

29 November 2002

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Dear Judy

Thank you for your letter of 15 July 2002 to Roger Kerr and the enclosed copy of the discussion document entitled *Next Steps Towards Pay Equity*. The New Zealand Business Roundtable (NZBR) appreciates the opportunity to comment on the document.

To that end, I set out a number of points below and have enclosed four documents as input into the review process:

- *Employment Equity: Issues of Competition and Regulation*, an NZBR publication from October 1988 prepared in response to the report of the Working Group on Equal Employment Opportunities and Equal Pay entitled *Towards Employment Equity* (October 1988);
- *The Pursuit of Fairness: A Critique of the Employment Equity Bill*, an NZBR submission to the Labour Select Committee in response to the Employment Equity Bill (February 1990);
- *Pay Equity*, a six page policy backgrounder prepared by the Law and Economics Consulting Group (LECG) for inclusion on the NZBR website. It provides a brief and accessible overview of the main policy issues relating to pay equity; and
- *Does Comparable Worth Work in a Decentralized Labor Market*, an August 2000 working paper by Michael Baker from the University of Toronto/National Bureau of Economic Research and Nicole M Fortin from the University of British Columbia, CRDE and CIRANO, which examines the Canadian Province of Ontario's experience with pay equity.

### **NZBR View on Pay Equity**

The NZBR supports markets as the best mechanism for determining the relative pay rates of New Zealand workers. In our view, a deregulated and flexible labour market is most likely to lead to better labour market outcomes for all New Zealanders. Further regulation of the labour market in the form of pay equity is unlikely to serve the

interests of New Zealanders generally or 'target' groups such as women, Maori and Pacific Peoples. We would recommend against any proposals to introduce bureaucratic programmes such as pay equity. Rather, flexible labour markets, sound anti-discrimination laws and well-designed education policies that promote efficient investment in human capital offer a better and fairer mechanism for protecting workers generally and workers in 'target' groups in particular.

The government has made a commitment to restore New Zealand to the top half of the Organisation for Economic Cooperation and Development (OECD) income rankings. A critical test of any government policy proposal should therefore be whether or not it makes a cost-effective contribution to increasing New Zealand's long-run rate of economic growth. Clearly, pay equity would fail this test. Indeed, by introducing further distortions into the labour market and loading more compliance and direct costs on to employers, it could very well do the opposite. This would come on top of a series of recent anti-growth policy changes that will make it more difficult for business to prosper and innovate, including minimum wage increases, the nationalisation of ACC, proposed changes to the Occupational Safety and Health legislation and the introduction of parental benefits.

The introduction of pay equity is unlikely to generate net benefits for the country. It is not even clear that pay equity would have positive distributional effects (ie that it would benefit workers in 'target' groups). New Zealand's experience with other forms of labour market regulation suggests that the opposite is more likely to be true. For example, minimum wages do not serve the interests of vulnerable workers in society given that they adversely affect the employment opportunities of those with the least skills. Why would we expect the public choice effects of pay equity to be any different? In particular, why would we expect the political/bureaucratic process to serve the interests of workers in 'target' groups when it has not done so in the past? In our view, flexible markets, with prices and wages set through the interaction of supply and demand, rather than political markets, are much more likely to serve the interests of workers in 'target' groups.

## **Conclusion**

The NZBR does not support the introduction of pay equity for the reasons set out in the attached documents and the summary points outlined above. We believe the arguments presented in our earlier interventions on this issue remain valid. Indeed, they are likely even more applicable today given the decentralised nature of the labour market in New Zealand in 2002. This would seem to be supported by the enclosed report by Baker and Fortin, which concludes that 'comparable worth would appear to be unwieldy and complicated regulation for a decentralised labour market' (p 29). Nothing in the discussion document *Next Steps Towards Pay Equity* provides a convincing case that these issues can be effectively addressed or that the notion of pay equity has any merit.

Pay equity is a policy whose time has passed. The evidence outlined in the attached LECG paper shows that existing mechanisms are working – there has been good progress over time in reducing pay gaps between men and women, both within and

across age cohorts. There are also better ways of achieving the goals being sought through pay equity – including flexible labour markets, sound anti-discrimination laws and well-designed education policies that promote efficient investment in human capital. Pay equity will have few upsides, and as Baker and Fortin and others have shown, many potential downsides.

Yours sincerely

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