

DRAFT MINIMUM WAGE PROPOSAL
OF THE
TRIPARTITE
LABOUR ADVISORY
COUNCIL

AUGUST 2019

FOR PUBLIC CONSULTATION

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1. BACKGROUND

Economic Theory

According to Adam Smith, founder of the free market theory, if the market is allowed to operate free from Government Intervention, equilibrium price will be determined by the interaction of the market forces of supply and demand. But ideally in the real world equilibrium price is never achieved. In the event that equilibrium price is not achieved, the Government will intervene in the market to correct market failure and to impose austerity measures to protect the welfare of the society and workers. In the case of the labor market, the Government will impose a minimum wage or a price floor, meaning that the wages offered by employers must not fall below this level. But despite this, one must also be aware that as the minimum wage keeps increasing, two things will be affected, the demand for labor will decrease while supply of labor will increase. There should be balance so as to create a sustainable labor market where both parties are satisfied.

Government Goals and Policy

The Vanuatu Government's overarching goal of the People's Plan is to put people first and to improve their welfare. Where the market is failing in regards to fair and equitable wages, the Government will intervene in the market by imposing, in this case, a minimum wage or price floor. Currently the Government's intervention is enforced through the Employment Act, administered by the Ministry of Internal Affairs.

Historically the minimum wage has been reviewed irregularly. In July 2012 the Tripartite Labor Advisory Council (TLAC) resolved that the minimum wage be reviewed annually or at least every two years, with wage proposals being based on economic, not political, factors.

Most recent amendment to the Minimum Wage

In late 2017, following the announced VAT rate increase to 15 percent, the Government approved an increase in the minimum wage from VT170 per hour to VT200 per hour. This decision was officially gazetted on the 29th of December 2017 and came to effect on 1st January 2018.

Full-time employee	40 hours per week	44 hours per week
Previous monthly salary (gross) based on 170VT per hour	VT29,467	VT32,414
New monthly salary (gross) based on 200VT per hour	VT34,667	VT38,134

Role of TLAC in relation to the Minimum Wage

As stipulated in the Minimum Wages Act [CAP 182] the primary role of TLAC is to make necessary investigations as it sees fit before submitting any wage proposal to the Minister as per section 7(3).

This section requires the TLAC to consider:

- (a) the needs of workers and their families;
- (b) the general level of wages in Vanuatu;
- (c) the cost of living and changes therein;

- (d) social security benefits;
- (e) the relative living standards of other social groups;
- (f) economic factors, including the requirements of economic development, level of productivity and the desirability of attaining and maintaining a high level of employment.

In 2017 an increase in real wages was proposed in order to meet the request of the then Minister of Internal Affairs. It also set the minimum wage considerably higher than the individual basic needs poverty line in all areas of the country.

2. CONSIDERATIONS

In accordance with section 7(3) of the Minimum Wages Act [CAP 182] TLAC must consider:

- (a) the needs of workers and their families

The August 2012 proposal set a level of minimum wage that, based on 2006 poverty line data, with estimated changes, reflected the needs of workers and their families. Since then new poverty line estimations, based on data gathered in 2010, have been released.

Using 2010 data, the basic needs poverty line per adult was estimated to be 7,631 vatu per month per adult (VNSO and UNDP, *Vanuatu Hardship and Poverty Report* (2012), p 34, table 12).

From the 2nd quarter 2010 to the June 2017 the national average CPI increased by 10.96%, with Port Vila and Luganville CPIs increasing by 12.09% and 5.9% respectively. (VNSO *Quarterly CPI Updates*). Adjusting the basic needs poverty line (in vatu per month) by the change in CPI, the amounts became:

	2010	June 2017 (Est. Increased by change in CPI; rural increased by change in national average CPI)
Vanuatu average	7,631	8,467
Rural	6,777	7,520
Luganville	8,948	9,476
Port Vila	12,419	13,920

*vatu per month

The current minimum wage is well above the individual basic needs poverty line.

It should, however, be noted that workers are likely to be supporting dependent family members so the individual basic needs poverty line should not be used as the benchmark for minimum wage setting. The 2012 Minimum Wage Proposal took into account the needs of workers' families also.

- (b) the general level of wages in Vanuatu

The Kaitz index has been used to relate the minimum wage to the general level of wages. The Kaitz index states the minimum wage as a percentage of either the median wage or the average wage. In

Vanuatu the median wage, or the middle wage being paid, is the preferred figure to use because wages are not distributed evenly, but are skewed by a small handful of very high wages.

Since the last minimum wage change, there is no up to date data available on the current median wage, making it very difficult to discuss the general level of wages in Vanuatu.

The Kaitz index estimation suggests that there is no particular need for the minimum wage to increase to address large gaps between the minimum wage and the median wage. It should be emphasized that these Kaitz index calculations are based on assumptions which may not be correct, rather than accurate data.

(c) the cost of living and changes therein;

In June 2012 it was resolved that TLAC should continue to use the CPI as the basic economic indicator of the cost of living since it is numbers driven and also reliable as it is a measure of the rise in prices of general goods and provides exact calculations of the figure of increase. In order to ensure consistency, the Vanuatu National Statistics Office CPI data would always be used in TLAC's considerations.

As the CPI changes, adjustments to the minimum wage must be considered, in order to ensure that the value of the minimum wage is not eroded.

The most recent CPI as of quarter 2 of 2019 is 158.1 with Port Vila CPI of 138.6 and Luganville CPI of 139.9.

(d) social security benefits;

There was a 100% increase in the severance allowance in 2009. There was also a 32% increase in the maternity leave allowance in 2009. Annual leave was also increased, with the amount of the increase depending on the length of time of employment.

These changes increased employer costs and the indirect benefits to workers. A survey conducted for the Vanuatu chamber of Commerce and Industry also indicated that they also led to reduction in direct wages for some people. If more cash in the pocket, or a higher minimum wage, is wanted, then perhaps the government needs to consider a trade-off with lower social security benefit levels.

(e) the relative living standards of other social groups;

A standard measure of relative living standards is the Gini coefficient, which reflects the distribution of income throughout a population. A score of 0 would reflect a perfectly equal distribution and a score of 1 would reflect a perfectly unequal distribution. In 2010 Vanuatu's Gini coefficient for households was estimated to be 0.31, which indicates a fairly equal income distribution. In urban areas the Gini coefficient is even lower (0.25 for Port Vila and 0.28 for Luganville), indicating a generally high level of income equality. In other words, there are few very rich households and very poor households, but many households have similar amounts of income. It can also be noted that the Gini coefficient has fallen since 2006, indicating that Vanuatu has been reducing income inequality.

The low Gini coefficient suggests that there is no particular need for the minimum wage to increase to address problems of income inequality. Usually lower Gini coefficient is preferred than higher or closer to 1. Lower coefficient of 0.26 and 0.28 means that income levels are closer to the Equality Line.

(f) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

There is a trade-off that needs to be considered: higher minimum wages mean that workers have more money to spend. This in turn boosts the local economy. As demand for local products increase, so too does local employment. On the other hand, higher minimum wages means some minimum wage workers may lose jobs, and fewer entry level jobs may be created. The impact of any change in minimum wages depends, largely, on the economic climate.

3. RECOMMENDATIONS.

The general opinion based on official CPI from Vanuatu National Statistics Office is that there is justification for an increase in the Minimum Wage. But the magnitude of this increase will be decided by the Department of Labor. According to the VNSO CPI has increased year on year since 2010 to 2018 on annual basis.

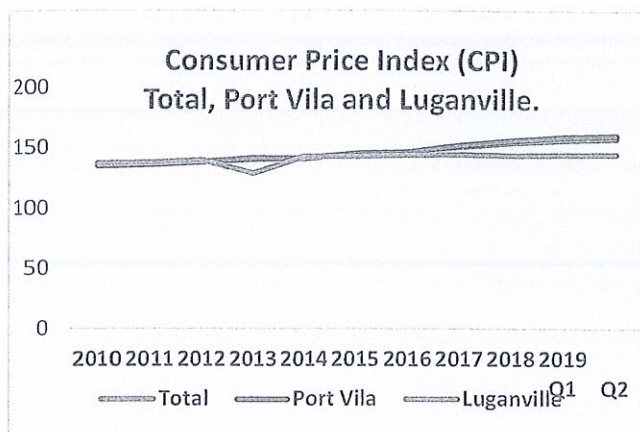
According to VNSO actual overall CPI of in 2012 is 138.6, compared to CPI of 158.1 in June quarter of 2019. Since the last review of minimum wage, the CPI increase from 2017 to 2018 is 5.4 percent. The CPI increase from 2018 to June Quarter 2019 is 3.75 percent.

According to the TLAC Minimum Wage Proposal in 2017, it was recommended that TLAC should continue to use Official CPI data released by VNSO, in setting of the minimum wage.

The following table shows the Actual Official CPI and inflation rate for overall annual CPI, Port Vila and Luganville. It provides a trend from 2010 up to 2019 second quarter.

Consumer Price Index (CPI Trend)				Rate of	Rate of	Rate of
				change	change	change
Year	Total	Port Vila	Luganville	Total	Port Vila	Luganville
2010	135.8	135.4	137.6	2.8	2.9	2.1
2011	137	136.7	138.2	0.9	1	0.5
2012	138.8	138.6	139.9	1.4	1.4	1.2
2013	140.6	142.1	129.3	1.4	1.6	1.6
2014	142	141.7	143.2	0.8	0.8	0.8
2015	145.5	145.9	143.3	2.5	2.9	0.1
2016	146.7	147.2	144.5	0.9	0.9	0.8
2017	151.2	152.6	144.7	3.1	3.7	0.1
2018	154.8	157	144.1	2.3	2.9	-0.4
2019 Q1	157	159.8	144.8	1.1	1.4	0.3
Q2	158.1	160.9	145	0.7	0.7	0.1

Source: VNSO, QSI 2014, QSI 2015, QSI 2017, QSI 2018, QSI 2019 QTR2.



TLAC proposes

- i) The Minimum Wage (MW) should be reviewed at a minimum of once every two years in order to ensure that MW increase incrementally, rather than suddenly, as happens after a long period between reviews.
- ii) The CPI increase from 2017 to 2018 is 5.4 percent. The CPI increase from 2018 to June Quarter 2019 is 3.75 percent. The proposed minimum wage increase is from VT200 per hour to VT220 per hour.
- iii) The MW should be adjusted in line with changes in CPI in order to ensure that the real MW does not decline.
- iv) The MW must balance *fairness, value for work and opportunities to work*. In times of strong economic growth, increasing the MW above changes to the cost of living are justifiable. However, given the economic climate a cautious cost of living adjustment is appropriate.

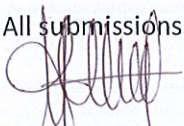
5. HOW TO MAKE SUBMISSIONS

The TLAC invites submissions from individuals and organizations on the proposed minimum wage and options for sectoral wages.

Written submissions from individuals and organizations can be made to labourconsultant@vanuatu.gov.vu

You are also able to consult through the Vanuatu National Workers Union or the Vanuatu Chamber of Commerce and Industry.

All submissions must be made by 30th October 2019.


Murielle Meltenoven
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