

newzealand.govt.nz

Department of Labour
TE TARI MAHI



MINIMUM WAGE REVIEW 2010

CONTENTS

EXECUTIVE SUMMARY	3
PART ONE – BACKGROUND AND CONTEXT	4
Current minimum wage rates	4
The legal framework of the minimum wage review	4
International obligations.....	4
The Government’s objective for the minimum wage	5
Level of the current minimum wage relative to other benchmarks	5
Economic context: labour market conditions and outlook, November 2010	6
Impact on employers of the 1 April 2010 minimum wage increase	8
PART TWO – OPTIONS FOR THE MINIMUM WAGE REVIEW 2010	10
Options for the minimum wage review 2010	10
Submitters’ views on the minimum wage rate	10
PART THREE – ASSESSMENT OF THE OPTIONS FOR THE MINIMUM WAGE REVIEW 2010	11
Assessment criterion 1: Gains and losses from changes in the minimum wage	11
Number of people affected by the different options	11
Impacts on employment and unemployment.....	12
Impact on low paid workers	15
Impact on wage earnings, nominal Gross Domestic Product and inflation.....	17
Impact on industry sectors	18
Impact on the state sector.....	20
Other considerations	23
Assessment criterion 2: Other income and employment-related interventions	27
Interface with other government interventions	27
SUMMARY	29
APPENDIX 1: CABINET APPROVED OBJECTIVE AND ASSESSMENT CRITERIA ..	30
Background	30
Overarching objective	30
Assessment criteria.....	30
APPENDIX 2: RECENT CHANGES TO THE MINIMUM WAGE	32
APPENDIX 3: SUMMARY OF SUBMISSIONS.....	33
Employer representative groups	33
Employee representative groups.....	34
Other organisations	35

EXECUTIVE SUMMARY

The minimum wage provides a floor for wages paid to employees. The Minister of Labour has a statutory obligation to review the level of the minimum wage by 31 December each year. For this year's minimum wage review, the Department of Labour (the Department) has considered four options for minimum wage rates adjustment for 2011. The assessment of different options against a range of measures is summarised in the table below¹.

Table 1: Impact of different options for the minimum wage adjustment in 2011

Minimum wage impact measures	Option 1 (no change)	Option 2	Option 3	Option 4
Minimum wage (per hour) Adults	\$12.75	\$13.00	\$13.50	\$15.00
New entrants & trainees	\$10.20	\$10.40	\$10.80	\$12.00
Percentage increase	N/A	2.0% ²	5.9%	17.6% ³
Number of people impacted by minimum wage options	45,700	53,000	108,100	274,900
Number of people impacted above status quo	N/A	7,300	62,400	229,200
Potential impact on job growth (absolute change)	1,360 – 1,960	760 – 1,080	-660 - -460	-5,890 – -4,100
Economy-wide increase in wages (\$m, annual)	N/A	15	76	518
Inflationary impact (percentage points, CPI)	N/A	0.01	0.04	0.26
Additional wage costs to Government ⁴ (\$m, annual)	N/A	6	30	119

The minimum wage review has to consider the Cabinet directed single overarching objective [POL Min(08) 16/21 refers]:

“to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and impacts.”

The prudent and gradual increases in the minimum wage rate in the past two years have met this objective. The Department considers that a cautious approach to the minimum wage is still warranted. Retaining the status quo (option 1) or a modest increase in line with the CPI (option 2) could be considered given the current subdued economic recovery and labour market.

¹ Access to the data used in this report was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented are the work of the Department of Labour, not Statistics New Zealand.

² This increase is in line with the change in the Consumers Price Index (CPI) (June 2010) and average wage change from the Quarterly Employment Survey (QES) (June 2010).

³ An option considered in the minimum wage review 2009.

⁴ This is the additional costs to the Ministries of Health, Social Development and Education, and the Accident Compensation Corporation, from higher wage costs to service providers. It does not include any offset from additional taxes on higher minimum wages.

PART ONE — BACKGROUND AND CONTEXT

This section sets out the current minimum wage rates, the legislative background, international obligations, the Government's objective for the minimum wage, the economic context in which this review occurs, and labour market conditions.

Current minimum wage rates

The current minimum wage rates, which are prescribed in the Minimum Wage Order 2010 and took effect from 1 April 2010, are set out below:

- The adult minimum wage is \$12.75 an hour. It applies to all employees aged 16 years and over, who are not new entrants or trainees.
- The new entrants' minimum wage is \$10.20 an hour. It applies to 16 and 17 year olds except for those employees: who have completed 200 hours or three months of employment, whichever is shorter; who are supervising or training other workers; or who are subject to the training minimum wage.
- The training minimum wage is \$10.20 an hour. It applies to those employees aged 16 years and over who are undertaking at least 60 credits a year in a registered training programme.

Under legislation, the new entrants' minimum wage cannot be set at less than 80% of the adult minimum wage.

The legal framework of the minimum wage review

The Minimum Wage Act 1983

Minimum wages are set through an Order in Council made under Section 4 of the Minimum Wage Act 1983 (the Act). The minimum wage provides a floor for wages paid to employees. It is an offence to pay less than the minimum wage.

Where a minimum wage is set, the Minister of Labour has a statutory obligation under Section 5 of the Act to review the level of the minimum wage by 31 December each year.

By convention, the Minister of Labour makes a recommendation to Cabinet based on the Department's advice. Should Cabinet decide to increase the minimum wage rates, the Governor-General will give effect to the changes through an Order in Council. Historically, any increases come into effect on or before 1 April.

International obligations

The minimum wage is part of the Government's general responsibility to ensure socially acceptable employment standards that are prescribed and enforceable. Additionally, there are formal international commitments that establish an explicit obligation on the Government (as a member state) to ensure an adequate minimum wage, including under the Minimum Wage-Fixing Machinery Convention, 1928 (International Labour Organisation (ILO) Convention 26). This convention obliges the Government to create minimum wage-fixing machinery where "no arrangements exist for the effective regulation of wages ... and wages are exceptionally low". It also recommends that minimum wages should be set according to the general level of wages prevailing in the country, taking account of the necessity to enable the workers concerned to maintain a suitable standard of living. According to the ILO, "The ultimate test of any minimum

wage system is its acceptability and effectiveness at a given period of time and its ability to meet the different needs of all parties concerned”⁵.

The Government’s objective for the minimum wage

The Government’s objective for the minimum wage is: “to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts” [CAB Min (08) 35/4 refers]. The minimum wage objective and related criteria provide a framework for assessing the options for the minimum wage (see Appendix 1).

Level of the current minimum wage relative to other benchmarks

The current adult minimum wage of \$12.75 an hour is significantly higher than the unemployment benefit for a single adult aged 18 to 24 years (\$4.60⁶ an hour based on a 40 hour week). The benefit for a single adult aged 25 years or over is \$5.52 an hour (based on a 40 hour week). These benefit amounts do not include any supplementary assistance, such as the accommodation supplement or temporary GST assistance.

The current adult minimum wage is around 49.5% of average total hourly earnings (\$25.75 an hour in the Quarterly Employment Survey, September 2010) and 63.75% of median total hourly earnings (\$20.00 an hour in the New Zealand Income Survey, June 2010).

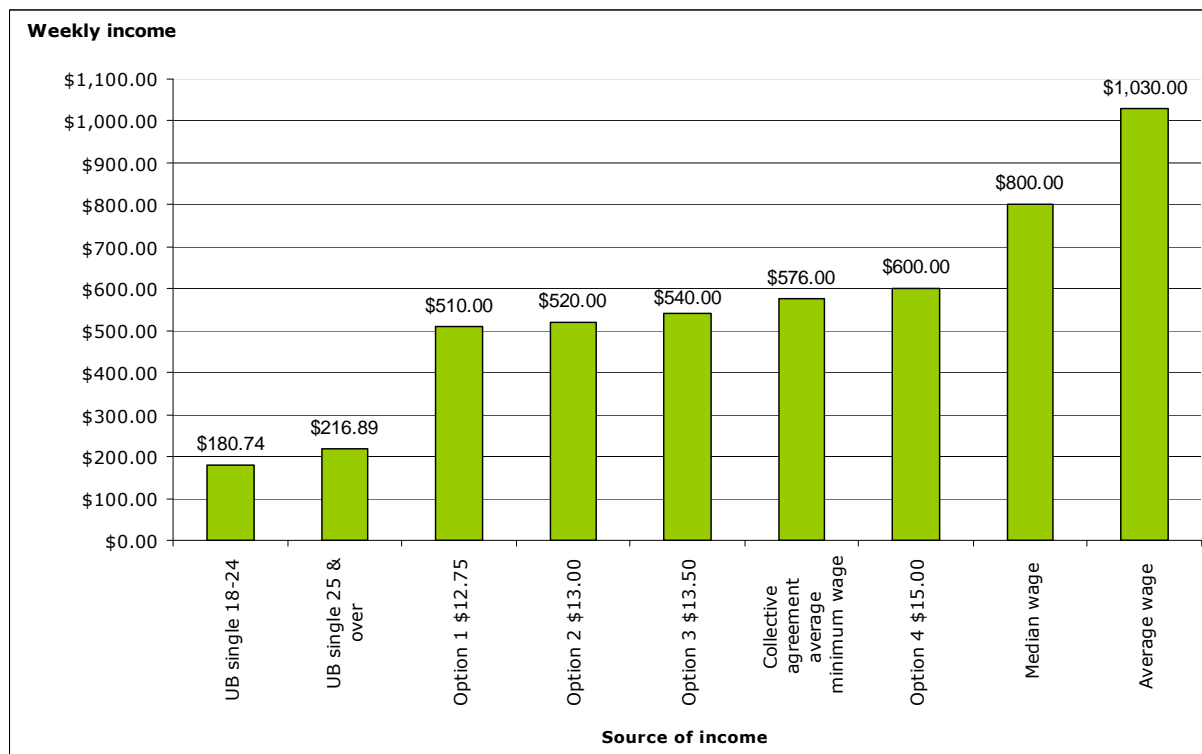
The current adult minimum wage is lower than the average minimum weekly adult wage in collective agreements. According to the Industrial Relations Centre at Victoria University, the average minimum weekly wage in collective agreements is \$576 a week⁷. This equates to \$14.40 an hour for a 40 hour week. See Figure 1 on the following page for a comparison of the minimum wage options against other income benchmarks.

⁵ International Labour Organisation (1998) “Minimum Wage Fixing: A Summary of Selected Issues”, Briefing Note No.14.

⁶ This conversion is only provided for comparative purposes and does not reflect any policy position or view.

⁷ Stephen Blumenfeld and Peter Kiely (2010) “Employment Agreements: Bargaining Trends & Employment Law Update 2008/2009”, Wellington.

Figure 1: Adult minimum wage options compared with other income benchmarks



Economic context: labour market conditions and outlook, November 2010

The current review of the minimum wage takes place amid a slowly recovering labour market following five quarters of recession in 2008/09. This outlook is based on the most current data available to the Department. The main sources of information are Statistics New Zealand, business surveys, and market views.

As a result of both domestic and global factors, the New Zealand economy contracted over the five quarters to March 2009 with real GDP falling by a total of 3.5%. This made it both the longest and deepest recession for thirty years. However, while the impact of the global financial crisis on New Zealand was significant, it was smaller than for most developed nations. New Zealand’s performance was supported by a sound financial system, growth in key trading partners (particularly China and Australia), high commodity prices, positive net migration, and significant monetary and fiscal stimulus.

These factors also helped pull New Zealand out of recession in the June 2009 quarter although the recovery so far has been mild, particularly compared to previous upturns. Although it has been five quarters since the recession ended, activity remains 1.5% below its pre-recession peak.

The recovery has been led by the export sector aided by strong commodity prices, robust growth from Asia and a favourable exchange rate with Australia. The latter has contributed to stronger than expected performance by some manufacturing industries servicing the Australian market.

In contrast, domestic demand remains subdued. Households continue to be cautious with growth in consumer spending low and activity in the retail sector weak. Weakness in the housing market, low wage growth and many households choosing to repay debt, or save, is constraining economic activity in sectors such as retail and hospitality. We expect growth in these industries to remain relatively mild with households likely to continue to be cautious over 2011, although the Rugby World Cup in late 2011 will provide a one-off boost to these sectors.

The general view is that inflationary pressures in the economy are low and little pressure is expected from wage cost-push as the labour market remains weak. However, GST and other one-off increases will temporarily boost domestic inflation (as measured by the Consumers Price Index, CPI) towards 4.5% in mid-2011. It is not clear whether the one-off increases in headline inflation will affect price and wage setting behaviour.

The downturn in the New Zealand economy led to an easing in the labour market during 2008 and 2009 with employment falling by 2.4% from peak to trough and the unemployment rate rising to a ten year high of 7.1% in the December 2009 quarter. While the rise in unemployment was strong, it was from a position of a 22-year low of 3.5% before the recession hit. Therefore, despite the unemployment rate more than doubling, it remains below the 7.9% peak recorded in the 1997/98 recession and the 11.2% peak recorded in the early 1990s.

The labour market appeared to turn the corner in late 2009/early 2010. Although labour market data has been volatile recently, the unemployment rate has gradually fallen from 7.1% in the December 2009 quarter to 6.4% in the September 2010 quarter. Employment on the other hand has risen by 1.8% over the year to September 2010. This confirms that the labour market recovery is well under way.

Economic growth is expected to remain relatively weak in the September 2010 quarter, with the average prediction in New Zealand Institute of Economic Research (NZIER) Consensus Forecasts for a 0.7% increase. A number of forward-looking indicators, such as business confidence, eased over the September 2010 quarter suggesting economic growth was low over this period. Furthermore, disruptions from the Canterbury earthquake will act as a drag on growth, with initial estimates from the Treasury estimating it could take 0.4 percentage points off economic growth in the September 2010 quarter.

However, economic growth is expected to pick up over 2011 on the back of robust trading partner growth, high commodity prices, and reconstruction activity in Canterbury. The 2011 Rugby World Cup will also support activity over the next year. These factors are expected to see the economy grow by more than 3% over 2011.

Further, the Department expects the labour market to continue to slowly improve over the next year. The November National Bank Business Outlook showed a net 11.5% of firms intend to increase staffing levels over the next year. This is above the long-term average of a net 6.0% and points to above average employment growth. This is expected to see the unemployment rate trend down gradually over the next year, falling to around 6.0% in mid-2011. An unemployment rate of below 6.0% is historically low and highlights that despite the rise in unemployment over recent years, we predict there will be little spare capacity in the labour market by the end of 2011.

Impact on employers of the 1 April 2010 minimum wage increase

From 1 July to 6 August 2010, the Department of Labour conducted a survey of 1,766 employers on their attitudes and practices around the change to minimum wage rates in 2010⁸. The survey results were scaled up to represent the entire New Zealand employer population with the exception of Agriculture, Horticulture, and Fisheries industry.

The survey found that 94% of employers were aware of the April 2010 changes to minimum wage rates and that 20% of employers had paid someone at the minimum wage in the past year. When asked if the 2010 changes had impacted upon their business just under 88% of employers indicated that their business was not affected by the changes (other than increasing the wages of those on the minimum wage)⁹.

Employers who reported hiring at the minimum wage in the past year were more likely to report being affected by the changes. Of the total of all businesses, 20% of employers who had in the past 12 months hired someone at the minimum wage a total 7.3% reported an impact. A total 4.4% of non-minimum wage employers reported being impacted. Chart 1 below summarises this.

Of the 12% of businesses that reported that their business was affected by the 2010 changes; a number of them reported multiple impacts. A total of 7.7% reported absorbing the additional costs. Just over a total of 4.2% of businesses said that they increased the wages of other staff not on the minimum wage as a result of the changes. Very few employers, at around a total of 1% reported passing costs onto the consumer while a total of 1% reported changing their hiring practice, either recruiting fewer staff or hiring more experienced staff. No-one reported redundancies. Table Two, below, summarises these findings¹⁰.

Table 2: Responses of businesses which reported being affected by the minimum wage changes in 2010

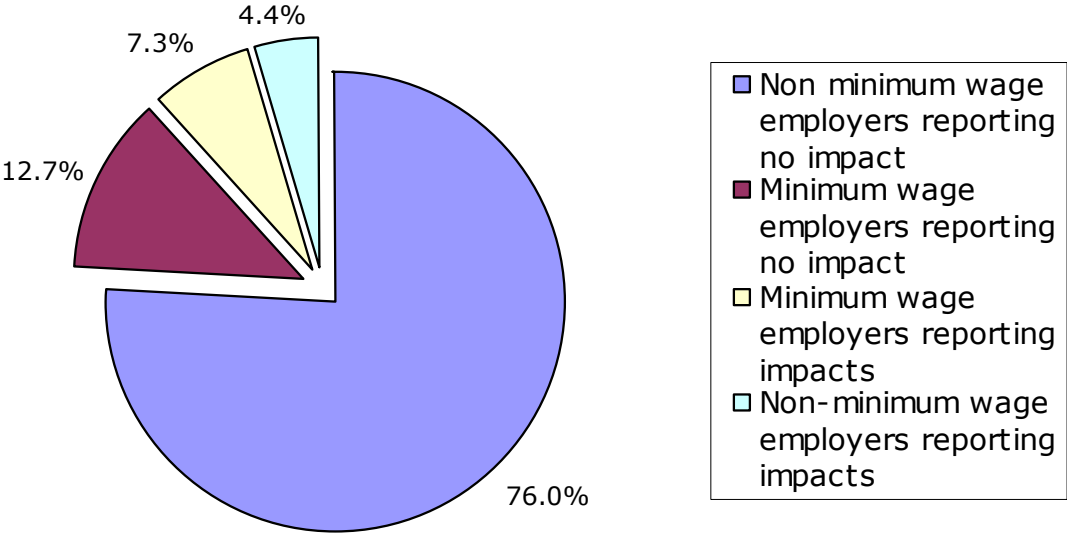
Responses	Total % of all NZ employers	Minimum wage employers	Non minimum wage employers¹
Absorb costs	7.7	5.7	1.9
Increase the wages of staff not on the minimum wage	4.2	1.8	2.4
Pass costs onto the consumer	1.4	0.8	0.6
Recruit fewer or hire more experienced staff	1.2	0.5	0.7
Tighten costs in other ways	0.7	0.4	0.4
Reduce hours of some employees	0.2	0.2	0
Raise productivity to offset costs	0.1	0.1	0
Redundancy	0	0	0

⁸ This survey had a total sample of 1,766 employers, with a weighted sample of 1,762 employers. It represents the range of industries in the New Zealand economy with the exception of the Agriculture, Horticulture and Fisheries industry.

⁹ Please note this is because they replied no to the question: Did this rise have an effect on your business? In other words, it is the perceptions of the effect of the changes, not actual, verifiable changes.

¹⁰ Note that this is a weighted sample and that affected businesses could give more than one response when asked about the effects of minimum wage changes on their business.

Chart 1 Proportion of all New Zealand employers reporting on the impact of the minimum wage¹¹



Please note this data was scaled up from research conducted by the Department of Labour. Due to rounding, the total will not add to 100%.

¹¹ The range of industries in the New Zealand economy with the exception of the Agriculture, Horticulture, and Fisheries industry.

PART TWO – OPTIONS FOR THE MINIMUM WAGE REVIEW 2010

This section sets out the options considered for this year's review of the minimum wage rates and submitters' views on this year's review.

Options for the minimum wage review 2010

The Department has examined four options for the adult minimum wage rates in 2011. These options are:

- Option 1: Retaining the current adult minimum wage of \$12.75 an hour;
- Option 2: An increase to \$13.00 an hour in line with the change in the Consumers Price Index (CPI) in June 2010 and the changes in average wages from the Quarterly Employment Survey (QES) in June 2010;
- Option 3: An increase to \$13.50 an hour; and
- Option 4: An increase to \$15.00 an hour.

Submitters' views on the minimum wage rate

The Minister of Labour invited written submissions from Business New Zealand, New Zealand Council of Trade Unions (NZCTU) and other stakeholders. Twelve written submissions were received. A summary of the submissions is attached as Appendix 3 to this report, and relevant submitters' comments have been included throughout this report.

Three submitters (National Association of Retail Grocers and Supermarkets of New Zealand (NARGON), Federated Farmers of New Zealand, and Hospitality Association of New Zealand) recommended no increase to the minimum wage (Option 1).

Two submitters (National Advisory Council on the Employment of Women (NACEW), and Mayors' Taskforce for Jobs) recommended an increase in the minimum wage, but did not recommend a specific figure.

The Small Business Advisory Group recommended a range of options from no change to \$13.00 an hour, with a strong preference to increase the minimum wage rate in line with the change in the CPI (Option 2).

One submitter (Unite) recommended an increase to \$15.00 an hour (Option 4).

Five submitters (NZCTU, National Distribution Union, New Zealand Nurses Organisation, Service and Food Workers Union (SFWU), and Working Women's Resource Centre) recommended increasing the minimum wage to \$17.22 an hour¹².

¹² This is based on 66.0% of the average ordinary time wage of \$25.45 an hour in the June 2010 Quarterly Employment Survey, plus a 2.5% increase in line with the expected wage movement to the end of March 2011. The New Zealand Council of Trade Unions and Service and Food Workers Union also proposed an alternative option of an April 2011 increase to \$15.00 and an increase to \$17.22 in 2012.

PART THREE – ASSESSMENT OF THE OPTIONS FOR THE MINIMUM WAGE REVIEW 2010

This section assesses the options for the minimum wage review 2010 in terms of two criteria. First, the options are assessed in terms of gains and losses from changes in the minimum wage. Matters considered include the impacts of the options on specific population groups and the main social and economic impacts. Second, the options are considered in terms of changes to the minimum wage as part of the broader policy package of Government income and employment-related interventions.

Assessment criterion 1: Gains and losses from changes in the minimum wage

The first assessment criterion is an assessment of gains and losses from any change to the minimum wage. A number of factors have been identified for consideration in relation to this assessment criterion. These factors have been used in this assessment of the options as much as possible. However, we do not have data available for factors such as the impacts on some types of low paid workers like new migrants, temporary workers, and workers with disabilities.

Number of people affected by the different options

The following tables estimate the number of workers, aged 16 to 64 years, who would be affected by the minimum wage options.

Table 3: Estimated affected adult workers (18 - 64 years)

Minimum wage option	18 - 64 year olds		18 - 19 year olds		20 - 24 year olds		25 - 64 year olds	
	%	number	%	number	%	number	%	number
1. \$12.75	2.0	34,600	15.4	10,200	4.5	8,200	1.1	16,200
2. \$13.00	2.4	41,300	16.3	10,800	5.7	10,500	1.4	19,900
3. \$13.50	5.4	92,000	26.7	17,600	12.5	23,100	3.5	51,400
4. \$15.00	14.8	252,800	50.4	33,300	30.7	56,400	11.2	163,100

Source: 2010 New Zealand Income Survey, Statistics New Zealand

Note: The numbers are rounded to the nearest 100. It is assumed that those earning below the minimum are exempt from being paid the minimum wage.

Table 4: Estimated affected 16-17 year olds

New entrants' minimum wage			Adult minimum wage		
Minimum wage option	%	Number	Minimum wage option	%	Number
1. \$10.20	4.5	1,700	\$12.75	29.8	11,100
2. \$10.40	4.5	1,700	\$13.00	31.4	11,700
3. \$10.80	5.2	1,900	\$13.50	43.1	16,100
4. \$12.00	8.1	3,000	\$15.00	59.4	22,100

In Table 3, it can be seen that a much larger proportion of workers in the 18 to 24 years age group will benefit from an increase in the minimum wage. Table 4 shows that any increase is likely to affect a high proportion of 16 and 17 year olds, as they tend to be paid at or near the minimum wage.

The estimates in Table 3 and Table 4 are for workers who may directly benefit from the minimum wage options. There may be other impacts as a result of the change of the minimum wage. For example, if the minimum wage increases, employees may choose to (or wish to) work more hours, or employers may choose to offer fewer hours to employees. Employers might change their hiring practice by substituting one type of worker for another, such as employing more experienced workers. This might mean that more 16 and 17 year olds are indirectly affected by the minimum wage change than those aged 18 years and over. Employees earning near the minimum wage may ask for pay increases to keep their current relativity to the minimum wage.

Impacts on employment and unemployment

Evidence regarding the impact of increasing the minimum wage on employment is mixed. The conventional view on adjustment in the labour market suggests that when the price of labour increases, due to an increase in the minimum wage, there will be a decline in the demand for labour (possibly due to substitution of capital inputs). The industries that are most affected by an increase in the minimum wage may experience an impact on employment growth.

Research on the effects of the minimum wage

There is a mix of views on the effects of the minimum wage on employment levels. The ILO has found that whether a minimum wage has a negative or a positive effect on employment depends on many factors such as its relative level, the structure of the labour market, and the country concerned¹³.

Research finds minimum wage laws raise pay rates at the bottom of the wage distribution, and this effect is generally associated with lower dispersion of earnings. However, despite considerable efforts, researchers have not identified the effects of the minimum wage on other aggregate economic outcomes, such as unemployment and employment¹⁴.

Research from the United Kingdom (UK) suggests that minimum wages may simply have no effect on employment, or that minimum wage effects might exist, but they may be too difficult to detect and/or are very small. In any case, with 64 studies containing approximately 1,500 estimates, they conclude that if there is some adverse employment effect from minimum wage rises, it must be of a small and policy-irrelevant magnitude¹⁵.

Australian research indicates minimum wages may play a role in providing the financial incentives for people to take up, or increase their hours in, jobs paid at minimum wages, or may enhance social inclusion through their role in providing a safety net. Minimum

¹³ Youcef, Ghellab (1998) "Minimum Wages and Youth Unemployment", ILO, p.58.

¹⁴ Freeman, R. (2007) *Labour Market Institutions around the World*, National Bureau of Economic Research, Cambridge.

¹⁵ Doucouliangos, Hristos and Stanley, T.D. (2009) "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis", *British Journal of Industrial relations*, 406-428.

wage decisions may also have employment effects; however, these effects are not clear cut¹⁶.

Impacts on employment growth

With the mixed results from research elsewhere in mind, the Department has taken a cautious approach and only considered the relationship between the minimum wage and employment growth and unemployment. This approach is also driven by the availability of data.

The Department has analysed employment¹⁷ impacts with respect to real minimum wage changes (i.e. we adjust for changes in price levels using a relevant price deflator, as discussed below) and by using a range of employment adjustment factors (elasticities) that are broadly derived from econometric analysis conducted by the Department and others¹⁸. It is important to note that our analytical framework assumes that everything else remains the same and it does not specifically deal with important economy-wide and other feedback effects, some of which may have a positive impact (e.g. productivity, demand and fiscal effects), while others may be negative (international competition)¹⁹. The timing of the adjustment is also simplified and a one-year adjustment period is assumed for the period 1 April 2011 to 31 March 2012.

The model used to estimate the impact on employment growth considers how a firm that hires minimum wage workers will alter its hiring decisions based on changes in the minimum wage and the output price changes faced by the firm. The model is based on a conventional model of firm decision-making, whereby firms operating in a perfectly competitive market adjust outputs and inputs, including labour, in response to their relative prices.

The concept of "real minimum wage changes" is important for our discussion here. For example, Option 2 (\$13.00 an hour) implies a 2.0% nominal increase and Option 3 (\$13.50 an hour) a 5.9% nominal increase. However, it is important to consider these nominal minimum wage increases relative to changes in the output prices that a firm can expect.

Real changes in minimum wage options are adjusted using the Producers Price Index–Outputs (PPI-O). This measures the average change in output (selling) prices of firms across the whole economy.

Forecasts of changes in the PPI-O were obtained from the latest (December 2010) Quarterly Predictions, published by NZIER. NZIER forecasts that the PPI-O will increase by 4.4% over the year to March 2012. This is a relevant estimate for the period of the minimum wage options, which will be effective from 1 April 2011.

¹⁶ Nelms, Lucy and Dr Constantine Tsingas (2010) *Literature review on social inclusion and its relationship to minimum wages and workforce participation*, Research Report, Minimum Wage and Research Branch, Fair Work Australia.

¹⁷ The terms *job* and *employment* are used throughout this section to mean the latter; the impact on the number of people employed is estimated rather than the number of jobs available.

¹⁸ More information on the adjustment factors used is available from the Department of Labour.

¹⁹ One could argue that all these effects are "loaded" into the econometric estimates but they are not explicit.

The Department has used a benchmark to estimate the impact of various minimum wage options on job growth. The benchmark is an estimate of the number of extra jobs that would be created in the economy if the minimum wage stayed the same in real terms from April 2011 to March 2012 (e.g. increased by the same percentage as the PPI-Output). The benchmark projected job growth is estimated at 1% or 22,100 jobs.

Option 2 (\$13.00 an hour) does not constitute an increase in the real value of the minimum wage; while Option 3 (\$13.50 an hour) would result in an increase of 1.5% in real terms.

Table 5 below sets out aggregate estimates of the level of possible changes to job numbers that may result from minimum wage increases. Currently, the Household Labour Force Survey for September 2010 reports that the total number of people employed is 2,193,000.

This is projected to increase by 22,000 jobs to 2,215,000 jobs in the March 2011 quarter according to the Department’s most recent forecast (of 0.5% per quarter). From March 2011, employment is currently expected to increase by 1% (or a further 22,100 jobs) to 2,237,100 in March 2012²⁰.

Table 5: Impact on job growth as at 31 March 2012

	Option 1: \$12.75	Option 2: \$13.00	Option 3: \$13.50	Option 4: \$15.00
Projected job growth	23,530 - 24,100	22,910 - 23,230	21,490 - 21,690	16,260 - 18,040
Potential impact on job growth (absolute change compared to the benchmark)	1,360 - 1,960	760 - 1,080	-660 - -460	-5,890 - -4,100
Potential impact on job growth (relative to the benchmark)	0.06% - 0.09%	0.03% - 0.05%	-0.03% - -0.02%	-0.27% - -0.19%
Potential impact on total jobs (relative to Option 1)	0%	0.03 - 0.04%	0.08 - 0.12%	0.24 - 0.35%

Source: Department of Labour calculations

High and low scenarios of the minimum wage impacts

The Department has calculated high and low scenarios for employment impacts, with the scenario based on higher and lower employment adjustment factors (i.e. that employment is more or less sensitive to changes in the minimum wage).

The evidence of the impact of increasing the minimum wage on job growth is not strong. Econometrically estimated adjustment factors of employment with respect to the

²⁰ The NZIER consensus forecast is used here and already implicitly assumes impacts on employment due to minimum wage increases, but the magnitude of this impact is unknown.

minimum wage show only a mild negative effect. The Department therefore considers the impact on job growth to be minimal (less than 0.1% of job growth) for Options 1, 2 and 3.

Compared with the benchmark, Options 1 and 2 could mean additional jobs are created as increases in the real minimum wage costs are expected to be negative (given a 4.4% increase in the PPI-Output over the period). This means that the increase in the price of minimum wage labour costs is less than the forecasted increase in the price employers are receiving for their goods. However, this assumes that a potential erosion of income in terms of the CPI does not reduce incentives to work.

Under Option 3 (\$13.50 an hour), employment growth is estimated to be lower than the benchmark by between 460 and 660 jobs (which is small in terms of total employment), and reduced by between 4,100 and 5,890 jobs under Option 4 (\$15.00 an hour).

The estimate can be further broken down by age group. While the 18-19 year old group is not expected to be affected much, employment growth of the 16-17 year old group may be fewer by between 40 and 220 jobs under Option 3 (\$13.50 an hour), and fewer by between 370 and 1,980 jobs under Option 4 (\$15.00 an hour).

Impact on unemployment

It is not straightforward to estimate the impact on unemployment. There is no data on whether those who are unable to find a job due to the potential constraints on job growth from a minimum wage increase will decide to be in the labour force or not. Those who cease work and withdraw from the labour market all together, for instance to study or look after children, are not counted as unemployed. To be counted as unemployed, a person must be actively seeking work. On the other hand, an increase in employment growth may attract people into the labour market. This may not alter the number of people who are unemployed as the increased number of jobs may be filled by people who are not currently in the labour force. The Department assumes that there are no changes to people's preferences to be in the labour market for these estimates.

Based on the Reserve Bank forecasts of the unemployment rate of 6% for March 2011 and 5.5% for March 2012, it is estimated that the unemployment rate would not rise under Option 1 (\$12.75 an hour), Option 2 (\$13.00 an hour) or Option 3 (\$13.50 an hour) for the March 2012 quarter but would increase to 5.7% for the same quarter for Option 4 (\$15.00 an hour).

Impact on low paid workers

Youth, women, Māori, Pacific people and part-time workers are more likely to be low paid workers and they are more likely to benefit from any increase in the minimum wage. However, they may also be the first to experience any negative impacts that could result from a change in the minimum wage (e.g. reduced hours offered or substitution of some groups of workers for others). Table 6 shows the demographic and job characteristics for workers paid at the minimum wage rate.

Table 6: Percentage of workers paid at the current minimum wage, by demographic group

Demographic group	Percent of workers
Aged 18-24	56.5%
Female	57.1%
Married	36.6%
European/Pakeha	51.8%
Māori	20.8%
Pacific	5.6%
Part-time	56.0%
Post school qualification	37.2%

Source: 2010 New Zealand Income Survey, Statistics New Zealand

Young people

Over half of those earning the minimum wage are between 18 and 24 years of age. A high proportion of 16 and 17 year olds are also paid at or near the minimum wage. Therefore, an increase in the minimum wage is likely to affect a very large number of young people already in work.

In a survey carried out by the Department in 2010, 10% of employers reported employing a young person aged 16 or 17 years in the past three months. Of these employers, only a third said that they used the new entrants' minimum wage. The most common reasons for not paying the new entrants' minimum wage was that the rate was too low or not fair, or that the job was skilled.

In its submission the NZCTU states that it is unfair to reward young workers less for the same work as an older or more experienced employee. The NZCTU also states that there is no evidence to support that work done by younger and new workers is inherently of lesser value than the work done by others.

The Mayors' Taskforce for Jobs submitted that continued minimum wage protection was necessary for young people to encourage employers and others to invest in skill development, particularly in the trades, and to avoid increasing the disparity in wage levels between Australia and New Zealand. Where young people are working alongside others doing the same work, there seems no justification for lower wages on the grounds of age. Information from Mayors around the country suggests that the level of wages and any increases have not resulted in constraints on job creation or fewer opportunities for young people. There is no evidence that raising wages has resulted in young people leaving school early.

Hospitality Association of New Zealand and NARGON are concerned that continued increases in the minimum wage could send a signal to some younger people that further formal education and training is not warranted. They claimed that increases in minimum wage rates for those undertaking training, including on-the-job training, would deter many employers from offering training opportunities to young people.

Women

Women tend to be highly represented in a number of demographic characteristics associated with low pay (for example, those working part-time, in service occupations). Table 6 shows that of those currently earning the minimum wage, 57.1% are women.

The Department calculates that among the population aged 18 to 64 years the average hourly wage for females is 85.8% of the average hourly wage for males. Thus, female wage and salary workers earn 14.2% less than males per hour²¹. We estimate that this would not change significantly under Options 2 and 3. This is in line with previous impacts estimated by the Department²².

In its submission the National Advisory Committee on the Employment of Women said that even a moderate increase to the minimum wage will have a direct positive impact on women's economic conditions and their families. The majority of members strongly endorse an increase in the minimum wage as part of a range of mechanisms that increase the likelihood of women achieving financial security and independence.

Māori and Pacific people

Māori and Pacific people are overrepresented amongst those in low paid employment and are more likely to benefit from an increase in the minimum wage, compared with people of European descent.

NZCTU, SFWU and NACEW believe the minimum wage is an essential mechanism to close the pay gap for Māori, Pacific, and female workers.

Part-time workers

Part-time workers are more likely to be low paid. Table 6 shows that 56% of people paid at the minimum wage work part-time. Therefore, any increase in the minimum wage will directly benefit a large proportion of low paid, part-time workers.

Post school qualifications

Only 37.2% of workers earning \$12.75 an hour have a post school qualification, which is below the labour force average. Therefore, workers with a post school qualification are less likely to be affected by a modest minimum wage change.

Impact on wage earnings, nominal Gross Domestic Product and inflation

Table 7 examines the impacts of each option in terms of the numbers of workers affected, the estimated increase in weekly wage earnings, the potential inflationary impact, and economy wide increase in wages.

²¹ This calculation excludes all workers who reported an hourly wage below the adult minimum wage of \$12.75.

²² Historically, impacts on the gender pay gaps were: in 2006, 87.0% to 87.1%; in 2007, 84.3% to 84.4%; in 2008, 85.0% to 87.6%; and in 2009, 85.6% to 85.7%.

Table 7: Economy-wide impacts of increases in the minimum wage in 2011 on wage earnings and nominal GDP (inflation)²³

Options	Workers between current and new minimum wage	Wage earnings increase (weekly, '000)	Economy-wide increase in wages (\$m, annual)	Increase in economy wide weekly wage earnings (% , including wage earnings of self-employment)	Increase in nominal GDP / inflation (% points)
\$12.75	45,700	N/A	N/A	N/A	N/A
\$13.00	53,000	289	15	0.02%	0.01
\$13.50	108,100	1,456	76	0.09%	0.04
\$15.00	274,900	9,955	518	0.62%	0.26

Source: New Zealand Income Survey June 2010, Statistics New Zealand and Department of Labour calculations.

Impact on industry sectors

The impact of a minimum wage increase varies across sectors. To illustrate this, Table 8 shows the estimated number of workers by sector that would be subject to a minimum wage of \$13.00 per hour (Option 2).

²³ We have used single estimates for the wages of 16 and 17 year old workers, as the data suggests that the majority are earning the adult minimum wage or more. We are unable to estimate how many 16 and 17 year olds may be eligible for the new entrants' minimum wage (for example when they will have completed the service requirement under the new entrants' minimum wage). The data therefore assumes that all 16 and 17 year olds are eligible to earn (at least) the adult minimum wage. The results therefore represent an upper bound estimate.

Table 8: Impact of adult minimum wage option of \$13.00, by sector, for all workers aged 16-64 years

Industry	Subject to a minimum wage of \$13.00 per hour			
	Percentage of workers	Number of workers	Percentage of weekly hours	Percentage of weekly earnings
Hospitality	10.8	10,700	7.4	5.4
Retail	9.1	16,700	5.6	3.9
Agriculture	4.4	3,600	3.7	2.4
Personal Services	3.7	2,300	3.4	1.9
Administration and Support Services	3.6	1,600	2.9	1.7
Media and Communications	3.1	1,100	1.9	0.8
Rental, Hiring and Real Estate	3.0	600	1.9	0.9
Transport and Storage	2.2	1,600	1.4	0.8
Construction	1.8	2,200	1.7	0.9
Manufacturing	1.7	3,600	1.4	0.8
Health Care and Social Assistance	1.7	3,400	1.3	0.6
Wholesale	1.1	1,000	0.9	0.4
Education	1.1	2,000	0.9	0.4
Arts, Recreation and Other Services	1.1	300	1.2	0.6
Professional, Scientific and Technical	0.7	900	0.3	0.1
Finance	0.6	300	0.7	0.3

Source: Statistics New Zealand

This table shows that if the minimum wage was increased to \$13.00 an hour, hospitality is likely to be the sector most affected, with around 10.8% of its workers currently paid at or below this level, followed by retail trade (9.1%) and agriculture (4.4%).

The Department's survey of employers in 2010 showed that 19% of employers paid someone at the minimum wage in the past year. Large businesses with more employees were more likely to have hired someone on the minimum wage in the past year. While over one third of large (20 to 49 employees) and very large (more than 50 employees) businesses had hired at least one person on the minimum wage, only 13.0% of small business and a quarter of medium-sized businesses from the sample had done so.

New Zealand research found that firms respond in a number of ways to minimum wage increases²⁴. The most common response was to reduce wage relativities across their staff. Other responses include reducing the number of hours of work offered to staff, tightening employment policy, not replacing workers who resign, attempting to increase

²⁴ Dalziel, P et al (2006). *Firm Responses to Changes in the Minimum Wage*, Canterbury, AERU Research Unit, Lincoln University. This is available from the Department on request.

productivity, attempting to reduce costs, raising prices where possible, reducing profits and business closure. More generally, firms' responses were based on supply and demand variables. The sectors most affected by minimum wage increases (the retail and hospitality sectors) had more scope to raise prices, as they supply non-tradable products to the domestic market²⁵.

Research from overseas suggests that increases in the minimum wage may have a small negative impact on profitability, but finds no evidence of this increasing the probability of firm closure²⁶.

NARGON submits that minimum wage increases will increase the costs of goods and services and reduce the employment opportunities.

The National Distribution Union submits low pay is prevalent in the retail sector and impacts negatively on most retail workers. Pay rises in retail, fast food and similar customer services industries have become increasingly dependent on increases in the minimum wage. An increase in the minimum wage is a very effective means of delivering a fiscal stimulus to an economy in recession, as those on low incomes are more likely to spend any additional income. Minimum wage increases are affordable for retail employers as the retail sector has experienced enormous growth for more than 10 years until the onset of the recession.

Impact on the state sector

There are a number of state sector employees and contractors on low wages, particularly in the public health and compulsory education sectors. Increases in the minimum wage are therefore likely to have direct (and possibly also indirect or 'flow-on') costs for some state sector employers. The Department considers that it is likely that organisations will seek additional funding to compensate for higher wage costs. It is also possible that, following a minimum wage increase, state sector employees may bargain with their employers to retain relativities and this may also increase the costs to government.

In Table 8, government employees are included in the education, business services, government and health and community services sectors. However, it is difficult to isolate the impact on public sector employees as these categories will also include private sector employees. The Ministries of Health, Social Development and Education and the Accident Compensation Corporation have identified areas which are more likely to be impacted by changes in the minimum wage. There might be other government agencies, crown entities, or state sector organisations which may be affected by a change in the minimum wage, but we do not have valid data to estimate the impacts on them.

Ministry of Health

The Ministry of Health has identified two areas in which workers are paid low wages and will therefore be most affected by an increase in minimum wage rates. These are aged care workers and disability support workers. In addition, minimum wage rises are likely to indirectly affect the mental health support workforce. The fiscal impact of an increase

²⁵ Ibid

²⁶ Denvir A. and G. Loukas (2006) *The Impact of the National Minimum Wage: Pay Differentials*. Available at: www.lowpay.gov.uk/lowpay/rep_research_index.shtml. Draca M., S. Machin and J. Van Reenen (2008) *Minimum Wages and Firm Profitability*. NBER Working Paper 13966. Available at: www.nber.org/papers/w13996

in the minimum wage for the health of older people services and disability support services is outlined in the following table:

Table 9: Fiscal impact on Ministry of Health programmes²⁷

Option	Impact on all health of older people services²⁸	Impact on disability support services²⁹
Option 1 \$12.50	No change	No change
Option 2. \$13.00	\$0.62m	\$2.91m
Option 3. \$13.50	\$12.93m	\$8.94m
Option 4. \$15.00	\$62.54m	\$30.31m

While the estimated 4,000 workers in the mental health community support workforce are generally paid above the minimum wage, any rise in the minimum wage would put pressure on providers to maintain wage relativity between the community support workforce and minimum wage workers.

Ministry of Social Development

The Ministry of Social Development (MSD) advises that there will be a number of impacts on them from any change to the minimum wage. The most direct effects are expected to be felt on the Ministry's Home Help programme and on the Community Max programme.

Home Help

The purpose of the Home Help programme is to provide financial assistance to certain people who require temporary part-time help to complete domestic tasks normally performed in their homes. Under the programme, the hourly rate that may be paid for a home helper is \$13.42 plus 8% for holiday pay. The Government, by convention, increases the home help hourly rate by the same percentage as any increase in the minimum wage. This ensures that the amount paid for home help workers does not fall below the minimum wage. The expected increase in Home Help's fiscal costs related to an increase in the minimum wage are outlined in the following table:

Table 10: Fiscal impact on MSD's Home Help programme

Year	Option 2 \$13.00 an hour	Option 3 \$13.50 an hour	Option 4 \$15.00 an hour
2010/11	\$ 11,000	\$32,000	\$96,000
2011/12	\$ 43,000	\$128,000	\$384,000
2012/13	\$ 42,000	\$126,000	\$378,000
2013/14	\$ 42,000	\$125,000	\$376,000

²⁷ These calculations do not include the possible additional costs of sleepovers.

²⁸ The calculations for Health of Older People services costs are based on extrapolations of data gathered in a 2009 survey of residential care facilities but this does not take into account any wage relativity costs (this factor could substantially increase the costs).

²⁹ This is based on very high level estimates as Disability Support Services does not have detailed wage rate data from providers.

Community Max

Any increase in the minimum wage will have an impact on the Community Max programme because the Community Max wage subsidy is paid at the adult minimum wage rate. Expected increases in Community Max's fiscal costs related to an increase in the minimum wage are:

Table 11: Fiscal impact on MSD's Community Max programme

Year	Option 2 \$13.00 an hour	Option 3 \$13.50 an hour	Option 4 \$15.00 an hour
2010/11	\$ 77,000	\$231,000	\$692,000
2011/12	\$ 65,000	\$195,000	\$584,000

Ministry of Education

The Ministry of Education notes that an increase in the minimum wage to \$15.00 an hour would have a fiscal impact on approximately 235 state and integrated school teaching positions (for teachers without any recognised qualifications or training) funded by Vote: Education and on the Early Childhood Education (ECE) Funding Rates.

An increase in the minimum wage is also likely to have a direct fiscal impact on funding the 27,000 non-teaching positions in state and integrated schools. However, the lowest rate in the non-teaching collective agreement that covers about 75% of this workforce is \$14.00 an hour, so the impact would be more significant with option 4.

Based on an October 2010 pay period, the cost of increasing the minimum adult rate for the 3,600 full-time equivalents paid under \$15.00 an hour in the state compulsory schooling sector is \$32,000 per annum for Option 2, \$169,000 for Option 3 and \$4.463 million for Option 4.

Accident Compensation Corporation

The Accident Compensation Commission (ACC) provides Home and Community Support Services (HCSS) which includes attendant care (i.e. personal care,) home help, and childcare services. Clients can choose to have their HCSS provided by an ACC contracted agency, or they can employ their own carers directly. In the 2009/10 financial year, approximately 21,000 clients received HCSS at an annual cost of \$144 million. Increases to the minimum wage would have a corresponding impact on HCSS as shown in the following table.

Table 12: Average annual costs associated with increases in HCSS rates for the minimum wage options (includes both contracted and non-contracted providers)

Minimum wage option	Total cost
Option 2: \$13.00	\$2.3 million
Option 3: \$13.50	\$6.9 million
Option 4: \$15.00	\$20.7 million

Summary of the impacts on the four agencies

For the above four government agencies, total annual costs directly related to a minimum wage increase could increase by:

- \$6 million for Option 2 (\$13.00 an hour);
- \$30 million for Option 3 (\$13.50 an hour); and
- \$119 million for Option 4 (\$15.00 an hour).

Other fiscal impacts

As well as impacting on wage costs, increasing the minimum wage will have other fiscal impacts. However, it is difficult to assess the net effect of these impacts. Social assistance costs through benefit payments may rise, if a rise in minimum wage increases unemployment. However, higher incomes lead to the abatement of social assistance and can increase the amount of income tax received. For example, the Working for Families Scheme which is targeted at those low-to-middle income families with dependent children will be moderately impacted by an increase in the minimum wage. It is important to take into account that the modelling sample is relatively small and the impact has not been assessed in this year's review.

Other considerations

Consistency with the principles of fairness, protection, income distribution and work incentives

Table 13 shows the options assessed against the principles of fairness, protection, income distribution and work incentives. These principles are not weighted and the assessment does not take account of other impacts. An explanation of these principles and the benchmarks used to assess them is in Appendix 1. It is important to note that the principles do not include measures such as "forecast of constraint on job growth".

Table 13: Options assessed against the principles of fairness, protection, income distribution and work incentives

Option	Assessment against the principles³⁰
\$12.75	This option would erode existing levels of fairness for minimum wage workers when compared with other workers who are experiencing changes in average wages and protection for minimum wage workers who tend to have a relative lack of bargaining power to negotiate higher wages. Income distribution reduces relative to other workers whose income increases. Work incentives are impacted as there is an erosion of the difference between the minimum wage rate and benefit levels (which are adjusted annually in line with the CPI).
\$13.00	This option will maintain current levels of fairness and income distribution and existing work incentives as it is an increase in line with the change in consumer prices and average wages. It may erode existing levels of protection.
\$13.50	This option will increase existing levels of fairness and income distribution. It may increase or maintain work incentives, as it is likely to have a higher percentage increase than benefits. The size of the increase is greater than movements in average minimum wages in collective agreements so it is likely to improve current level of protection.
\$15.00	This option will strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is higher than the benchmarks used for comparison.

Comparison with international benchmarks

Internationally, minimum wage levels vary. There are a number of factors that might contribute towards cross-country differences in minimum wage levels. In many countries, despite the economic recession, minimum wages have continued to increase, either as the result of long-term adjustment plans or reviews of their domestic economic and labour market situations³¹. This year developed countries, such as the United Kingdom, Australia, Canada, Turkey, and Poland, increased their minimum wage rate.

Among the 21 OECD countries, seven countries (Australia, Belgium, France, Ireland, Luxembourg, Netherlands, and the United Kingdom) have higher minimum wage rates than New Zealand. If we compare the monetary value of the minimum wage across countries by using purchasing power parity (PPP)³², New Zealand's minimum wage ranks seventh amongst the OECD countries.

³⁰ The principles do not include other impacts such as "forecast of constraint on job growth". (Please see Table 1 for this information).

³¹ ILO (2009) Global Wage Report.

³² PPP measures the monetary amount needed to buy the same representative basket of consumer goods and services in each country and allows a more accurate comparison of standards of living across countries than exchange rates.

Table 14: Comparison of minimum wage levels, by country, 2009

	Hourly rate in local currency	Hourly rate in NZ\$³³	In NZ\$ using PPPs	Date of last up rating	Age full minimum wage usually applies
France	€ 8.82	\$19.44	\$15.90	Jul 09	18
Australia	AU\$14.31	\$17.85	\$15.63	Oct 08	21
Belgium	€ 8.41	\$18.54	\$15.16	Oct 09	21
Netherlands	€8.071	\$17.79	\$15.03	Jul 09	23
United Kingdom	£5.80	\$14.35	\$14.41	Oct 09	22
Ireland	€ 8.65	\$19.07	\$13.49	Jul 07	20
New Zealand	NZ\$12.50	\$12.50	\$12.50	Apr 09	16
Canada ³⁴	C\$9.08	\$12.63	\$12.18		16
United States	US\$7.25	\$11.43	\$11.85	Jul 09	20
Spain	€ 4.89	\$10.78	\$10.14	Jan 09	16
Japan	JPY713	\$12.04	\$9.00	Oct 09	15/18
Greece	€ 4.13	\$9.10	\$8.65	May 09	15
Portugal	€ 2.59	\$5.71	\$5.91	Jan 09	16

Source: The UK Low Pay Commission Report on minimum wage 2010³⁵

As a proportion of the average wage, New Zealand's minimum wage is high compared to other OECD countries. As at 2008, New Zealand's minimum wage was the second highest of 21 OECD countries with available data, second only to France.

The Department considers that a comparison with Australia is useful due to its close economic connections to New Zealand and the relatively free movement of labour between the two countries. The Australian Federal minimum wage increased by 4.8% from AU\$14.31 to AUS\$15.00 following the 2009-2010 review. This equates to NZ\$19.31 on 1 November 2010³⁶. According to the Australian Bureau of Statistics, the average wage in Australia in 2010 is AU\$64,641, making its minimum wage about 45.2% of the average wage. The New Zealand minimum wage is 49.5% of the hourly average wage.

Submitters' views on minimum wage levels compared with international benchmarks

Submitters expressed a variety of opinions on the appropriate level and setting for the minimum wage in relation to other countries' minimum wages. The NZCTU states that Australia's minimum wage is considerably higher than New Zealand's in whatever terms it is compared; and this is damaging to the New Zealand economy as it results in net outflows of people to Australia. The New Zealand Nurses Organisation submits that the minimum wage is the only factor protecting New Zealand's labour market from further disparity with comparable OECD countries, particularly Australia. The Mayors' Taskforce

³³ Exchange rate source Reserve Bank New Zealand average rates for 2009

³⁴ Operative date varies by province.

³⁵ Information can be accessed at <http://www.lowpay.gov.uk/>

³⁶ Based on an exchange rate of 0.7769 from New Zealand Reserve Bank.

for Jobs commented that continued minimum wage protection is necessary to avoid increasing wage disparities between Australia and New Zealand.

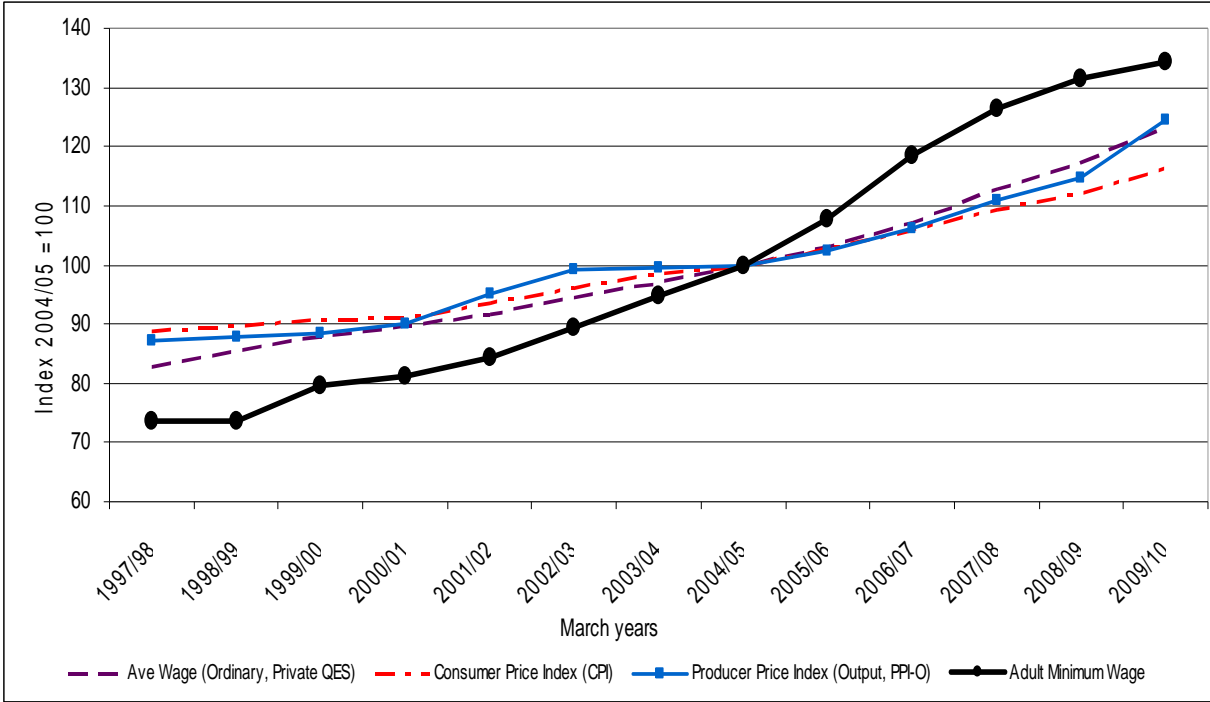
Federated Farmers considers that further increases in the minimum wage will hinder productivity growth and work against the Government’s goal of closing the income gap with Australia.

Changes in the minimum wage compared against the CPI and PPI

Figure 2 illustrates how changes in the adult minimum wage have been tracking against three other benchmarks since 1997/98: average wages, PPI and CPI. The minimum wage had been increasing at a faster rate than those benchmarks shown until 2008. Over 2006-2008, the minimum wage rates rose sharply as the Government made increases to reach an adult minimum wage of \$12.00 an hour in 2008. The increases were higher than changes in inflation and average wages. This was in part seen as “catching up” following little change to the minimum wage rates over the 1990s.

Since 2008, the Government has made modest increases to the minimum wage in line with changes in the CPI. The increases have been lower than increases in the average wage.

Figure 2: Average wage, Producers Price Index (outputs), Consumers Price Index and the adult minimum wage (2000/01=100)



Source: Statistics New Zealand

Impact on the rate of non-compliance

It is possible that increasing the minimum wage may increase non-compliance with the minimum wage legislation.

Over the last ten years there has been an increase in the proportion of individuals reporting below minimum wages in the New Zealand Income Survey. For example, the share of 16 and 17 year olds below the minimum wage increased from around 5% in

1999 to 16% in 2004; 18 and 19 year olds below minimum wage increased by over 20 percentage points between 2000 and 2006; and between 2004 and 2006, 20 to 24 year olds paid below minimum wage increased by 4 percentage points and 25 to 64 year olds by 2 percentage points.

Using existing data sources it is not possible to identify whether an increase in the share of workers reporting below minimum wages is caused by an increase in exemptions of the minimum wage, measurement error or non-compliance. The Department considers that growth in the proportion of below minimum wage workers appears to be short-lived and is related to when the minimum wage increase impacts a relatively large share of the workforce.

A rise in the proportions of workers below minimum wages can be expected with high increases in the minimum wage. However, over the last couple of years the increases in the minimum wage have slowed while the proportion of workers below the minimum wage continue to rise at an accelerated pace.

The Department will continue monitoring the proportion of workers reporting below minimum wage rates in case this does not decline as expected.

Assessment criterion 2: Other income and employment-related interventions

Assessment criterion 2 considers changes in the minimum wage as part of the broader package of income and employment-related interventions. For this assessment criterion, the Department has considered various government interventions and their effects.

Interface with other government interventions

There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the taxation system, and education and training policies, among which taxation generally has a more direct impact on low paid people.

Taxation

The progressive nature of the individual income tax system in New Zealand generally ensures that those on the lowest incomes pay a smaller proportion of their income in tax than individuals on higher incomes. Furthermore, families with dependent children on low to middle incomes can receive tax credits to boost their net family income to help meet the costs of raising a family. Individuals who do not qualify for the Working for Families tax credits, or for New Zealand Superannuation or an income-tested benefit, may qualify for the independent earner tax credit. The independent earner tax credit is \$10 a week for individuals earning between \$24,000 and \$44,000 a year. The credit abates at 13% for income over \$44,000. Individuals with a student loan are required to pay 10% of their income over \$19,084 towards repaying their loan.

The rates of tax on individual incomes recently decreased. The rates for those on low incomes dropped from 12.5% to 10.5% for income up to \$14,000 a year and from 21% to 17.5% for income between \$14,000 and \$48,000 a year. The decrease in individual income tax came into effect from 1 October 2010. At the same time the rate of GST payable on goods and services increased from 12.5% to 15%. The net result from these

two changes for those earning around the minimum wage is expected to be a small increase in disposable income³⁷.

To compensate for the expected impact on living expenses of the increase in the GST rate, from 1 October 2010 the rates of the family tax credit were increased by 2%. From 1 April 2011 the rate of the minimum family tax credit will be increased to reflect inflation in the 2010 calendar year. Working families with dependent children will have their net family income topped up to \$427 (equivalent to a gross weekly income of \$495).

The Department recognises that these interventions and initiatives play an important role in supporting New Zealanders, especially those in need. However, the Department considers that because minimum wage increases benefit all minimum wage earners, irrespective of their family status, the minimum wage continues to usefully complement other instruments to improve the income levels of low income workers and households.

³⁷ Someone on a minimum wage might be better off by around \$2 - \$6 a week depending on how much of their income is spent on rent.

SUMMARY

The Department's examination of the current labour market conditions suggests that the options for changes to the minimum wage could have the following effects:

- **Option 1 of \$12.75** an hour will erode the real value of the minimum wage. It is estimated that there may be an increase in employment growth compared to the benchmark used. It is likely that there will be no impacts on national weekly wage earnings or inflation
- **Option 2 of \$13.00** an hour maintains the real value of the minimum wage (based on changes in consumer prices) and relativity with benefit payments. This option could directly affect up to 53,000 workers; it is likely that it would not constrain employment growth. It could increase annual economy-wide wages by \$15 million and inflation by 0.01 percentage points
- **Option 3 of \$13.50** an hour will increase existing levels of fairness and income distribution and may increase or maintain protection and work incentives. This option could directly affect up to 108,100 workers. It may constrain employment growth by between 460 and 660 jobs. It could increase annual economy-wide wages by \$76 million and inflation by 0.04 percentage points
- **Option 4 of \$15.00** an hour would increase the real value of the minimum wage and its relativity with other income benchmarks. It could strongly improve relative levels of fairness, protection, income distribution and work incentives. It could directly affect up to 274,900 workers and constrain employment growth by up to 5,890 jobs. It could increase annual economy-wide wages by \$518 million and inflation by 0.26 percentage points.

APPENDIX 1: CABINET APPROVED OBJECTIVE AND ASSESSMENT CRITERIA

Background

In December 2007, Cabinet directed the Department to undertake a further examination of the objectives for the minimum wage, to ensure they remain applicable and supportive of the Government's goals [POL MIN (07) 28/24 refers].

In September 2008, Cabinet agreed to a new overarching objective for the annual minimum wage review [POL MIN (08) 16/21 refers].

Overarching objective

"to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts"

Assessment criteria

- A. "the extent to which any change to the minimum wage would produce gains that are more significant than any losses"
- B. "consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment-related interventions, and would meet the broader objectives of government"

Factors to be considered in relation to the first assessment criterion

- A. consistency with the principles of fairness, protection, income distribution, and work incentives
- B. comparison against international/OECD benchmarks
- C. comparison of the level of the minimum wage, and any proposals to change that level, against other income benchmarks (benefit rates, the minimum rate of wage averaged across collective agreements, the producers price index, median wages, and average wages). This analysis can also provide a measure of any changes in income inequality
- D. consideration of forecast social and economic impacts relevant to changing the level of the minimum wage including:
 - a. the positive and negative impacts on those most likely to be low paid including: women, new migrants, Māori, Pacific people, part-time workers, temporary workers, those with a disability, and young people, including any (dis)incentive effects for young people to choose low paid employment or additional education and training
 - b. the net effects after corresponding withdrawal of social assistance
 - c. impacts on the gender pay gap
- E. consideration of the forecast labour market/economic conditions and impacts (together with a range of possible economic conditions) relevant to changing the minimum wage including:
 - a. earnings and the wage bill
 - b. employment and unemployment

- c. labour productivity
 - d. the number of employees and the hours they work
 - e. industry sectors
 - f. Gross Domestic Product and inflation
- F. potential impacts on the rate of non-compliance

Explanation of the principles

Fairness

To ensure that wages paid are no lower than a socially acceptable minimum. There are two main views on what constitutes a socially acceptable minimum. The first option is to determine social acceptability as a proportion of how much other workers earn (e.g. average wages). The second option is to view social acceptability through determining the amount needed to maintain a set standard of living, adjusted for inflation.

Benchmarks: average wages and CPI.

Protection

To offer wage protection to vulnerable workers so that workers are paid wages that reflect their worth or productivity. Workers may be “underpaid” on this measure when they have a relative lack of bargaining power, such as when they have limited bargaining strength (e.g. are not collectivised and unable to bargain for higher wages), or face risks in leaving and finding another job (e.g. poor English, disability), or have poor income or employment alternatives (e.g. they do not qualify for unemployment benefits).

Benchmarks: minimum wages paid under collective agreements.

Income distribution

To ensure that earnings of people on low incomes do not deteriorate relative to those of other workers. This is likely to reflect a preference that society has for the degree of wage (and income) equality, and this may promote greater social cohesion. The effectiveness of minimum wages to achieve this objective depends on whether employment effects occur, since the income of workers is significantly lowered where they may lose their jobs or have their work hours cut. The current minimum wage is about 50 per cent of average total hourly earnings and 64 per cent of median total hourly earnings (using the Quarterly Employment Survey). Benchmarks: changes in average and median wages.

Work incentives

To increase the incentives to work, for people considering work. Creating the correct incentives requires the minimum wage to be set at a level that makes work attractive compared to not working. The minimum wage needs to be above benefit levels (and associated employment costs such as childcare and transport costs that are payable by a worker). At some point, however, a higher minimum wage can frustrate work incentives through economic effects that restrict job opportunities available to low skilled workers.

Benchmarks: benefit levels and costs associated with working.

APPENDIX 2: RECENT CHANGES TO THE MINIMUM WAGE

The following table sets out changes in minimum wage rates since 2003. It also shows how minimum wages have tracked over time as a proportion of average earnings using the Quarterly Employment Survey (QES).

Table 15: Recent changes in minimum wage rates

	Key changes in minimum wages	Minimum wage rates		
		% increase		
		% of average wages		
		Adult	Youth	New entrants
2003	All minimum wages increased by 6.3%, higher than average wage increase of 2.7% from the year 2002. Training minimum wage (set at the youth minimum wage) came into effect from 1 July 2003.	\$8.50 6.3% 43.3%	\$6.80 6.3%	-
2004	All minimum wages increased by 5.9%, higher than average wage increase of 3.7%.	\$9.00 5.9% 44.3%	\$7.20 5.9%	-
2005	All minimum wages increased by 5.6%, higher than average wage increase of 2.7%.	\$9.50 5.6% 44.9%	\$7.60 5.6%	-
2006	All minimum wages increased by 7.9%, higher than average wage increase of 2.7%.	\$10.25 7.9% 46.1%	\$8.20 7.9%	-
2007	All minimum wages increased by 9.8%, higher than average wage increase of 4.2%.	\$11.25 9.8% 49.3%	\$9.00 9.8%	-
2008	Adult minimum wage increased by 6.7%, higher than the average wage increase of 5.2%.	\$12.00 6.7% 50.0%		\$9.60
2009	All minimum wages increased by 4.2%, lower than the average wage increase of 5.3%.	\$12.50 4.2% 50.0%		\$10.00 4.2%
2010	All minimum wages increased by 2%, lower than the average wage increase of 3%.	\$12.75 2% 49.5%		\$10.20 2%

Notes to the table

- i. Percentage mean average wages were calculated using the Quarterly Employment survey, June quarter.
- ii. In 2008, the new entrants' minimum wage was introduced for 16 and 17 year olds. Depending on their length of service, whether they are trainees and whether they are training or supervising other workers, 16 and 17 year olds may be eligible for the new entrants' minimum wage or the adult minimum wage.

APPENDIX 3: SUMMARY OF SUBMISSIONS

Twelve written submissions were received from the following organisations: Federated Farmers of New Zealand, Hospitality Association of New Zealand, National Association of Retail Grocers and Supermarkets of New Zealand, Small Business Advisory Group, New Zealand Council of Trade Unions, National Distribution Union, New Zealand Nurses Organisation, Service and Food Workers Union, Unite Union, Mayors' Taskforce for Jobs, National Advisory Council on the Employment of Women and Working Women's Resource Centre. The main points are summarised as follows.

Employer representative groups

National Association of Retail Grocers and Supermarkets of New Zealand (Incorporated) (NARGON)

- Opposes any increase in the minimum wage because of the adverse effect on the labour market by reducing employment opportunities
- Continued increase in the minimum wage rate makes younger people think further formal education and training is not warranted; it also affects employer's ability to employ, especially unskilled labour
- Minimum wage increases will increase the costs of goods and services
- A focus of training for young people as wage increases should be based on productivity increases.

Hospitality Association of New Zealand

- No increase to the minimum wage
- Expected increase in labour costs is not sustainable for competitive industries during recessionary periods and has led to a significant increase in closures, downsizing and job loss throughout the hospitality sector
- Reduced business profitability means reduced flexibility for employers to reward higher productive workers as market wage is significantly influenced by the level of the minimum wage
- Inflationary pressures of wage increases will lead to higher interest rates and consequent reduced investment and job availability
- A rise in minimum wage rates could compromise the opportunities available through the 'Straight to Work' programme, which the Association is involved in with the Ministry of Social Development
- The Government should direct resources to provide greater access to vocational training and employment incentives, particularly for young and less skilled people.

Federated Farmers of New Zealand

- The current minimum wage rate be held constant for the coming year as it is one of the most generous in the OECD countries (54% of the average wage, second only to France) and a further increase will hinder productivity growth and impair the Government's goal of closing income gap with Australia
- An increase in the minimum wage would hamper the chances of an economic recovery and job growth
- Productivity growth does not support increase in the minimum wage
- Farm businesses could not afford increase in the minimum wage and its impact on wage generally

- They reject arguments for the minimum wage based on 'income redistribution' between different individuals and groups in society. Minimum wages should not aim to remedy relative poverty.

Small Business Advisory Group

- Acknowledge the important role of the minimum wage in addressing poverty and pay gap between different demographic groups
- Raising the minimum wage may be the place to start to achieve income parity with Australia
- Recommended adjustment of minimum wage rate is from no increase to \$13.00 an hour, with a strong preference by a number of members to increase the level in line with the rate of CPI.

Employee representative groups

New Zealand Council of Trade Unions

- Raise minimum wage to 66% of the average ordinary time wage (for April 2011 it is estimated at \$17.22 per hour), with an alternative to increase the minimum wage to \$15.00 from 1 April 2011 and move to the 66% in 2012
- Current minimum wage protection is excluding an unacceptable number of workers and is ineffective at extending protection to non-standard working arrangements' like contracting
- More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

New Zealand Nurses Organisation (NZNO)

- Fully supports the submission of the New Zealand Council of Trade Unions
- The current minimum wage is inadequate in the health sector because it is:
 - entrenching current health and socio-economic disparities, as a disproportionate number of Māori, Pacific, and migrant workers earn the minimum wage
 - affecting the safety and quality of care in aged and residential care, where the minimum wage is standard for most health care assistants
 - exacerbating the outward flow of New Zealand trained health professionals, and the inward flow of transitory overseas trained health professionals
 - increasing our dangerously high dependency on migrant health workers
 - undermining the robust industrial and employment environment established in New Zealand over 150 years which is intrinsic to our culture of fairness and equal opportunity
- Advocates raising the minimum wage to \$17.22 per hour as the single most effective way in which the Government could:
 - alleviate poverty
 - boost productivity
 - mitigate the risks of dependency on transitory migrant labour in the health sector
 - reduce future demands on health and social services and
 - ensure the skilled workforce necessary to sustain a modern developed economy.

Service and Food Workers Union

- Increase the minimum wage to \$15.00 an hour with further increases so that it is pegged to two-thirds of the New Zealand average ordinary time wage
- Increase training minimum wage rate to 90% of the Adult minimum wage
- Include a new objective of reducing the Gender Pay Gap – to decrease the wage gap between men and women in the New Zealand workforce
- Faith in the market to reward their members with higher pay rates is a mirage. For many employees, the only thing compelling their employer to increase pay rates is the movement in the minimum wage
- Increases in productivity has not translated into increases in wage rates
- Australian minimum wage rate (current AUS15 per hour) is much higher than New Zealand's.
- Income disparity is widening
- Minimum wage is an essential mechanism in improving the pay gap for Māori and Pacific Island workers.

National Distribution Union (the NDU)

- The NDU supports CTU's submission and calls for an increase in the minimum wage to \$17.22 an hour
- Supports the immediate removal of new entrant rates so a minimum wage applies irrespective of age
- More clarity and effective enforcement of the minimum wage
- Low pay is prevalent in the retail sector and impacts negatively most of the retail workers. Pay rises in retail, fast food and similar customer services industries have become increasingly dependent on increases in the minimum wage
- An increase in the minimum wage is a very effective means of delivering a fiscal stimulus to an economy in recession, as those on low incomes are more likely to spend any additional income
- Affordability of minimum wage increases for retail employers as the retail sector has experienced enormous growth for more the 10 years until the recession.
- Increase in the minimum wage accords with the minimum wage review criteria:
 - Fairness – to ensure that wages paid are no lower than a socially acceptable minimum
 - Protection – to offer wage protection to vulnerable workers
 - Income distribution – to ensure that incomes of people on low incomes do not deteriorate relative to those of other worker
 - Reducing the gender pay gap – to decrease the wage gap between men and women in the New Zealand workforce.

Unite

- Move the adult minimum wage to \$15 an hour and then peg it at two-thirds of the average total hourly earnings.

Other organisations

Working Women's Resource Centre

- Increase the minimum wage to 66% of the average wage
- Minimum wage needs to increase to keep up with the rising cost of living which includes the recent GST increase. The recent tax cuts provided little relief to workers on the minimum wage

- Increases in the minimum wage support economic and social objectives as they increase economic independence, impact positively on retirement incomes and strengthen incentives to work
- An increase in the minimum wage can make a small but important contribution to reducing the gender pay gap.

Mayors' Taskforce for Jobs

- Establishing a fair minimum wage sends an important signal to young people about their value to the economy and the country as a whole
- Maintaining wage levels is crucial to attract young people into the business in the future
- Information from mayors around the country suggests that any increases in the minimum wage have not resulted in constraints on job creation or fewer opportunities for young people
- Minimum wage protection is necessary for young people, to encourage employers and others to invest in skill development, to avoid increasing the disparity in wage levels between Australia and New Zealand, to reduce the gender pay gap
- Lifting minimum wage, ensuring protection and encouraging good employment practices overall, will help address some of the issues the Taskforce is working on such as retention of young people, effective transitions and greater investment in industry training. Minimum wage increases will support social as well as economic objectives particularly around independence and incentives to work.

National Advisory Council on the Employment of Women (NACEW)

- Women are highly represented amongst low income earners even a moderate increase to the minimum wage will have a direct impact on their economic conditions and that of their families
- There is a positive (though modest) relationship between protective mechanisms such as the minimum wage and reducing the gender pay gap
- Endorse the increase in minimum wage as part of a range of mechanisms that increase the likelihood of women achieving financial security and independence.