MINIMUM WAGE POLICY

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St Helena Government

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Contents

Contents 3
1. Background 4
2. Challenges 4
3. Rationale for Intervention 8
4. Overarching Policy Framework 8
4.1 Links to Strategic Objectives 8
4.2 Objectives 8
4.3 Legal Framework 8
5. Policy Outline 9
6. Impacts of Policy 9

1. Background

The Employment Rights Ordinance (2010) establishes an Employment Rights Committee (ERC) which has the responsibility for making recommendations regarding the minimum wage. The Ordinance requires the ERC to consider the effects that any recommendations will have 'on the economy of St Helena as a whole and on competitiveness' but does not define the frequency or magnitude of increases. To date, there has been no formal policy regarding these aspects of the review and update to the minimum wage.

A minimum wage for St Helena was introduced 1 June 2013 at a rate of £2.30 per hour for workers over the age of 18.[1] Over seven years, this increased by 38% to £3.18 per hour in 2020. When considering inflation, this represents a real increase of approximately 14%.

Historically, the ERC has considered a number of factors when reviewing the minimum wage. These include 1) the relationship with retail price inflation, 2) a comparison with Income-Related Benefits (IRB), 3) trends in overall income from employment, 4) the impact on businesses and 5) available literature on the effects of minimum wage. Initially the minimum wage was increased every two years. However, based on feedback from employers, in 2017 the ERC recommended that smaller increases be proposed on an annual basis.

In 2020, an exercise was undertaken to review and update the basket of goods and services considered when valuing the Minimum Income Standard (MIS). This exercise was based on international-standard methodologies that consider the MIS as a socially acceptable minimum level of income rather than as a poverty line associated with receipt of benefits. The new basket also reflects the wider range of goods and services available on St Helena since the MIS was introduced in 2013 and changing expectations for what constitutes an acceptable standard of living. This is expected to increase the MIS, which is currently £73 per week,[2] and will change the way SHG considers the MIS in future policymaking.

While the minimum wage has previously been updated incrementally on an annual or biennial basis, this policy proposes implementing a long-term vision toward a minimum wage that increases quality of life for workers while also taking into account the needs of employers.

2. Challenges

This policy has been developed following consideration of a number of challenges related to wages and employment on St Helena.

[1] For simplicity, this document refers to the minimum wage for individuals who are 18-years old and older. The minimum wage for 16- and 17-year olds is £0.95 per hour lower, or £1.35 in 2013 and £2.23 per hour in 2020.

[2] Equivalent to approximately £2.09 per hour, assuming a 35 hour work week.

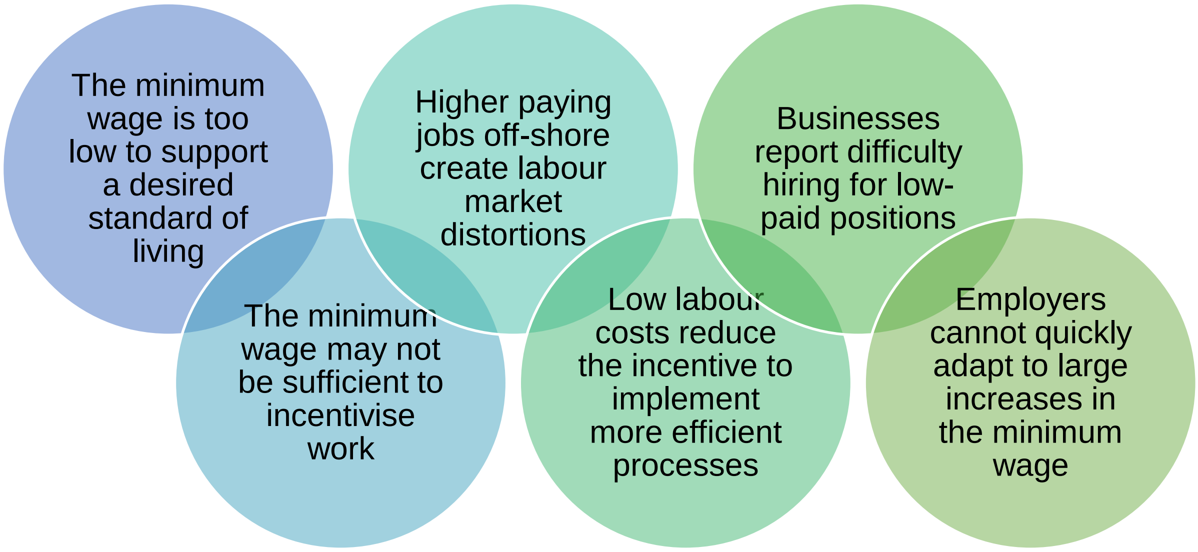

Figure 1 Key Challenges Identified Related to Wages and Employment

- ***The minimum wage is too low to support a desired standard of living***
  The new MIS basket was developed based on the principle that the MIS should not simply be the cheapest way to meet the basic requirements of life but should instead support:
  - Health and well-being;
  - Living life in a practical way;
  - Social participation and interaction;
  - Development and opportunity and
  - Choice.[3]

  The components of the basket were identified through focus groups with members of the public. Goods and services in the basket are organised under the categories of meals, clothing, housing, household goods and services, communications, personal and toiletries, transport, insurance, and social and cultural participation.

  Pricing of the MIS basket began in late 2020 and will continue into early 2021. It is expected that the new MIS will be higher than the current minimum wage. If the new MIS is considered the minimum level of income that is socially acceptable, this would imply the current minimum wage needs to increase.

- ***The minimum wage may not be sufficient to incentivise work***
  It is important to maintain a gap between the minimum wage and IRB in order to incentivise work and avoid people becoming 'trapped' on benefits. Since 2013, the level of minimum wage has risen 38% while the level of IRB has risen 51%. This means the gap between the hourly minimum wage and payment for benefits has shrunk.

  Currently, an individual working in a full-time minimum wage job makes £111 per week. This means they make less than £40 more per week than they would if they were not working and instead collecting benefits at the rate of a single person. This difference

[3] Davis, Abigail, Donald Hirsch, Matt Padley and Lydia Marshall. 2015. *How much is enough? Reaching social consensus on minimum household needs*. Loughborough University, Centre for Research in Social Policy, p.39.

is even smaller for someone with children. Given that many individuals will have some expenses associated with employment (e.g., transport, childcare), this difference may not be sufficient to incentivise full-time employment. It is certainly not sufficient to substantially increase the standard of living associated with full-time employment at the minimum wage in comparison to IRB.

- ***Higher paying jobs off-shore create labour market distortions***
  During consultations for the Labour Market Strategy: 2020 – 2035 (LMS), participants identified low wages as one of the factors contributing to workers choosing to leave St Helena for employment off-shore. While there are benefits to individuals and the community from the skills and experiences gained working overseas, there is a sense among some individuals that working off-shore is something they have to do rather than something that they want to do.

  The Falkland and Ascension Islands are popular destinations for St Helenians seeking employment overseas. Wages in both locations are higher than in St Helena and employment contracts often include accommodation and other living expenses. However, many jobs on the Falklands and Ascension are with contractors that support the significant British and American military presence on those islands. Funding for these posts represents just a tiny fraction of multi-billion pound defence spending by both countries.

  As an example, the 28-month U.S. Air Force contract to repair Wideawake Auxiliary Airfield on Ascension Island was awarded in January 2020 for a value of $170 million (£130 million).[4] This single project has a budget that is more than four times the entire six-year Economic Development Investment Programme (EDIP) agreed by St Helena and the UK Government in 2019. By comparison, the Wideawake Airfield project represents just 0.08% of the $207 billion U.S. Air Force annual budget while EDIP is 0.20% of the UK's total spending on foreign aid in 2019.

  While this employment model is not widely replicable on St Helena without outside investment, the Island offers intangible benefits such as proximity to family and general quality of life that these other locations cannot match. A 2015 study suggested that an increase in the minimum wage is also likely to increase wages for workers in the bottom 20th percentile of earners.[5] Increasing local earning potential would make remaining on-Island a viable option for those who don't want to leave or a more attractive alternative for those who would like to return home.

- ***Low wages reduce the incentive to implement more efficient processes***
  Producing a good or service requires both labour and capital (i.e., equipment or technology). In general, capital-intensive processes are more efficient than labour-intensive processes. In other words, capital-intensive processes take less time to produce the same amount of output. However, capital-intensive processes often

[4] https://newsroom.fluor.com/news-releases/news-details/2020/Fluor-Awarded-Air-Force-Contract-Augmentation-Program-IV-Task-Order-for-Ascension-Island-Auxiliary-Airfield/default.aspx
[5] Autor, David H., Alan Manning, and Christopher L. Smith. 2016. "The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment." *American Economic Journal: Applied Economics*, 8 (1): 58-99.

require a large up-front investment and ongoing costs whereas costs for labour are paid at a lower rate over time. For this reason, business owners may choose to implement labour-intensive processes even though output is lower and costs might be higher in the long-run. When wages are low, this incentive is even greater.

Increasing wages makes investments in equipment or technology relatively more attractive. While this potentially reduces the number of positions available (particularly for low-skill, low-wage jobs), it also frees up resources that can be used to develop new product or service offerings, potentially creating new jobs. Further, capital-intensive processes create the opportunity for higher-skilled, higher-paid employment associated with operating and maintaining equipment or technology.

- ***Businesses report difficulty hiring for low-paid positions***
  Approximately 60 occupations appear on the 2020 Shortage Occupation List, representing those positions that employers face significant difficulty recruiting. While the vast majority of these are classified as ‘specialised skill’ occupations, roughly 15% are general occupations that do not require a specific qualification or experience.

  For example, some shopkeepers reported difficulty recruiting and retaining shop assistants. At the same time, potential employees indicated that they might be more willing to do these jobs if the pay were higher. This is particularly true when evening and weekend hours are required. This would suggest that individuals who meet the employers’ criteria and are willing to do those jobs at the current wage rate are already employed and that higher wages are necessary to attract additional applicants for vacancies. While it might seem logical for a business owner to simply increase wages, they might conclude that the detrimental impact of understaffing does not outweigh the costs associated with increasing wages.

- ***Employers cannot quickly adapt to large increases in the minimum wage***
  The Employment Rights Ordinance requires any increase to the minimum wage be announced three months prior to implementation. This notice period is intended to allow employers time to plan for how they will meet the new requirement. However, there is a limit to the amount of increase businesses will be able to absorb in a short period of time, particularly during the current period of economic uncertainty.

  For instance, a change of £0.09 per hour would amount to £3.15 per week per full-time employee, assuming a 35 hours work week. This is slightly less than the cost of one additional hour of the current minimum wage and such a change could potentially be implemented with few if any adjustments to operations. Conversely, a change of £0.90 per hour would amount to £31.50 per week per full-time employee. A change of this magnitude would likely require substantial changes to business operations and thus would necessitate a significantly longer time horizon to implement.

3. Rationale for Intervention

Part of the vision of the LMS is to build a labour market that 'rewards hard work and incentivises aspiration.' While there are many reasons people undertake employment, pay is the most obvious and one of the most important. **The primary rationale underlying this policy is the idea that the compensation for the lowest paying full-time job on St Helena should be sufficient to support a socially acceptable standard of living.**

Recognising that there are limits to the cost increases a business can absorb in a short period of time, this policy seeks to provide clarity on the long-term trajectory for the minimum wage. This will reduce the potential impact on consumer prices and give businesses the opportunity to plan for operational changes, reduce headcount through attrition rather than redundancies and/or make investments in technology and training.

4. Overarching Policy Framework

4.1 Links to Strategic Objectives

This policy links closely with three SHG strategies: the Ten Year Plan, Sustainable Economic Development Plan (SEDP) and LMS.

As laid out in the *Ten Year Plan*, SHG has an overall vision to 'make St Helena a wonderful place to live, work, raise children, visit and to do business" through achieving the five national goals of:

- Altogether Safer
- Altogether Healthier
- Altogether Better for Children and Young People
- Altogether Greener
- Altogether Wealthier

Consistent with this policy, one of the actions proposed to meet the goal of 'Altogether Wealthier' is to 'raise the minimum wage and have a living wage for the Island.'

The *SEDP* vision includes achieving 'development which is economically, environmentally and socially sustainable by increasing standards of living and quality of life.' One of the goals for achieving this vision is to 'develop, maintain and attract a skilled workforce', including by 'providing the wages and incentives for St Helenians to come back to St Helena and stay on St Helena.

The vision of the *LMS* is to create a labour market that: 1) meets the needs of St Helena, 2) is competitive but fair, 3) rewards hard work and incentivises aspiration, 4) develops a workforce that is capable, flexible and resilient and 5) provides a strong foundation on which to build the economy of tomorrow.

4.2 Objectives

The objectives of this policy are 1) to set a minimum wage that allows the lowest wage earners to achieve a socially acceptable standard of living and 2) to implement this minimum wage in a way that is sensitive to the challenges facing employers.

4.3 Legal Framework

The Employment Rights Ordinance (2010) provides for the setting and enforcement of a minimum wage for St Helena. The Ordinance gives the Employment Rights Committee broad latitude in making recommendations regarding the minimum wage, which must then be approved by Governor-in-Council before taking effect.

5. Policy Outline

For 2021, the ERC will propose and consult on a standard inflationary increase to the minimum wage, consistent with previous minimum wage reviews. Any change to the minimum wage is expected to take effect from 1 July 2021.

In parallel, SHG will complete the pricing of the MIS basket and calculate the equivalent hourly wage. Based on this hourly wage, SHG will consult with employers and employees regarding a target minimum wage and options for achieving this target over a period of time, ideally 3-7 years. A timetable for achieving the target minimum wage will be approved and published by the end of 2021, to commence implementation from 1 April 2022. Among other factors, this timetable will also consider the timing for resumption of commercial air travel and global control of COVID-19.

From 2022, the ERC will meet in Q3 of each year to review relevant data from the preceding 12 months and confirm that the planned update will occur as scheduled on 1 April of the following year. Consultations will occur only if there is a change from the previously approved plan.

The MIS will be adjusted for inflation annually and the basket will be reviewed after four years. This policy will be revisited at the time of the MIS basket review and in the year before the target minimum wage is achieved.

6. Impacts of Policy

The proposal for the target minimum wage and associated timetable should include an analysis of relevant impacts of options considered. Historically, the introduction of and increases to the minimum wage on St Helena have not been linked to negative economic impacts (e.g., inflation, business closures, unemployment). In the 2019 Business Survey, only 4% of employers reported that wage costs were a barrier to their business, while 20-25% reported that other costs (e.g., freight and utilities) were a barrier.[6] This is consistent with the assumption that wages tend to make up a relatively small portion of operating costs for most businesses and prices for goods on St Helena tend to be driven by external factors such as economic conditions in the UK and South Africa. Previous consultations have shown that crèches are the most significant exception to this because service costs are linked very closely to the rate of minimum wage. It has been previously suggested that these impacts be dealt with through other policy measures, such as the introduction of a childcare credit.

While there will be an increase in operating costs to employers, increasing wages will also have benefits to the private sector. It is difficult to accurately compare the cost of living between St Helena and other locations due to the unique circumstances of the Island. However, observations suggest that the cost of essentials (e.g., food, utilities) tends to be higher on St Helena than in other places, while 'luxuries' (e.g., restaurant meals, entertainment) tend to be lower. Increasing the minimum wage is likely to increase the disposable income – that is, the income available for non-essential purchases – for low-wage households. Low-income households tend to have a higher 'propensity to consume' than high-income households.[7] In other words, additional income earned by these households is more likely to be spent than

[6] https://www.sainthelena.gov.sh/wp-content/uploads/2020/03/2019-Business-Survey-Report.pdf
[7] https://www.britannica.com/topic/propensity-to-consume

saved. This means that increasing disposable income for these households will benefit businesses by increasing their customer base.

In general, there are a range of direct impacts that are expected as a result of minimum wage increases. However, the magnitude and direction of these impacts is highly dependent on the size and competitiveness of the specific labour market. While there are no studies specific to St Helena, there are a number of general trends that are consistent across a range of economic literature. An evaluation of UK and international literature published by the UK Government suggests there were not significant negative impacts associated with the introduction of a national minimum wage in 1999 and there are reasons the government should consider a more ambitious policy.[8]

There are a large number of studies focused on the United States, where a minimum wage was first instituted in 1938 and where regional differences in the minimum wage make it possible to do comparisons within the borders of a single country. In 2016, the Harvard Shorenstein Centre on Media, Politics and Public Policy published a review of literature summarising the impacts of the introduction of and increases to the minimum wage in the U.S.[9] While minimum wages may cause employers to reduce staff, in many cases the increased cost is passed along to customers. However, these price increases are modest compared to the change in the minimum wage. One paper suggested that a 10 percent increase in the minimum wage would increase food prices by no more than 4 percent and overall prices by no more than 0.4 percent.[10]

In addition to direct impacts to prices and employment, the following indirect effects were observed:

- Following introduction of the minimum wage in the U.S., the reduction in the number of low-skilled low-paid jobs available caused students to stay in school longer in order to increase their qualifications. Further, the use of technology in place of low-paid labour created new higher-skilled jobs.[11]
- Lower incomes and poverty are regularly associated with adverse health outcomes. One study estimated that increasing the minimum wage to $15/hour in New York City could have reduced premature deaths by up to 8% over a five year period.[12]
- Decreases in the real minimum wage have contributed to increased obesity associated with consumption of inexpensive and 'fast' food.[13]

[8]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844350/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf
[9] https://journalistsresource.org/studies/economics/inequality/the-effects-of-raising-the-minimum-wage/
[10] Lemos, Sara, *The Effect of the Minimum Wage on Prices.* March 2004. Available at SSRN: https://ssrn.com/abstract=524803.
[11] Sutch, Richard. "The Unexpected Long-run Impact of the Minimum Wage: An Educational Cascade." 2010. *National Bureau of Economic Research Working Paper 16355*: http://www.nber.org/papers/w16355.
[12] Tsu-Yu Tsao, Kevin J. Konty, Gretchen Van Wye, Oxiris Barbot, James L. Hadler, Natalia Linos, and Mary T. Bassett. 2016. "Estimating Potential Reductions in Premature Mortality in New York City From Raising the Minimum Wage to $15*." American Journal of Public Health* 106, 1036-1041. Available from: https://ajph.aphapublications.org/doi/full/10.2105/AJPH.2016.303188.
[13] Meltzer, David O and Zhuo Chen. 2009. "The Impact of Minimum Wage Rates on Body Weight in the United States." National Bureau of Economic Research Working Paper 15485: http://www.nber.org/papers/w15485.

In parallel, the methodology for setting IRB will need to be revisited. One option that should be considered is setting the payment for benefits at a level relative to the minimum wage. This will ensure a gap is maintained between payment for work and benefits into the future.