

CABINET BUSINESS COMMITTEE

## **MINIMUM WAGE REVIEW 2010**

### **Proposal**

This paper reports on the review of the minimum wage for 2010 and seeks agreement on the minimum wage rates for adults, new entrants, and trainees for 2011.

### **Executive summary**

Following the statutory annual review of the minimum wage rates, I recommend that Cabinet agree to increase the minimum wage rates based on the change in the Consumers Price Index (CPI). Under this option the adult minimum wage will increase from \$12.75 to \$13.00 an hour and the new entrants' and training minimum wages from \$10.20 to \$10.40 an hour, remaining at 80% of the adult minimum wage.

The prudent and gradual increases in the minimum wage rate in the past two years have met the minimum wage objective. I consider that a moderate approach to the minimum wage is still warranted given the current subdued economic recovery and labour market.

Women, Māori, Pacific peoples, disabled people, youth, and part-time workers are more likely to be low paid. A modest increase in the minimum wage could have a positive economic and social impact for low paid workers through an increase in their income.

This option does have some risks as low paid workers may be the first to suffer any negative impacts from an increase in the minimum wage. It will also increase the wage costs for employers of minimum wage workers, including state sector and state sector-funded employers, and will most likely affect the hospitality and retail sectors.

I considered four options for 2011 and the impacts of each are summarised below:

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

<b>Minimum wage impact measures</b>	<b>Option 1 (no change)</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>
Adult minimum wage (an hour)	<b>\$12.75</b>	<b>\$13.00</b>	<b>\$13.50</b>	<b>\$15.00</b>
New entrants and trainees	\$10.20	\$10.40	\$10.80	\$12.00
Percentage increase	N/A	2.0% <sup>1</sup>	5.9%	17.6%
Number of people directly impacted by minimum wage options	45,700	53,000	108,100	274,900
Number of people directly impacted above status quo (Option 1)	N/A	7,300	62,400	229,200
Projected job growth (Year to March 2012)	23,510 - 24,100	22,910 - 23,230	21,690 - 21,490	18,040 - 16,260
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	\$15m	\$76m	\$518m
Inflationary impact (percentage points, CPI)	N/A	0.01	0.04	0.26
Additional wage costs to Government <sup>2</sup> (\$m, annual)	N/A	\$6m	\$30m	\$119m

## Background

The minimum wage is part of the Government's general responsibility to ensure socially acceptable employment standards that are prescribed and enforceable. It exists within the wider context of the range of policy measures and tools to support higher quality working lives, productive workplaces, and income adequacy.

<sup>1</sup> 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).

<sup>2</sup> 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.

I have a statutory duty to annually review the minimum wage rates by 31 December. In addition, there are formal international commitments that establish an explicit obligation on the Government to ensure an adequate minimum wage<sup>3</sup>.

Between 1997 - 2008, the minimum wage increased at a faster rate than average wages, the Producers Price Index, and the CPI. Since 2008, I have made increases to the minimum wage in line with changes in the CPI, reflecting the economic recession and an easing labour market. Last year the minimum wage increased by 2%.

The current minimum wage rates are as follows:

- a 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.
- b the new entrants' and training minimum wages are 80% of the adult minimum wage at \$10.20 an hour.

The new entrants' minimum wage applies to 16 and 17 year olds, except for those employees who have completed 200 hours or three months of employment, whichever is shorter; or who are supervising or training other workers; or who are subject to the training minimum wage. Under legislation the new entrants' minimum wage cannot be set at less than 80% of the adult minimum wage. Around 1,700 (4.5%) of working 16 and 17 year olds are on the current new entrants' minimum wage of \$10.20 an hour<sup>4</sup>.

The training minimum wage applies to those aged 16 years and older who are undertaking at least 60 credits a year in a registered industry training programme.

To maintain parity between those on the new entrants' minimum wage and those on the training minimum wage, I recommend that the training minimum wage continues to be set at the same level as the new entrants' minimum wage.

#### *Submissions on the minimum wage review*

I received 12 submissions on the 2010 review. Submitters presented a range of views on the minimum wage rate for 2011, ranging from the status quo to \$15.00 an hour with an increase to two thirds the average hourly wage (\$17.22) in 2012. These submissions are summarised in Appendix 2.

#### **Factors for consideration**

I considered four options for the 2011 minimum wage rates (Table 1 refers). These options were assessed within the framework set out by the objective for the minimum wage. This objective 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].

Two assessment criteria, and related considerations, apply to the objective. These criteria are outlined in Appendix 1. Their relative importance depends on the conditions at the time of the review and the judgement of the Government. The main factors I have considered in this review are outlined below. A summary of the Department of Labour's (the Department) assessment of the criteria is in the Regulatory Impact Statement (Appendix 3).

<sup>3</sup> Including International Labour Organisation (ILO) Convention 26. This Convention obliges the Government to create minimum wage-fixing machinery.

<sup>4</sup> 2010 New Zealand Income Survey, Statistics New Zealand.

The labour market has shown signs of recovery, with the unemployment rate gradually falling 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.

### ***Impact on employment and unemployment***

Evidence regarding the impact of increasing the minimum wage on employment is mixed. The International Labour Organisation found that a negative or positive impact depends on factors such as the relative minimum wage level, labour market structure, and the country itself. With this in mind the Department has only considered the relationship between the minimum wage and employment growth and unemployment. More information on how these are estimated is available in the Regulatory Impact Statement.

Based on a benchmark projected job growth for the year to March 2012 of 1% or up to an estimated 22,100 extra jobs created, the Department has analysed the potential impacts on the projected job growth for the options considered (i.e. by how much job growth may be affected under each option). This is outlined in Table 2 below.

**Table 2: Summary of impacts of minimum wage increases on employment growth (March 2012)<sup>5</sup>**

Scenario	Option 1 \$12.75 (no change)		Option 2 \$13.00		Option 3 \$13.50		Option 4 \$15.00	
	High	Low	High	Low	High	Low	High	Low
Projected job growth	24,100	23,510	23,230	22,910	21,690	21,490	18,040	16,260
Potential impact on job growth (absolute change compared to the benchmark)	1,960	1,360	1,080	760	-660	-460	-5,890	-4,100
Potential impact on job growth (% change relative to the benchmark)	0.09%	0.06%	0.05%	0.03%	-0.03%	-0.02%	-0.27%	-0.19%
Potential impact on total jobs (relative to Option 1)	0%	0%	0.04%	0.03%	0.12%	0.08%	0.24%	0.35%

Source: Department of Labour calculations

It is not straightforward to estimate the impact on unemployment as it is difficult to estimate how it will affect people's preferences for being in the labour market. 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 be 5.4% under Option

<sup>5</sup> Single estimates for the wages of 16 and 17 year old workers have been used, as the data suggests that the majority are earning the adult minimum wage or more and it is not possible 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.

1 (\$12.75 an hour) and Option 2 (\$13.00 an hour) for the March 2012 quarter. It is estimated that the unemployment rate would remain at 5.5% for the March 2012 quarter for Option 3 (\$13.50 an hour) and increase to 5.7% for the same quarter for Option 4 (\$15.00 an hour).

### ***Impact on low paid workers***

Women, Māori, Pacific peoples, disabled people, youth, and part-time workers are more likely to be low paid. It is estimated that, of those currently earning the minimum wage, 20.8% are Māori and 5.6% are Pacific peoples. A modest increase in the minimum wage could have a positive economic and social impact for low paid workers through an increase in their income. Low paid workers, however, 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).

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. If the minimum wage is increased to \$13.00 an hour, 54.5% of those employees directly affected will be aged between 18 and 24 years. This may have positive impacts, through increasing their incomes, or negative impacts if it encourages them to leave school or makes it harder for them to gain employment. Empirical evidence on the employment effects for young people is mixed.

In a survey carried out by the Department in 2010, it suggests that employers' decisions to employ a person aged 16 or 17 years were not altered by the introduction of 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.

### ***Impact on industries and firms***

Economy-wide wage costs are estimated to increase by 0.02% (\$15 million a year) for Option 2, 0.09% (\$76 million a year) for Option 3 and 0.62% (\$518 million a year) for Option 4. The impact of minimum wage increases varies across industries, with the hospitality and retail trade sectors more likely to be impacted.

When asked if the 2010 changes (an increase of 2%) had impacted on their business just over 88% of employers surveyed by the Department indicated that their business was not affected by the changes (other than increasing the wages of those on the minimum wage).

Of those businesses that reported that their business was affected by the 2010 changes, a number reported multiple impacts. Most businesses absorbed the costs, a small number passed costs onto consumers while others changed their hiring practices, recruiting fewer or hiring more experienced staff. Some businesses increased the wages of other staff not on the minimum wage as a result of the changes.

### ***Impact on state sector***

There are a number of state sector employees and contractors on low wages, particularly in the public health and accident compensation 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. It is possible that following a minimum wage increase state sector employees may bargain with their employers to retain their relativities. This may also increase costs to the Government.

Major state sector employers of minimum wage workers, the Ministries of Health, Social Development (MSD), and Education, and the Accident Compensation Corporation (ACC), will be impacted by changes to the minimum wage in some activity areas. Other government agencies, crown entities, or state sector organisations will also be affected by a change in the minimum wage but to a much lesser extent. The following table provides an estimate of the financial impact of the increase in the minimum wage:

**Table 3: Financial impact for four state agencies**

<b>Option (\$ per hour)</b>	<b>Health</b>	<b>MSD</b>	<b>Education</b>	<b>ACC</b>	<b>Total impact (rounded up to \$m)</b>
2. 13.00	3.53	0.108	0.032	2.3	6
3. 13.50	21.87	0.323	0.169	6.9	30
4. 15.00	92.85	0.968	4.463	20.7	119

**Other considerations**

The minimum wage objective is also assessed against the principles of fairness, protection, income distribution, and work incentives to determine the extent to which any change to the minimum wage would produce gains that are more significant than any losses. Assessed against these principles:

- c option 1 (\$12.75) would erode existing levels of *fairness*<sup>6</sup> for minimum wage workers when compared with other workers who are experiencing changes in average wages, and *protection*<sup>7</sup> for minimum wage workers who tend to have a relative lack of bargaining power to negotiate higher wages. *Income distribution*<sup>8</sup> would be biased relative to other workers whose incomes increase more. *Work incentives*<sup>9</sup> are impacted, as there is a narrowing of the difference between the minimum wage rate and benefit levels (which are adjusted annually in line with the CPI).
- d option 2 (\$13.00) would maintain current levels of *fairness* and *income distribution* and existing *work incentives*, as it would increase in line with the change in consumer prices and average wages. It may erode existing levels of *protection*.
- e option 3 (\$13.50) would increase existing levels of *fairness and income distribution*. It may increase or maintain *work incentives*, as it would likely have a higher percentage increase than benefits. The size of the increase is

<sup>6</sup> To ensure that wages paid are not lower than a socially acceptable minimum as a proportion of how much other workers earn or the amount needed to maintain a set standard of living, adjusted for inflation. Benchmarks: average wages, CPI.

<sup>7</sup> To offer wage protection to workers who are disadvantaged in the labour market so that workers are paid wages that reflect their worth or productivity. Benchmarks: minimum wages paid under collective agreements.

<sup>8</sup> To ensure that earnings of people on low incomes do not deteriorate relative to those of other workers. Benchmarks: changes in average, and median wages.

<sup>9</sup> To increase the incentives to work, for people considering work. Benchmarks: benefit levels, and costs associated with working.

greater than movements in average minimum wages in collective agreements so is likely to improve current levels of *protection*.

- f option 4 (\$15.00) would strongly improve relative levels of *fairness, protection, income distribution, and work incentives*, as the increase is higher than the benchmarks used for comparison.

### *Non-compliance*

It is possible that increasing the minimum wage may increase non-compliance with the minimum wage legislation. The data we base our calculations on shows that some people are reporting minimum wage rates below the minimum. It is difficult to identify whether an increase in the share of workers reporting below minimum wages is caused by an increase in exemptions, use of the training minimum wage, measurement error or non-compliance. The Department considers that any growth in the proportion of those workers reporting below minimum wages appears to be short lived.

### **Recommended option**

Given the subdued economic recovery and the likelihood that job growth will continue to be slow over the coming year, it is prudent to take a cautious approach to setting the minimum wage rates for 2011.

I recommend that, for 2011, Cabinet agrees to increase the adult minimum wage to \$13.00 an hour to reflect the change in the CPI (Option 2). This option aims to maintain the real value of current minimum wage and its relativity with benefits<sup>10</sup>. It could directly affect an estimated 53,000 workers and increase national weekly wage earnings by 0.02% and increase inflation by 0.01 percentage points. It would have minimal impact on employment growth.

I recommend implementing any changes to minimum wages on 1 April 2011. Historically, any change in the minimum wage occurs on or before this date, so this date provides consistency for employees and employers. It is also the date when adjustments to benefit rates and Minimum Family Tax Credit come into effect.

### **Consultation**

The Department of Labour is my primary advisor on minimum wages. The Treasury, Ministry of Economic Development, Ministry of Pacific Island Affairs, Te Puni Kōkiri, Ministry of Women's Affairs (MWA), Ministry of Youth Development, Office for Disability Issues, MSD, Ministry of Health, Tertiary Education Commission, Ministry of Education, ACC, Inland Revenue, and Department of Prime Minister and Cabinet have been consulted in this review. Where agencies have a preferred option this is in the Regulatory Impact Statement.

#### *Te Puni Kōkiri*

Te Puni Kōkiri does not consider that the recommended increase in the minimum wage rate to \$13.00 per hour in 2011 meets the review assessment criteria of ensuring

<sup>10</sup> Benefits are indexed to the movement in the CPI for the December year. The Department uses the June year to calculate the minimum wage options, as the data used in its analysis is based on the June year. While it is likely that the percentage change to benefits and minimum wages will be different, indexing based on the same CPI series, albeit with different year end dates, will ensure that increases made are more consistent over the medium to long term.

fairness, protection of workers on low incomes, reducing income disparities, and incentivising workers to remain attached to the labour market. Te Puni Kōkiri supports an increase in the minimum wage to \$15.00 per hour.

While noting the Department of Labour's assessment that increases above \$13.00 could result in constraints on employment growth, the empirical evidence cited in the review report indicates that higher minimum wages will not necessarily lead to increased job losses<sup>11</sup> and that there may be positive effects.<sup>12</sup>

Research suggests that an increase in the minimum wage is likely to be particularly significant for low paid Māori and Māori beneficiaries wishing to re-enter the work-force, as this will strengthen their attachment to the labour market during the recessionary period and limit the growth in numbers of discouraged workers.<sup>13</sup>

The unemployment rate for Māori youth was 26.8% in the September 2010 quarter, almost identical to the 26.7% rate recorded in September 2009.<sup>14</sup> Youth unemployment disproportionately impacts on Māori because of the youthfulness of the Māori population. Increasing the minimum wage will effectively increase the training wage, providing young Māori with greater incentives to take up trade training and thus contributing towards greater Māori workforce participation and attachment. Ensuring all young people under 25 years are engaged in appropriate education, training, work or other activity is vital to ensuring their long-term economic independence and contributes to the positive future of our country.<sup>15</sup>

### *The Treasury*

Treasury has some concerns that increasing the minimum wage may constrain employment growth and impose costs on businesses, particularly given the subdued labour market recovery, minimum wage increases over the last decade, and the level of the minimum wage relative to the average wage. There are also fiscal costs associated with an increase in the minimum wage.

While unemployment is decreasing, New Zealand's labour market has been volatile in recent quarters. Treasury considers that increasing the minimum wage in the current economic environment would create wage pressures for employers (both directly through increased wage costs and indirectly through pressure on wage relativities) who have retained their workforce during the recession, and limit the opportunity of employers to expand their workforce as the labour market recovers.

There is also a risk that increasing the minimum wage could exacerbate New Zealand's high youth unemployment. The unemployment rate for 15-19 year olds was 23.3 per cent in the September 2010 quarter. (New Zealand's youth unemployment rate is four

<sup>11</sup> For example, the British Government commissioned *National Minimum Wage Low Pay Commission Report 2005*.

<sup>12</sup> For example, Hyslop and Stillman's (2004) *Youth Minimum Wage Reform and the Labour Market* and international research by Card and Krueger on New Jersey's minimum wage increase in 1992.

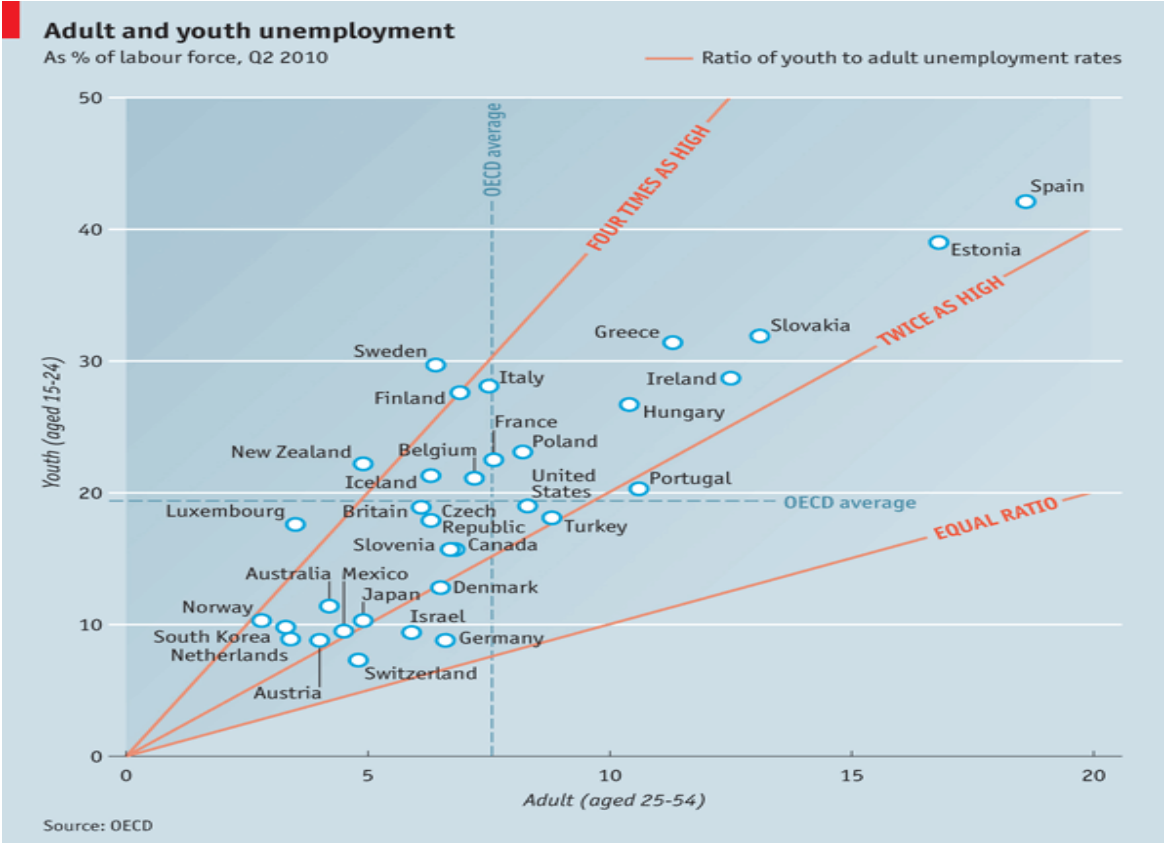
<sup>13</sup> Assessment included in the Department of Labour's Cabinet paper on Minimum Wage Review 2008 prepared for a previous Minister of Labour.

<sup>14</sup> Department of Labour Employment and Unemployment. September 2010. [www.dol.govt.nz/PDFs/lmr-hlfs-sep-10.pdf](http://www.dol.govt.nz/PDFs/lmr-hlfs-sep-10.pdf)

<sup>15</sup> Mayor's Taskforce for Jobs. Annual Report 2010-2011. Strategy and Action Plan. 2010-2012. [www.mayorstaskforceforjobs.co.nz/documents/strategy/MayorsTaskforceAnnualReport10.pdf](http://www.mayorstaskforceforjobs.co.nz/documents/strategy/MayorsTaskforceAnnualReport10.pdf)

times as high as the adult unemployment rate, and the ratio is high compared to other OECD countries). International evidence indicates that increases in the minimum wage leads to employers substituting non-skilled workers (such as youth) for low or semi skilled workers, as non-skilled workers become relatively more expensive. Youth unemployment is of particular concern because it can have long-term consequences in terms of lower income and poor labour market outcomes. Ministers may wish to ask the Department of Labour to carry out more analysis on the impact of the minimum wage on youth unemployment.

**Figure 1: Ratio of Youth to Adult Unemployment Rates, 2010 Q2**



New Zealand’s minimum wage has increased substantially in the last decade, increasing in real terms by 36.6 per cent for adults and 128 per cent for 16 and 17 year olds since 1999 (the latter rise is largely due to the abolition of the youth wage in 2008), compared to a 35 per cent increase in the average wage.

New Zealand’s minimum wage is also high compared to other OECD countries. In 2008 New Zealand’s minimum wage as a proportion of gross median wages was the second highest in the OECD (see minimum wage review 2010 Regulatory Impact Statement, page 30, figure 4).

Treasury considers that the total fiscal costs are likely to exceed estimates provided in the paper. Other agencies are likely to be impacted by increases in the minimum wage, and bargaining by state sector employees to retain wage relativities could contribute to the fiscal cost of a minimum wage increase.

The paper notes that a small number of employers report being affected by changes in the minimum wage. This reflects that only 20 per cent of employers surveyed hired an

employee on the minimum wage. It is not clear from the paper how large the impact of a change to the minimum wage was on employers who hired at the minimum wage.

Agencies were sent the Cabinet paper on 23 December 2010 for comment by 11 January 2011, although the review takes place annually, and work on the review commenced in September 2010. The compressed timeframes for consultation may mean that some agencies have not been able to fully consider the issues in the paper.

### **Fiscal implications**

As well as increasing wage costs, increasing the minimum wage might have other fiscal impacts. Social assistance costs through benefit payments may rise if an increase in the minimum wage increases unemployment. Alternatively, higher incomes can increase the amount of personal income tax received and lead to the abatement of social assistance, such as Working for Families tax credits.

### **Human rights**

I recommend that the new entrants' minimum wage continues to be set at 80% of the adult minimum wage. As the new entrants' minimum wage rate continues to make a distinction on the basis of age, namely those aged 16 and 17 years, it continues to raise an issue of discrimination under section 19(1) of the New Zealand Bill of Rights Act 1990 on the ground of age. However, this discrimination appears to be justified in terms of section 5 of that Act.

### **Regulatory impact and business compliance cost statement**

The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached in Appendix 3.

The Regulatory Impact Analysis Team (RIAT) has reviewed the Regulatory Impact Statement prepared by the Department of Labour and associated supporting material, and considers that, given the risks, uncertainties and constraints on the analysis noted in the Agency Disclosure Statement (in particular the limited amount of robust data on impacts) and the statutory requirement for an annual review of the minimum wage rates, the information and analysis summarised in the RIS meets the quality assurance criteria.

I have carefully considered the analysis and advice of officials as summarised in the attached Regulatory Impact Statement. This advice suggests that, beyond certain direct impacts, the full impacts of the options considered are uncertain. While this uncertainty makes it difficult to determine which option might provide the highest net benefits, I consider that the recommended option (\$13.00 an hour) provides a fair balance between increased wages for minimum wage workers in line with CPI and low estimated impacts on employment growth and the national weekly wage bill and inflation.

### **Gender implications**

Women tend to be highly represented in a number of demographic characteristics associated with low pay, including working part-time, and working in the hospitality and retail sectors and in service and sale occupations. It is estimated that, of those currently earning the minimum wage, 57.1% are women<sup>16</sup>. The Department calculates that the

<sup>16</sup> Source: 2010 New Zealand Income Survey, Statistics New Zealand.

average hourly wage for women is 85.8% of the average hourly wage for men (aged 18 to 64 years)<sup>17</sup> and estimates that this would not change significantly under Option 2. MWA suggests a rise in the minimum wage may increase female labour force participation, particularly for beneficiaries if there is a larger increase in the minimum wage than benefit rates.

## Publicity

I intend to make a media statement about the decision on the minimum wage rates for 2011 following Cabinet confirmation. The Regulatory Impact Statement and Officials' report will be made publicly available through the Department's website (the Regulatory Impact Statement will also be available on Treasury's website), subject to any appropriate withholding of information that may be permitted under the Official Information Act 1982.

## Recommendations

I recommend that the Cabinet Business Committee:

- 1 **note** that an increase in the minimum wage to \$13.00 an hour:
  - 1.1 would maintain relativity with the increase in consumer prices;
  - 1.2 would maintain the real value of the minimum wage and relativity with benefit payments; and
  - 1.3 could directly affect an estimated 53,000 workers, meaning that the national weekly wage earnings could increase by 0.02% (\$15 million a year), inflation could increase by 0.01 percentage points, and there could be a minimal impact on employment growth relative to the benchmark;
- 2 **note** that the benefits of minimum wage increases will be felt most strongly among low paid workers, including women, Māori, Pacific, disabled people, young people, and part-time workers but that these groups may also be the first to experience any negative impacts that could result from a change to minimum wage rates;
- 3 **note** that a minimum wage increase is most likely to affect the hospitality and retail sectors;
- 4 **note** that the adult minimum wage be increased to \$13.00 per hour;
- 5 **note** that the new entrants' minimum wage rate continues to be set at 80% of the adult minimum wage rate for 2011;
- 6 **note** that the training minimum wage continues to be set at 80% of the adult minimum wage rate for 2011;
- 7 **note** that the increase in the minimum wage rates comes into effect on 1 April 2011;
- 8 **invited** the Minister of Labour to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above paragraphs; and
- 9 **note** that I intend to make a media statement on the decisions about minimum wages following Cabinet confirmation, while the attached Regulatory Impact Statement and the Officials' report will be made publicly available through the

<sup>17</sup> This calculation excludes all workers that reported an hourly wage below the adult minimum wage of \$12.75.

Department's website, subject to any appropriate withholding of information that may be permitted under the Official Information Act 1982.

Hon Kate Wilkinson  
Minister of Labour

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## **APPENDIX 1: OBJECTIVE AND ASSESSMENT CRITERIA FOR THE MINIMUM WAGE REVIEW**

The 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”*.

There are two agreed criteria for assessing changes to the minimum wage. These are:

**Assessment criterion 1:** the extent to which any change to the minimum wage would produce gains that are more significant than any losses, through consideration of:

- i consistency with the principles of fairness, protection, income distribution and work incentives
- ii comparison against international/OECD benchmarks
- iii 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)
- iv consideration of forecast social and economic impacts relevant to changing the level of the minimum wage, including:
  - 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
  - the net effects after corresponding withdrawal of social assistance
  - impacts on the gender pay gap
- v 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:
  - earnings and the wage bill
  - employment and unemployment
  - labour productivity
  - the number of employees and the hours they work
  - industry sectors, and
  - Gross Domestic Product and inflation, and
- vi potential impacts on the rate of non-compliance.

**Assessment criterion 2:** 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 the government.

## **APPENDIX 2: SUMMARY OF SUBMISSIONS**

Twelve 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 increases in the minimum wage rate makes younger people think further formal education and training is not warranted; it also affects employers' ability to employ, especially unskilled labour
- Minimum wage increases will increase the costs of goods and services
- Should focus on 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 should 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 wages generally
- Arguments for the minimum wage based on 'income redistribution' between different individuals and groups in society are rejected. 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 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 of \$17.22 per hour
- 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 have 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)*

- 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 experienced enormous growth for more than 10 years until the recession
- Increase in the minimum wage accords with the minimum wage review criteria.

#### *Unite*

- Move the adult minimum wage to \$15.00 an hour and then peg it at two-thirds of the average total hourly earnings of \$17.22 per hour.

#### **Other interested 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 our 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 the 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 meaning even a moderate increase to the minimum wage will have a direct impact on their economic conditions and that of their families
- There is 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.