the family, pay for school uniforms, buy fuel for the car etc.

***Effect on Employees***

Currently employees under the living wage in New Zealand find it difficult to live on the minimum wage of only \$14.25. They want to be paid the living wage as it would allow them to live comfortably and not have to worry about being late on a payment or not being able to pay it at all. "The wage was calculated on a modest household budget where people could buy the basics, spend time with their families and enjoy occasional recreational activities, such as a monthly trip to the movies", stated a newspaper article on the stuff.co.nz website. Employees would benefit from this raise in wages significantly. They would have more freedom and not as many worries about what they can and cannot afford. "The difference it would make for my family would be helping with food, housing, hobbies for my kids, like music lessons, and attending holiday programmes", said one factory worker, Tania from Hamilton.

***Effect on Businesses***

Paying a living wage would be harder on smaller businesses. Joe owns a small cafe in a suburban shopping centre in Auckland. He employs a sous chef, two kitchen hands and three front-of-house staff. One of the kitchen hands and two of the serving/cleaning staff are paid the minimum adult wage. Joe said he would really struggle to pay those three workers the living wage rate as the café already runs on very low margins and he doesn't always manage to pay himself. He also feels that it would then be only fair to increase the wages of the more experienced staff who carry more responsibility. Joe is very pleased with the quality of his employees' work and cannot imagine that they would work even harder for more pay. He would really like to be able to pay the minimum wage earners more, however he has no problem recruiting kitchen hands and front-of-house staff at the moment.

Mr JD, managing director of NameOmitted Foods Ltd (50 employees), said that in one way paying the living wage would be a positive for his business as it would give his lowest-paid workers more incentive to increase their work output, but he would require them to have higher skills before reaching this level of pay. He also says it comes down to what the business can afford to pay. It would add a significant amount to his wage bill so the business would need a good reason, such as being assured of much higher productivity. Mr JD says only his most inexperienced staff members (approximately 10) are paid the minimum wage and they already have prospects of pay rise increments as they gain more experience. He is concerned that if he introduced the living wage he would have to increase the pay rate of many of his other workers to keep some relativity, otherwise there could be resentment and disharmony within his team.

***Effect on the Government***

While employers are thinking about perhaps paying minimum wage earners the living wage, the government might bring in legislation that the living wage is compulsory. The Minimum Wage

Act could be repealed in favour of a living wage act. This would require the government to think about the impact on businesses, and also to pay minimum wage government workers (such as parliament cleaners) the living wage. To fund the pay increase the government would have to be getting more money from taxpayers. This would require higher taxes (such as an increase in GST) or a cutback on other government spending. This would almost defeat the purpose of paying the living wage. Raising the minimum wage to the living wage may also cause a cut in jobs as many smaller businesses may not be able to keep on as many staff with their wages being a lot higher. This would cause more unemployment and more people may go on the benefit, in which case the government would have to take the fall and pay out. The living wage could also cause much political controversy as the living wage seeks to address poverty in the community.

#### *Effect on the Community*

The effect on the wider community could be that the increase from the minimum wage to the living wage could result in number of job losses as businesses may not be able to keep up with the higher wages that they would have to be paying their staff. This would significantly affect those smaller local businesses that don't bring in as much profit as a larger business. For example, a dairy would bring in less profit than a supermarket therefore they wouldn't be able to pay as many staff members because of the higher pay rate. However, living wage would also impact positively on families as they'd be able to go out and buy more, increasing the profit for the businesses they shop at.

1

#### SOLUTIONS

##### *Solution 1*

I think that a solution to the problem that businesses face in being able to pay their minimum-wage workers a living wage instead, would be the government offering businesses a subsidy to cover the increases. Smaller business would need a higher subsidy as they would have a harder time meeting the cost of the living wage, with lower subsidies for larger businesses that are better able to absorb the extra wage cost.

An advantage of this is that the business will have to carry only part of the extra wage cost with the rest of the cost covered by the government. A disadvantage is that it is a short-term fix. At the end of the subsidy period the business may struggle to pay these wages which may force the loss of some jobs.

##### *Solution 2*

The business could write a medium to long term strategic plan to work towards paying a living wage. In the short-term there could be consultation with staff about the firm's intentions and wage earners could be required to complete additional training so that the higher wages will be assured of increasing productivity. The plan could also address how the business will be able to afford wage increases for their other employees.

2

3

*All sources cited, interview notes provided as an appendix, and a bibliography provided.*