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Department of Labour  
TE TARI MAHI



# MINIMUM WAGE REVIEW 2009

## **DEPARTMENTAL REPORT ON THE MINIMUM WAGE REVIEW 2009**

This report presents the annual review of the minimum wage for 2009. The report is made up of the following sections:

- Executive Summary
- Part one — Background and context
- Part two — Options for the minimum wage in 2010
- Part three — Assessment of the options for the minimum wage rates in 2010, and
- Appendices
  - Appendix 1: Cabinet approved objective and assessment criteria of the minimum wage and an explanation of the principles
  - Appendix 2: Recent changes to the minimum wage
  - Appendix 3: Summary of submissions

## EXECUTIVE SUMMARY

1. 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. The review considers these options against assessment criteria which are associated with the minimum wage objective. Key factors for consideration include the impacts on low paid workers and the impact on industry sectors.
2. There is a statutory requirement for the Minister of Labour to review minimum wage rates by 31 December each year.
3. The current minimum wage rates are:
  - \$12.50 an hour for the adult minimum wage, and
  - \$10.00 an hour for the new entrants minimum wage and the training minimum wage.
4. This year's minimum wage review considers five possible options for future minimum wage rates.

**Table 1: Options for changes to the minimum wage**

Option	Adult minimum wage (an hour)	New entrants' minimum wage & Training minimum wage (an hour)
Option 1	\$12.50 (status quo)	\$10.00
Option 2	\$12.75 (2.0% increase) <sup>1</sup>	\$10.20
Option 3	\$13.10 (4.8% increase) <sup>2</sup>	\$10.50
Option 4	\$15.00 (20.0% increase)	\$12.00
Option 5	\$16.75 (34.0% increase) <sup>3</sup>	\$13.40

5. This year's review occurs against a background of an easing labour market and the beginnings of an economic recovery. While the economic outlook is improving, there remains uncertainty about the extent of the economic recovery in both New Zealand and globally.
6. A minimum wage increase benefits low paid workers by raising their incomes. However, these workers may also be the first group of workers to experience any negative impacts from an increase.
7. Given the fragile economic recovery and the likelihood that unemployment will increase over the coming year, the Department recommends taking a cautious approach when setting the minimum wage rates for 2010.

<sup>1</sup> Based on the movement in consumer prices for the June 2009 year (1.9%), rounded up to the nearest \$0.05.

<sup>2</sup> Based on the movement in average total hourly earnings for the June 2009 year (4.5%), as measured by the Quarterly Employment Survey, rounded up to the nearest \$0.05.

<sup>3</sup> Based on total average hourly earnings of \$25.09 in the Quarterly Employment Survey June 2009, rounded up to the nearest \$0.05.

## **PART ONE — BACKGROUND AND CONTEXT**

- 8 This section sets out the current minimum wage rates, as well as a background to the legislation and international obligations, the objective for the minimum wage, the context in which this review occurs, and labour market conditions.

### **CURRENT MINIMUM WAGE RATES**

- 9 The current minimum wage rates are set out below.
- The adult minimum wage is \$12.50 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 \$10.00 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; 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.
  - The training minimum wage is \$10.00 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.

## **THE LEGAL MECHANICS OF THE MINIMUM WAGE REVIEW**

### **The Minimum Wage Act 1983**

- 10 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.
- 11 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.
- 12 By convention, the Minister of Labour makes a recommendation based on the Department's advice to Cabinet for a final decision. Should Cabinet decide to increase the minimum wage rates, this decision is given effect by the Governor-General through an Order in Council. Historically, any increases come into effect on or before, 1 April.

### **International obligations**

- 13 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 to ensure an adequate minimum wage, including under the Minimum Wage-Fixing Machinery Convention, 1928 (International Labour Organisation Convention (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.

## **THE GOVERNMENT'S OBJECTIVE FOR THE MINIMUM WAGE**

- 14 The role of the minimum wage primarily relates to the protection of the lowest paid workers within the context of the social and economic conditions of any particular time.
- 15 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](#)).
- 16 One of the Government's key priorities in the current economic climate is to preserve jobs that might otherwise have been lost due to the recession. This would suggest taking a cautious approach to considering raising the level of the minimum wage.
- 17 The confidence and supply agreement between the National Party and the Act Party agreed to close the income gap with Australia by 2025. In July 2009, the 2025 Taskforce was established, charged with recommending ways to improve productivity in order to close the income gap with Australia. The minimum wage is one of a number of policy interventions through which incomes are increased.

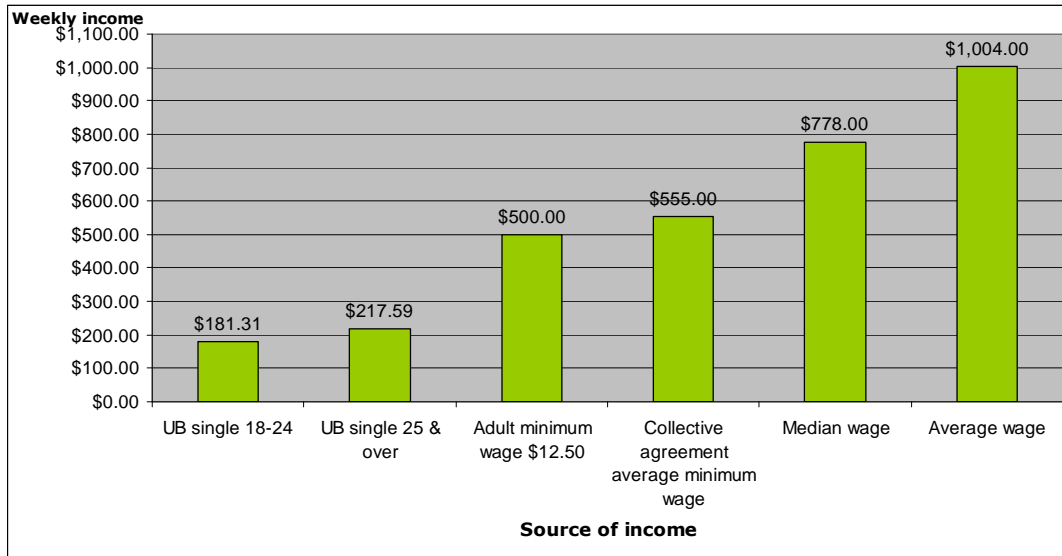
## **LEVEL OF THE CURRENT MINIMUM WAGE RELATIVE TO OTHER BENCHMARKS**

- 18 The current adult minimum wage of \$12.50 per hour is significantly higher than the unemployment benefit for a single adult aged 18 to 24 years. The adult minimum wage is around two times higher than the benefit for a single adult aged 25 years or over (with no supplementary assistance such as the accommodation supplement). See figure 1 on the following page for a comparison of the minimum wage against other income benchmarks.
- 19 The current adult minimum wage is around 50.0% of average total hourly earnings (\$25.09 in the Quarterly Employment Survey, June 2009) and 64.2% of median total hourly earnings (\$19.47 in the New Zealand Income Survey, June 2009)<sup>4</sup>.
- 20 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 \$555 a week<sup>5</sup>.

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<sup>4</sup> The QES average and New Zealand Income Survey (NZIS) average differ because of the relative weight given to part-time and full-time wages. The NZIS mean is a measure of average wages over all workers and both part- and full-time workers (and their wages) carry equal weighting in that average. The QES is effectively the average of all wages paid over total hours worked, so full-time workers, who work more hours and are higher paid, are more heavily weighted in the average. The QES average also excludes the agriculture and fishing sectors that generally pay a lower than average wage, thereby lifting the average measured in that survey.

<sup>5</sup> Stephen Blumenfeld and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2008/2009", Wellington, 2009

**Figure 1: Current adult minimum wage compared with other income benchmarks<sup>6</sup>**

## LABOUR MARKET CONDITIONS AND OUTLOOK

- 21 The current review of the minimum wage takes place amid an easing labour market and the beginning of an economic recovery following five quarters of recession. This outlook is based on the most up-to-date data available in November 2009 (including data from the September Household Labour Force Survey, business surveys and the commentary of economic analysts).
- 22 From its peak, economic activity fell 2.9% over five quarters, making the recession both shorter and shallower than most forecasters had previously expected. However, in the June 2009 quarter, the economy grew by 0.1% ending the longest recession for thirty years.
- 23 The downturn in the New Zealand economy has led to an easing in the labour market over the past two years. Since December 2007, employment has fallen by 1.6% and the unemployment rate has risen to a nine year high of 6.5%. The unemployment rate has now risen 3.0 percentage points since it reached a historical low of 3.5% in late 2007. Youth, Māori and Pacific peoples have been particularly affected by the rise in unemployment. The unemployment rate for Māori was 11.2% for the year to September 2009. This was considerably higher than the 8.0% of Māori who were unemployed in the year to September 2008. The unemployment rate for youth increased to 14.9% for the year to September 2009, up from 10.5% recorded for the year to September 2008.
- 24 The outlook has improved significantly over recent months and there are clear signs of a rebound in the New Zealand economy. A number of leading indicators have continued to improve over recent months and point to further growth over the second half of 2009. Business confidence, as measured by both the National Bank Business Outlook and the Quarterly Survey of Business Opinion, has now improved strongly to reach levels not seen since 1999 when the economy was recovering from the Asian Financial Crisis.

<sup>6</sup> UB stands for unemployment benefit.

Rising net migration, increased activity in the housing market and a brighter global outlook all point to signs of recovery.

- 25 There is some uncertainty, however, about the shape of the economic recovery in New Zealand and globally. Most expectations are for a modest and gradual recovery in the New Zealand economy. Households accumulated significant debt over the last economic expansion and are attempting to reduce their debt by lowering their discretionary spending, which will take some time and delay significant boosts to domestic spending. Furthermore, weak global demand and the strong exchange rate are hindering the ability of the export sector to drive growth and compensate for a weak domestic sector. As a result, the economic recovery is not expected to be the classic "V" shape recovery that has been seen in previous recessions where growth rebounded strongly. Instead, growth is expected to be positive, but relatively subdued over the next two years.

### **Key factors contributing to the labour market outlook**

- 26 Based on the relatively weak economic environment, the Department expects on balance that the labour market will ease further over the next year. The Department anticipates that the unemployment rate will rise to around 7% by mid-2010. This view is based upon weak future employment growth, further increases, albeit smaller, in the unemployment rate. Six factors are considered in the Department's labour market outlook, these are set out in full below:
- a *Employment growth:* as a result of the downturn in the economy, employment growth is expected to be weak over the next two years. The latest National Bank Business Outlook and Quarterly Survey of Business Opinion show that firms are intending to keep staff numbers at current levels over the next year. While this is an improvement from recent months and may signal that job destruction has slowed, it also suggests there is little sign of job creation. Employers may be waiting to see if the recovery will be sustained before hiring new staff. As a result, we could see employment losses begin to slow in the near future, but unemployment continue to rise as new job seekers to the labour force struggle to find work.
  - b *Unemployment rate:* because of the weak economic environment, and given that the labour market tends to lag the wider economy, we anticipate that the unemployment rate will continue to rise in coming quarters. However, smaller increases in the unemployment rate are expected over the next couple of quarters (compared to the large rises seen over the June and September 2009 quarters), with the unemployment rate rising to a peak of around 7% in the middle of 2010. An anticipated fall in the labour force participation rate will likely soften any rise in the unemployment rate. Youth, Māori and Pacific peoples have been particularly affected by the rise in unemployment so far and their unemployment rates are expected to rise proportionally higher over their current levels.
  - c *Labour force participation:* the labour force participation rate has held up relatively well during the current economic downturn. As at September 2009, the participation rate was 68.0%, down only slightly from its pre-recession rate of 68.4%. We usually expect the participation rate to fall during a downturn as people find jobs hard to come by and turn to other activities such as study or childcare. This has the effect of cushioning any rise in the unemployment rate. Should the participation rate remain high over the next year, the unemployment rate may rise by more than expected. Nevertheless, over the next year, the participation rate is

expected to fall slightly due to the projected low growth in employment. Limited job opportunities are also expected to encourage people to opt out of the labour force to study. The number of people participating in formal study rose by 9.3% over the year to September 2009.

- d *Net migration*: in the year to September 2009, there were 17,000 more permanent and long-term arrivals than departures, a significant increase compared to the 4,400 recorded in the year to September 2008. Net annual inflows have reached their highest level since November 2004, driven by a strong fall in departures over the past year. Net inward migration is expected to rise further over the next year due to continued weakness in overseas labour markets. This may discourage New Zealanders from departing overseas and may encourage more New Zealanders to return home. Higher net migration inflows will boost population growth and have a positive influence on consumer spending and housing and construction activity.<sup>7</sup>
- e *Wage growth*: annual wage growth in the adjusted Labour Cost Index eased to 2.1% in the September 2009 quarter, down sharply from 4.0% a year ago. Wages typically lag changes in economic and labour market conditions by one to two years due to the infrequent nature of wage negotiations. With the unemployment rate expected to continue rising towards 7% in mid-2010 there will be increased competition for jobs which should cause wage growth to continue to slow. The recent fall in annual consumer price inflation to a five year low will also contribute to weaker wage growth over the short-term.
- f *Labour productivity*: the latest official productivity statistics for the measured sector<sup>8</sup> show strong labour productivity growth of 2.0% in the year to March 2008. However, economy-wide labour productivity growth (output per hour worked) has fallen by 1.0% in the year to June 2009, reflecting the downturn in the wider economy. As the economy recovers over the next two years, labour productivity growth is likely to rise.

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<sup>7</sup> DoL research ([http://www.dol.govt.nz/publications/research/cge/cge\\_01.asp](http://www.dol.govt.nz/publications/research/cge/cge_01.asp)) has shown that in spite of perceived negative effects of migration, e.g. more people out of work, or migrants taking the work that might have been taken up by current unemployed in NZ, from an economy-wide perspective, increased immigration scenarios yield net positive effects as a result of a) reduces production costs, b) improved competitiveness of New Zealand goods and services, benefiting exports, c) benefits domestic investment and/or consumer spending, depending on the skills composition of the immigration inflow and d) results in higher revenues to government, which outweigh the impact on spending, so that it translates into an improvement in the balance of the government's accounts.

<sup>8</sup> The official productivity statistics from Statistics New Zealand cover the measured sector of the economy, which includes around 73% of GDP and excludes the hard-to-measure industries such as education and health.

## PART TWO – OPTIONS FOR THE MINIMUM WAGE RATES IN 2010

27 This section sets out the options for this year’s review and submitters’ views on potential increases to the minimum wage rates.

### OPTIONS FOR THE MINIMUM WAGE REVIEW 2010

28 The Department has examined five options for the minimum wage rates in 2010. These options are:

- retaining the current adult minimum wage of \$12.50 an hour (status quo)
- an increase to \$12.75 an hour in line with the price changes for goods and services (Consumers Price Index (CPI))
- an increase to \$13.10 an hour in line with changes in average wages (the Quarterly Employment Survey (QES))
- an increase to \$15.00 an hour (this option arose through the Department’s consultation), and
- an increase to two-thirds of average wages, \$16.75 an hour.

29 The options are set out in the following table:

**Table 1: Options for changes to the minimum wage**

Option	Adult minimum wage (an hour)	New entrants’ minimum wage & Training minimum wage (an hour)
Option 1	\$12.50	\$10.00
Option 2	\$12.75 (2.0% increase) <sup>9</sup>	\$10.20
Option 3	\$13.10 (4.8% increase) <sup>10</sup>	\$10.50
Option 4	\$15.00 (20.0% increase)	\$12.00
Option 5	\$16.75 (34.0% increase) <sup>11</sup>	\$13.40

### Submitters’ views on the minimum wage rate

30 The Minister of Labour invited written submissions from Business New Zealand, New Zealand Council of Trade Unions (NZCTU), the Small Business Advisory Group (SBAG), New Zealand Chambers of Commerce and other stakeholders. The Minister received 15 written submissions. A summary of the submissions is attached as [appendix 3](#) to this report, and relevant submitter comments have been included throughout this report.

31 Business New Zealand, the Chambers of Commerce, New Zealand Retailers Association, the Federated Farmers of New Zealand, the National Association of Retail Grocers and

<sup>9</sup> Based on the movement in consumer prices for the June 2009 year (1.9%), rounded up to the nearest \$0.05.

<sup>10</sup> Based on the movement in average total hourly earnings for the June 2009 year, as measured by the Quarterly Employment Survey, rounded up to the nearest \$0.05.

<sup>11</sup> Based on total average hourly earnings of \$25.09 in the Quarterly Employment Survey June 2009, rounded up to the nearest \$0.05

- Supermarkets of New Zealand (Incorporated) (NARGON) and the Hospitality Association of New Zealand recommended no increase to the minimum wage (option 1).
- 32 The Unite Union and Piki te Ora ki Te Awakairangi Primary Health Organisation (Piki te Ora) recommended an increase to \$15.00 (option 4).
- 33 The New Zealand Council of Trade Union (NZCTU), with support from the National Distribution Union, the New Zealand Nurses Organisation and the Service and Food Workers Union, recommended increasing the minimum wage to \$16.87 an hour<sup>12</sup>.
- 34 The National Advisory Council on the Employment of Women and the Mayors Taskforce for Jobs recommended an increase in the minimum wage but they did not recommend a specific figure.
- 35 The Small Business Advisory Group did not express a preferred option. Members submitted that when considering any increase to the minimum wage the Government should take account of the current economic environment.

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<sup>12</sup> This is based on the average ordinary time wage of \$25.09 an hour in the June 2009 Quarterly Employment Survey. This is then increased by 2% to allow for wage increases, and 66.0% calculated from this figure.

## **PART THREE — ASSESSMENT OF THE OPTIONS FOR THE MINIMUM WAGE RATES IN 2010**

### **CONTENT OF THIS SECTION**

36 This section assesses the options for the minimum wage for 2010 in terms of two criteria. Firstly, 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. Secondly, the options are considered in terms of changes to the minimum wage as part of the broader package of government income and employment-related interventions.

### **SCOPE OF THE ASSESSMENT**

37 The Department's assessment of the options is based on the criteria set out in the minimum wage objective. The assessment considers a range of factors including the impact on employment growth and firms, the impact on low paid workers, relativity with the minimum wage in Australia and submissions from key stakeholders.

38 In assessing the appropriate level of the minimum wage, this report focuses on the government's objective for the minimum wage:

*"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 CRITERION 1: GAINS AND LOSSES FROM CHANGES IN THE MINIMUM WAGE**

39 The first assessment criterion is an assessment of the extent to which any change to the minimum wage would produce gains that are more significant than any losses. A number of factors have been identified to consider 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 all of the 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 FOR 2010**

40 Table 2 shows the share of wage and salary workers that are likely to be directly affected by the different options for the minimum wage, broken down by age group. If people who are close to the wage bands also receive an increase in their hourly rate as a result of an increase in the minimum wage, more people will be affected by the increases (albeit indirectly). The impacts of a minimum wage increase are greater for workers aged 18 to 19 than 20 to 24.

**Table 2: Estimated percentage and number of wage and salary workers directly affected by the options for 2010, 18-64 year olds**

Options	18-64 years		18-19 years		20-24 years		25-64 years	
	%	Number	%	Number	%	Number	%	Number
1. \$12.50	4.0%	67,900	24.9%	15,500	9.5%	17,700	2.4%	34,600
2. \$12.75	4.5%	76,000	26.2%	16,300	10.1%	18,800	2.8%	40,800
3. \$13.10	7.3%	124,900	39.5%	24,600	15.8%	29,500	4.9%	70,800
4. \$15.00	17.9%	304,600	62.5%	38,900	36.0%	67,200	13.7%	198,500
5. \$16.75	28.9%	490,400	72.4%	45,100	54.3%	101,400	23.7%	343,900

Source: New Zealand Income Survey June 2009, Statistics New Zealand

41 As can be seen in Table 3, all of the options are likely to affect a high proportion of 16 and 17 year olds, as most 16 and 17 years olds in work tend to be paid at or near the minimum wage.

**Table 3: Estimated percentage and number of wage and salary workers aged 16-17 directly affected by the options**

New Entrants' Minimum Wage			Adult Minimum Wage		
Options	Percentage	Number	Options	Percentage	number
1. \$10.00	4.3%	2,100	1. \$12.50	40.9%	19,500
2. \$10.20	4.3%	2,100	2. \$12.75	42.6%	20,400
3. \$10.50	5.0%	2,400	3. \$13.10	55.3%	26,400
4. \$12.00	9.0%	4,300	4. \$15.00	67.6%	32,300
5. \$13.40	77.4%	37,000	5. \$16.75	71.9%	34,400

Source: New Zealand Income Survey June 2009, Statistics New Zealand

## THE MAIN SOCIAL AND ECONOMIC IMPACTS

### Impacts on employment

42 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 (for example, 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 sectors that are most affected by an increase in the minimum wage may experience a constraint on employment growth.

#### *Research on the effects of the minimum wage*

43 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 concerned<sup>13</sup>.

- 44 Australian research indicates that the burden of increased unemployment falls disproportionately on identifiable demographic groups, especially those attempting to gain a foothold in the labour market and to maintain that position. These groups include young people, low-skilled workers, and migrants from non-English speaking backgrounds. All these demographic groups have been identified as being more heavily reliant on minimum wages and at higher risk of unemployment<sup>14</sup>.
- 45 Comprehensive research in the United Kingdom found little evidence to suggest that the increases in the minimum wage had led to reductions in employment or hours worked<sup>15</sup>.
- 46 New Zealand research shows that firms may respond in a range of ways to minimum wage increases, for example, reducing wage relativities across staff, reducing paid hours per employee, tightening weekly rosters and not replacing workers who resign<sup>16</sup>.

### **Employment impacts finding**

- 47 The Department has analysed employment 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) by using a range of employment adjustment factors (elasticities) that are broadly derived from econometric analysis conducted by the Department and elsewhere<sup>17</sup>. 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 (such as productivity, demand and fiscal effects), while others may be negative (international competition)<sup>18</sup>. The timing of the adjustment is also simplified and here a one year adjustment period is assumed.
- 48 The concept of "real minimum wage changes" is important to our discussion here. For example, option 2 (\$12.75 an hour) implies a nominal increase of 2.0% and option 3 (\$13.10) a 4.8% nominal increase. If the minimum wage is increased, it will be implemented in 1 April 2010. It is important then to consider these nominal minimum wage increases in the context of the annual percentage change of the output price that a firm can expect at that point for the year ahead.

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<sup>13</sup> Youcef, Ghellab. "Minimum Wages and Youth Unemployment", ILO, 1998. p.58.

<sup>14</sup> J Healy and S Richardson, *A Strategy for Monitoring the Micro-Economic and Social Impacts of the Australian Fair Pay Commission*, Research Report No. 4/07, National Institute of Labour Studies, report commissioned by AFPC, 2006, p. 12.

<sup>15</sup> *National Minimum Wage*, Low Pay Commission Report 2009.

<sup>16</sup> 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.

<sup>17</sup> More information on the elasticities used is available from the Department of Labour.

<sup>18</sup> One could argue that all these effects are "loaded" into the econometric estimates but they are not explicit

- 49 In real<sup>19</sup> terms, option 2 (\$12.75) does not constitute an increase for the year to March 2011 while options 3 (\$13.10), 4 (\$15.00) and 5 (\$16.75) are equivalent to a 1%, 17% and 31% real increase in labour costs respectively.
- 50 Table 4 below sets out aggregate estimates of the level of job constraint that may result from minimum wage increases. Currently, the Household Labour Force Survey for September 2009 reports that the total number of people employed is 2,154,000. This is projected to decrease by 21,500 jobs to 2,132,500 jobs in March 2010 according to the Department's most recent forecast. From March 2010, employment is currently expected to increase by 0.9% (or a further 19,200 jobs) to 2,151,700 in March 2011<sup>20</sup>. If the current economic uncertainty has a more adverse impact on employment than the projection used here, then the projected employment figure will be lower. Our estimates of the **level** of constraint on job growth will not change, but they will appear relatively larger if there is lower employment growth than what we are currently assuming.

**Table 4: Summary of impacts of minimum wage increases on employment levels (March 2010 – March 2011)**<sup>21</sup>

Option	Projected job growth, reflecting the potential level of constraint on job growth (% increase in parenthesis)	Potential constraint on job growth (absolute change)	Potential constraint on job growth (relative change)
1. \$12.50	19,200 (0.9%)	0	0.0%
2. \$12.75	19,200 (0.9%)	0	0.0%
3. \$13.10	18,300 (0.88%) - 18,800 (0.86%)	400 - 900	0.02% - 0.04%
4. \$15.00	11,100 (0.5%) - 13,800 (0.6%)	5,400 - 8,100	0.3% - 0.4%
5. \$16.75	4,400 (0.2%) - 9,100 (0.4%)	10,100 - 14,800	0.5% - 0.7%

Source: Department of Labour calculations

The first column shows projected growth for the year to March 2011 for a high and low impact scenario. Thus, employment growth could be 18,300 workers for option 3 (column 1) instead of 19,200 without a minimum wage increase, which is up to 900 less net jobs created (column 2). Employment growth would, therefore, be reduced by up to 0.04% in this scenario (column 3).

<sup>19</sup> Real changes in minimum wage options are adjusted using the Producers Price Index (PPI). The output price is the price received for the goods and services a firm produces. While it is impossible to predict these changes in output prices for individual firms, a forecast of an economy-wide average of these changes, known as the Producers Price Index output (PPI-output) can be obtained from the NZIER Quarterly Predictions<sup>19</sup>. The NZIER estimates the PPI-output to be as high as 3.7% for the March 2011 year (i.e. for the period March 2010 – March 2011).

<sup>20</sup> This forecast already implicitly assumes impacts on employment due to minimum wage increases, but the magnitude of this impact is unknown. We do not adjust for this for convenience.

<sup>21</sup> We have used single estimates for the wages of 16 and 17 year old workers, as the data suggests that majority are earning the adult minimum wage or more and we are unable to estimate how many 16 and 17 year olds may be eligible for the new-entrant 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.

### ***High and low scenarios of the minimum wage impacts***

- 51 We calculate a high and low scenario for employment, with the former based on higher estimated employment adjustment factors and a lower Producers Price Index (PPI) Output than what is currently forecasted by the NZIER (3.0% compared to 3.7%). The lower PPI will create higher real minimum wage gains and would yield higher adverse employment impacts given the same employment adjustment factor.
- 52 There are no negative impacts on employment growth expected with option 2 (\$12.75) since this option does not constitute a real increase in the minimum wage and the employment adjustment factors (elasticities) are estimated on the basis of **real** minimum wage change. Predicted employment growth without an increase in the minimum wage (option 1) for the period March 2010 to March 2011 (0.9%) would not be reduced under option 2 as employment growth is estimated to remain at 0.9%.
- 53 For option 3 (\$13.10 an hour), employment growth is estimated to reduce by up to 900 jobs but employment growth over the year to March 2011 will only be slightly lower. Employment growth is estimated to be reduced by between 5,400 and 8,100 jobs under option 4 (\$15.00 an hour). Under option 5 (\$16.75), job growth is expected to be constrained by between 10,100 and 14,800 jobs. Employment growth may then be reduced from 0.9% to 0.5% over the year to March 2011.

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

- 54 A modest increase in the minimum wage is likely to have a positive economic and social impact on people who are likely to be low paid through an increase in their income. The minimum wage can play an important role in maintaining income equity for low paid workers, who may only receive pay rises through increases in the minimum wage. The impact of any increase would need to be seen in the context of recent increases in food and consumer prices. For example, food prices increased 2.0% in the year to October, following increases of 3.3% and 4.6% in the years to September and August 2009, respectively<sup>22</sup>.
- 55 However, low paid workers 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).
- 56 Youth, women, Māori, Pacific and part-time workers are more likely to be low paid workers. Table 5 shows the demographic and job characteristics for wage and salary workers impacted by different minimum wage options.

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<sup>22</sup> Statistics New Zealand, Food Price Index: October 2009.

[http://www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/prices\\_indexes/FoodPriceIndex\\_HOTPOct09.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/prices_indexes/FoodPriceIndex_HOTPOct09.aspx)

**Table 5: Demographic and job characteristics, 18-64 year olds**

<b>Demographic/ job characteristics</b>	<b>1. \$12.50</b>	<b>2. \$12.50 - &lt;\$12.75</b>	<b>3. \$12.50 - &lt;\$13.10</b>	<b>4. \$12.50 - &lt;\$15.00</b>	<b>5. \$12.50 - &lt;\$16.75</b>	<b>&gt;= \$16.75</b>
Aged 18 to 24	51.7%	49.1%	46.0%	37.3%	32.4%	8.7%
Female	52.4%	53.7%	55.6%	58.7%	57.4%	45.3%
Married	39.2%	41.7%	43.8%	51.7%	54.5%	73.8%
European/Pakeha	48.3%	49.5%	52.0%	61.3%	62.2%	74.5%
Māori	15.8%	16.1%	16.6%	15.8%	15.8%	10.6%
Pacific	8.1%	8.0%	9.0%	7.0%	7.2%	3.7%
Part-time	53.0%	51.8%	49.2%	38.7%	34.8%	11.9%
Post school qualifications	34.7%	35.0%	35.7%	39.8%	42.6%	68.9%

Source: New Zealand Income Survey June 2009, Statistics New Zealand

### **Youth**

- 57 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. For example if the minimum wage was increased to \$12.75, 49.1% of those employees directly affected will be aged between 18 and 24 years. Of those earning more than \$16.75, only 8.7% are aged between 18 and 24.
- 58 Empirical evidence on the impact of minimum wage increases on youth employment is mixed. In 2004, the New Zealand Institute of Economic Research (NZIER) carried out a literature review on the youth minimum wage<sup>23</sup>, which included four studies based in New Zealand<sup>24</sup>. The review says that, in general, no evidence was found of negative employment effects from minimum wage changes (with one exception<sup>25</sup>). However, it is important to note that there are a number of possible reasons why no evidence presents itself (e.g. data limitations or omitted variables problems)<sup>26</sup>.
- 59 Examining the impacts of the changes to the youth minimum wage in 2001 and 2002, Hyslop and Stillman found a significant increase in the number of hours worked by 16 and 17 year olds but little impact on the hours worked by 18 and 19 year olds<sup>27 28</sup>.

<sup>23</sup> NZIER (2004) *The Youth Minimum Wage: a literature review and analysis*.

<sup>24</sup> References for these papers are: Maloney T. (1994) *Does the Adult Minimum Wage Affect Employment and Unemployment in New Zealand?* University of Auckland Working Papers in Economics 137. Chapple S. (1997) *Do Minimum Wages Have an Adverse Impact on Employment? Evidence from New Zealand*. Labour Market Bulletin 1997(2), 25-50. Pacheco G. A. and T. Maloney (1991) *Does the Minimum Wage Reduce the employment prospects of unqualified New Zealand women?* Labour Market Bulletin 1999, 15-69. Hyslop D. and S. Stillman (2004) *Youth Minimum Wage Reform and the Labour Market*. New Zealand Treasury Working Paper.

<sup>25</sup> The exception was the research by Maloney (1994). It found a reduction in employment for 20-24 year olds. The research was based on data from 1985-1993, before the introduction of the youth minimum wage in March 1994.

<sup>26</sup> NZIER (2004) *The Youth Minimum Wage: a literature review and analysis*. NZIER. p.1.

<sup>27</sup> The changes resulted in a 69% increase in the minimum wage for 18 and 19 year olds and a 41% increase in the minimum wage for 16 and 17 year olds. Hyslop D. and S. Stillman (2004) *Youth Minimum Wage Reform and the Labour Market*. New Zealand Treasury Working Paper.

- 60 It is possible that increasing the minimum wage will increase the incentives for some young people to choose employment over continuing with secondary school education. New Zealand research on the impacts of changes in the minimum wage has found some evidence of a small decline in the educational enrolments of 16 to 19 year olds in the early 2000s<sup>29</sup>. Research has not been carried out on what effect more recent increases in the minimum wage may have had on enrolment rates. Figures from the Ministry of Education show that more domestic students studied at higher levels and in longer qualifications in April 2009 compared with April 2008<sup>30</sup>. This outcome is likely to have been significantly influenced by the wider economic climate and initiatives to encourage young people to continue in education, such as interest free student loans. The recently introduced Youth Guarantee programme is intended to encourage more young people to continue their education in a non-school setting or to undertake an apprenticeship.
- 61 The Mayors Taskforce for Jobs submitted that continued minimum wage protection was necessary for young people. This was to encourage employers and others to invest in skill development, particularly in the trades. 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. Continued reviewing and lifting of the minimum wage could in fact contribute to an environment where there is a greater investment in skill training leading to increases in productivity. There is no evidence that raising wages has resulted in young people leaving school early. On the contrary, there are increasing numbers of young people staying at school achieving higher qualifications and skills in anticipation of renewed economic and employment growth.
- 62 The NZCTU considers that as many young people on the minimum wage are also studying, a higher minimum wage would mean they could work fewer hours and have more time for studying.
- 63 Business New Zealand, the Hospitality Association of New Zealand and the National Association of Retail Grocers and Supermarkets of New Zealand expressed concern that continued increases in the minimum wage could send a signal to some younger people that further formal education and training is not warranted.

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<sup>28</sup> It should be noted that only around 20% of 16-19 year olds reported wage rates below the minimum during the period used by Hyslop and Stillman (2001-2002). Today, that figure is around 80% for 16-17 year olds (due in part to the removal of the youth minimum wage) and 40% for 18-19 year olds.

<sup>29</sup> Hyslop, D. and S. Stillman (2004) *Youth Minimum Wage Reform and the Labour Market* New Zealand Treasury Working Paper 04/03, Wellington, the Treasury. Available online at <http://www.treasury.govt.nz/workingpapers/2004/04-03.asp>. This research found a statistically significant fall in the fraction of 16 and 17 year olds studying of about 3-4 percent in each year after the minimum wage increases and a generally smaller drop in study rates for 18 and 19 year olds of 1-2 percent, which were statistically significant, in 2001 and 2002. Pacheco, G. and A. Cruickshank (2007) *Minimum Wage Effects on Educational Enrolments in New Zealand*. Economics of Education Review, also find a statistically significant negative effect on enrolment levels for 16 to 19 year olds over 1986-2004.

<sup>30</sup> Ministry of Education, *April 2009 tertiary education enrolments snapshot*.

### **Women**

- 64 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 5 shows that of those currently earning the minimum wage, 52.4% are women. Of those employees likely to be directly affected by an increase of the minimum wage to \$13.10, 55.6% will be women.
- 65 The Department calculates that the average hourly wage for women is 85.6% of the average hourly wage for men (aged 18 to 64 years) or for wage and salary workers, women's average hourly earnings are 14.4% lower than men's average hourly earnings<sup>31</sup>.
- 66 If we assume that all workers earning between \$12.50 and just less than \$13.10, are raised to \$13.10, then the gender pay gap narrows by a negligible amount from 85.6% to 85.7%. This is in line with previous impacts estimated by the Department<sup>32</sup>.
- 67 The National Advisory Council on the Employment of Women strongly endorses 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**

- 68 Māori and Pacific people are overrepresented amongst those in the lower wage band and are likely to benefit more from an increase in the minimum wage, compared with people from the European ethnic group. Currently, for example, of those earning between \$12.50 and \$12.74, 16.1% and 8.0% of employees identify themselves as Māori and Pacific respectively. The percentage shares stay relatively similar for Māori and Pacific peoples across the wage bands quoted for the options. Of those earning more than \$16.75 an hour, the proportion that are Māori and Pacific peoples drops to 10.6% and 3.7% respectively.
- 69 If the minimum wage was increased to \$13.10, Māori and Pacific peoples are likely to make up 16.6% and 9.0% respectively of employees earning between \$12.50 and \$13.09 were directly affected.
- 70 The NZCTU and Piki te Ora believe the minimum wage is an essential mechanism in improving the pay gap for Māori and Pacific workers.

### **Part-time and casual workers**

- 71 Part-time and casual workers are more likely to be low paid. Table 5 shows that around 53.0% of those currently earning \$12.50, and just under a half of workers with hourly earnings between \$12.50 and \$13.10 (option 3) are part-time. By comparison, of those earning more than \$16.75 only 11.9% are part-time workers.
- 72 The likelihood of being a permanent employee increases with hourly earnings. Evidence from the Statistics New Zealand's Survey of Working Life 2008 shows that workers in the lower wage bands (\$13.10 or less per hour) were less likely to be permanent employees compared with employees on higher wages. The rate of casual work was particularly high

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<sup>31</sup> This calculation excludes all workers that reported an hourly wage below the adult minimum wage of \$12.50.

<sup>32</sup> Historically, gender pay gaps are: 2006 - 87.0% to 87.1%, 2007 - 84.3% to 84.4% and 2008 - 85.0% to 87.6%.

among those aged 16 and 17 years who were earning less than \$12.50 per hour<sup>33</sup>. In 2008, the adult minimum wage was \$12.00 per hour and the new entrants minimum wage and training wage were both \$9.60.

### ***Post school qualifications***

- 73 Approximately 68.9% of workers earning more than \$16.75 an hour have a post school qualification. By comparison of those earning \$12.50 only 34.7% of workers have a post school qualification.

### **Impact on Working for Families**

- 74 The Working for Families package seeks to increase family incomes for families with dependent children and improve the incentives for people with dependent children to move from benefits and into work, primarily through the in-work tax credit.
- 75 The Working for Families package, unlike the minimum wage, is targeted primarily at low to medium income working families with children. Although the two policies have different target groups, the interplay between Working for Families and the minimum wage is important for assessing the combined impact on household incomes. An increase in the household income of families with children, as a result of an increase in minimum wage rates, may result in a reduction in the amount of assistance a family may receive. Any such reduction will depend on current household income, the number and age of children in the household and the number of hours worked.

### ***Modelling work on the impact of minimum wage increases on recipients of Working for Families***

- 76 Below are three scenarios that appear to be fairly typical of the groups that would be eligible for Working for Families assistance and likely to involve employment at the minimum wage. The scenarios modelled show the impact of an increase in the minimum wage on 1 April 2010. The scenarios cover:
- a sole parent with two children aged 5 and 9 years
  - a couple with one full-time worker, one part-time worker and one child aged 14, and
  - a couple in their early 20s with a 2 year old child, who are doing seasonal work.
- 77 The scenarios look at the impacts on benefit payment (if eligible), accommodation supplement and Working for Families tax credits (family tax credit, minimum family tax credit, and in-work tax credit)<sup>34</sup>. The net income figures are based on the tax rates and thresholds and ACC levies effective 1 April 2009,<sup>35</sup> with estimated benefit rates for April 2010. Because the impacts of these factors are included in the calculations, the scenarios considered may show a change in total net income for option 1 (\$12.50), even though the minimum wage itself has not changed.

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<sup>33</sup> Access to the Survey of Working Life data 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.

<sup>34</sup> For the purpose of these scenarios it is assumed that no childcare assistance, temporary additional support or parental tax credit is received. In reality, people in these scenarios may qualify for some of these benefits.

<sup>35</sup> 1.7% of ACC Levy for Earners' Account was used for this calculation.

**Scenario 1: sole parent working part-time in retail**

- 78 This scenario is for a sole parent who normally works 20 hours a week in retail sales at the minimum wage. He/she has two children aged 5 and 9 years and lives in central Auckland paying \$340 a week in rent. Under these circumstances he/she is eligible for the family tax credit and accommodation supplement. He/she will be able to receive either the Domestic Purposes Benefit (DPB) or the in-work tax credit and the minimum family tax credit.
- 79 In Scenario 1A, this sole parent is receiving the Domestic Purposes Benefit (DBP) and working 20 hours a week at the minimum wage. On 1 April 2010, his/her net weekly income will increase slightly under the minimum wage rates considered. The increase in net income is greater as the minimum wage increases going from around \$5.00 to \$11.00 a week. As this person's wages rise, the benefit rate abates but there is no change in the family tax credit and accommodation supplement amounts received.

**Scenario 1A**

Scenario 1A	Prior to 1 April 2010	From 1 April 2010				
		Option	-	1	2	3
<b>Minimum wage set at:</b>	<b>\$12.50</b>	<b>\$12.50</b>	<b>\$12.75</b>	<b>\$13.10</b>	<b>\$15.00</b>	<b>\$16.75</b>
Net weekly wage (secondary tax rate)	\$193.25	\$193.25	\$197.12	\$202.53	\$231.90	\$258.96
Net DPB (primary tax rate)	\$193.70	\$198.88	\$195.38	\$190.48	\$163.88	\$139.38
Family Tax Credit	\$146.00	\$146.00	\$146.00	\$146.00	\$146.00	\$146.00
Accommodation Supplement	\$175.00	\$175.00	\$175.00	\$175.00	\$175.00	\$175.00
<b>Total net income</b>	<b>\$707.95</b>	<b>\$713.13</b>	<b>\$713.50</b>	<b>\$714.01</b>	<b>\$716.78</b>	<b>\$719.34</b>
Gain <sup>36</sup>	-	\$5.18	\$5.55	\$6.06	\$8.83	\$11.39

- 80 Scenario 1B below assumes that instead of receiving the DPB, he/she is receiving the in-work tax credit and minimum family tax credit.

<sup>36</sup> The gain in weekly income is calculated in comparison with their income prior to 1 April 2010. An increase in income for the status quo (\$12.50 an hour) reflects the estimated changes in the benefit rates on 1 April 2010.

**Scenario 1B**

Scenario 1B	Prior to 1 April 2010	From 1 April 2010				
		Option	-	1	2	3
<b>Minimum wage set at:</b>	<b>\$12.50</b>	<b>\$12.50</b>	<b>\$12.75</b>	<b>\$13.10</b>	<b>\$15.00</b>	<b>\$16.75</b>
Net weekly wage (primary tax rate)	\$214.50	\$214.50	\$218.79	\$224.80	\$254.78	\$281.84
In-work Tax Credit	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00
Family Tax Credit	\$146.00	\$146.00	\$146.00	\$146.00	\$146.00	\$146.00
Minimum Family Tax Credit	\$176.25	\$181.25	\$176.88	\$170.75	\$140.12	\$112.47
Accommodation Supplement	\$175.00	\$175.00	\$175.00	\$175.00	\$175.00	\$175.00
<b>Total net income</b>	<b>\$771.75</b>	<b>\$776.75</b>	<b>\$776.67</b>	<b>\$776.55</b>	<b>\$775.90</b>	<b>\$775.31</b>
Gain <sup>37</sup>	-	\$5.00	\$4.92	\$4.80	\$4.15	\$3.56

81 The amount of the MFTC reduces dollar for dollar as his/her after-tax weekly wage increases. The amount abated is slightly more than the increase in net weekly wages if the minimum wage is increased<sup>38</sup>. While their net weekly wage increases as the minimum wage increases, their gain in total net income actually decreases because of the greater abatement in the MFTC. A small number of people receive the MFTC.

<sup>37</sup> The gain in weekly income is calculated in comparison with their income prior to 1 April 2010. An increase in income for the status quo (\$12.50 an hour) reflects the recently announced increase in the Minimum Family Tax Credit from 1 April 2010.

<sup>38</sup> The Minimum Family Tax Credit tops up income after taxes to the prescribed level, but that calculation does not adjust for the ACC levy taken out of earnings. As people earn an extra dollar during the tax year their total income will drop by the amount of the ACC levy.

**Scenario 2: a couple with one full-time worker and one part-time worker**

82 This scenario is for a couple with a combined household income of \$55,000 with one full-time worker and one part-time worker. They are living in Wellington paying \$310 a week in rent with one child aged 14 years. The full-time worker is not on the minimum wage. Their partner works part-time for 15 hours a week on the minimum wage as a personal care assistant at the local rest home.

Scenario 2 Option	Prior to 1 April 2010	From 1 April 2010				
		1	2	3	4	5
<b>Minimum wage set at:</b>	<b>\$12.50</b>	<b>\$12.50</b>	<b>\$12.75</b>	<b>\$13.10</b>	<b>\$15.00</b>	<b>\$16.75</b>
Net weekly wage (primary tax rate)	\$856.42	\$856.4 2	\$859.6 4	\$864.14	\$888.5 9	\$911.12
In-work Tax Credit	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00
Family Tax Credit	\$16.00	\$16.00	\$15.00	\$14.00	\$8.00	\$3.00
Accommodation Supplement	\$17.00	\$18.00	\$17.00	\$15.00	\$8.00	\$2.00
<b>Total net income</b>	<b>\$949.42</b>	<b>\$950.42</b>	<b>\$951.64</b>	<b>\$953.14</b>	<b>\$964.59</b>	<b>\$976.12</b>
Gain <sup>39</sup>	-	\$1.00	\$2.22	\$3.72	\$15.17	\$26.70

83 In these scenarios, their weekly net income increases slightly under options 2 and 3. There is a significant increase under options 4 and 5, increasing to around \$27.00 a week.

**Scenario 3: a couple with a 2 year old child, who are doing seasonal work**

84 This scenario is for a couple in their early 20s with a 2 year old toddler. They live in Roxburgh paying \$200 a week in rent. When not on unemployment benefit they work as casual labourers in the seasonal fruit picking industry. They are currently not on benefit as they are working a combined 60 hours a week at minimum wage (30 hours each).

<sup>39</sup> The gain in weekly income is calculated in comparison with their income prior to 1 April 2010. An increase in income for the status quo (\$12.50 an hour) reflects the estimated changes to the Accommodation Supplement on 1 April 2010.

Scenario 3	Prior to 1 April 2010	From 1 April 2010				
		Option	1	2	3	4
<b>Minimum wage set at:</b>	<b>\$12.50</b>	<b>\$12.50</b>	<b>\$12.75</b>	<b>\$13.10</b>	<b>\$15.00</b>	<b>\$16.75</b>
Net weekly wage (primary tax rate)	\$625.52	\$625.52	\$637.11	\$653.35	\$741.47	\$822.63
In-work Tax Credit	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00	\$60.00
Family Tax Credit	\$77.00	\$77.00	\$74.00	\$70.00	\$47.00	\$26.00
Accommodation Supplement	\$17.00	\$18.00	\$14.00	\$9.00	-	-
<b>Total net income</b>	<b>\$779.52</b>	<b>\$780.52</b>	<b>\$785.11</b>	<b>\$792.35</b>	<b>\$848.47</b>	<b>\$908.63</b>
Gain <sup>40</sup>	-	\$1.00	\$5.59	\$12.83	\$68.95	\$129.11

85 Under this scenario, this family's overall income would rise as a result of a minimum wage increase from 1 April. There would be some reduction in the social assistance that they would receive as a result, namely the family tax credit and the accommodation supplement. There is a small increase to their net income under options 2 and 3 (\$5.59 and \$12.83 a week respectively) and significant increases under options 4 and 5 (\$68.95 and \$129.11 respectively).

### Impact on wage earnings, Gross Domestic Product and inflation

86 Table 6 examines the impacts of each option in terms of the numbers of workers affected, the estimated increase in weekly wage earnings and the potential increase in nominal GDP/inflation. It shows that while a relatively large proportion of workers may be affected by the different options, low income workers are generally working fewer hours, and so account for a relatively small share of weekly earnings.

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<sup>40</sup> The gain in weekly income is calculated in comparison with their income prior to 1 April 2010. An increase in income for the status quo (\$12.50 an hour) reflects the estimated changes to the Accommodation Supplement on 1 April 2010.

**Table 6: Economy-wide impacts of increases in the minimum wage in 2010 on the wage earnings and GDP (inflation)<sup>41</sup>**

Column	1	2	3	4	5	6	7
Options	Workers between current and new minimum wage	Weekly hours worked by workers earning between the current and new minimum wage ('000)	Current weekly earnings of workers earning between the current and new minimum wage (\$ '000)	Uprated weekly earnings of workers earning between the current and new minimum wage (\$ '000)	Wage earnings increase (weekly, '000)	Increase in economy wide weekly wage earnings (% including wage earnings of self-employment)	Increase in GDP / inflation (% points)
1. \$12.50	87,400	2,028	25,351	25,351	0	0.00%	0.00
2. \$12.75	96,400	2,281	28,550	29,088	538	0.04%	0.02
3. \$13.10	151,300	3,821	48,494	50,049	1,553	0.10%	0.04
4. \$15.00	336,900	9,925	134,085	148,875	14,790	0.96%	0.42
5. \$16.75	524,800	16,412	235,736	274,899	39,164	2.55%	1.12

Source: New Zealand Income Survey June 2009, Statistics New Zealand and Department of Labour calculations.

87 In the case of option 3 (\$13.10 an hour) about 151,000 workers could be affected, if the adult minimum wage applies to all workers including 16 and 17 year old workers. The wage earnings would increase by \$1.6 million a week and it could increase the inflation rate by 0.04 percentage points<sup>42</sup>. Option 2 (\$12.75 an hour) has a smaller impact on the numbers affected, wage earnings and inflation. Options 4 (\$15.00) and 5 (\$16.75) will have relatively large impacts on wage earnings and inflation.

<sup>41</sup> 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 current 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. The values in column 1 - 3 are drawn from the New Zealand Income Survey June 2009 while column 4 is calculated by multiplying the hours worked (column 2) with the relevant new minimum wage option. Thus, at the minimum wage option of \$13.10, the weekly earnings of those workers between the new option and the existing minimum wage would be (\$13.10x 3,821,000 hours worked per week=\$50,049,000). Column 5 then shows the difference with the current earnings (shown in column 4). In column 6 this is expressed in terms of the economy-wide weekly wage earnings (for all people that receive income from wages and salaries, including those who are self-employed) and in column 7 in terms of GDP using the latest economy-wide share of wage earnings in GDP (43.8% in 2007/08).

<sup>42</sup> For example, from 2.00% (as is forecasted by the RBNZ for the year to March 2011, see <http://www.rbnz.govt.nz/monopol/statements/index.html>, select the "data" option) to a new inflation rate of 2.04%. Note that this inflationary impact model ignores any adjustments or adaption that may take place at the individual, firm or macro level such as worker layoff, cost-push effects or other macro price / exchange rate effects.

**Impact on industry sectors**

88 The impact of wage costs varies across sectors. To illustrate this table 7 shows the estimated number of workers that would be affected under option 3 (\$13.10) by sector.

**Table 7: Impact of 2010 adult minimum wage option \$13.10 an hour, by sector, all workers aged 16–64 years<sup>43</sup>**

Industry	Percentage of workers	Number of workers affected	Percentage of weekly hours	% of weekly earnings	Weekly earnings
Agriculture	9.6%	7,600	9.3%	6.5%	\$3,717,100
Manufacturing	5.5%	12,900	5.0%	2.7%	\$5,833,300
Construction	4.8%	5,800	4.5%	2.5%	\$2,828,100
Wholesale trade	3.7%	3,400	2.8%	1.4%	\$1,228,500
Retail trade	22.7%	49,300	17.0%	11.7%	\$14,479,700
Hospitality	32.7%	29,000	21.9%	16.5%	\$6,885,500
Transport and Storage	3.8%	2,800	3.3%	1.8%	\$1,226,100
Communication	5.4%	1,500	3.8%	1.9%	\$466,400
Finance	2.0%	1,300	1.4%	0.6%	\$428,400
Business services	5.0%	9,200	3.3%	1.5%	\$2,785,400
Education	5.0%	8,200	3.5%	1.8%	\$2,315,800
Health and community	5.8%	11,400	4.3%	2.3%	\$3,373,300
Sport and recreation	8.0%	2800	5.9%	3.0%	\$800,800
Personal services	7.0%	4900	5.7%	3.1%	\$1,694,000

Source: New Zealand Income Survey June 2009, Statistics New Zealand

89 Table 7 shows that hospitality is likely to be the most affected sector by an increase in the minimum wage to \$13.10, with around 32.7% of workers, followed by retail trade (22.7%) and agriculture (9.6%). While this analysis would differ for the other options considered, the Department is reasonably confident that the ranking of these sectors in terms of those most affected by a minimum wage increase is unlikely to change significantly.

90 Low paid workers are more likely to work in small businesses. According to Statistics New Zealand's Survey of Working Life 2008, employees earning less than \$12.50 an hour were more likely to be working for an enterprise employing fewer than ten staff

<sup>43</sup> The industry sectors Mining, Electricity, Gas and Water, Government and Not Classified have been excluded to protect confidentiality..

- compared with those in the higher hourly earnings categories, and compared with all employees.<sup>44</sup>
- 91 New Zealand research found that firms respond in a number of ways to minimum wage increases<sup>45</sup>. 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 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 a minimum wage increases (the retail and hospitality sectors) had more scope to raise prices, as they supply non-tradable products to the domestic market<sup>46</sup>.
- 92 Research has been undertaken into the patterns of firm-level teenage (16 to 19 years) employment between 1999 and 2007<sup>47</sup>. While teenage workers account for 7-8% of overall employment, they account for about twice that proportion in the four main teen employing industries: agriculture, forestry and fishing; construction; retail trade; and accommodation, cafes and restaurants. The research finds that the average effect of minimum wage increases for young workers on the typical firms' wage bills is likely to be small (0.5%) and about 1.5% for firms in the main teen-employing industries. However, for firms with teen-employment shares of at least 30%, the estimated impact on their wage bill may be around 4-5%.
- 93 Research from overseas suggests that increases to the minimum wage may have a small negative impact on profitability, but found no evidence of it increasing the probability of firm closure<sup>48</sup>.
- 94 NARGON states that many of its members have experienced a decline in sales and in some cases have been forced to reduce staff hours or make staff redundant. A minimum wage that undermines business viability serves, among other things, to reduce the ability of business owners to provide employment opportunities.
- 95 Contrary to this perspective the National Distribution Union argues that the retail sector has experienced enormous growth over the past 10 years but failed to share the economic gains with employees. 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.

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<sup>44</sup> Access to the Survey of Working Life data 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.

<sup>45</sup> 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.

<sup>46</sup> Ibid

<sup>47</sup> Hyslop, D., D. Maré, S. Stillman and J. Timmins (2008) *An Analysis of Teenage Employment by Firms 1999/00-2006-07*. Statistics New Zealand. Available at: <http://www.stats.govt.nz/leed/reports/default.htm>.

<sup>48</sup> 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](http://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](http://www.nber.org/papers/w13996).

## **Impact on the state sector**

- 96 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. It is likely that organisations will seek additional funding to compensate for higher wage costs. It is possible that following a minimum wage increase state sector employees may bargain with their employers to retain their relativities. This may also impact on costs to government.
- 97 In Table 7 government employees are included in the Education, Business services, Government and Health and Community Services sectors. However, these categories may also include private sector employees making it impossible based upon available information to isolate the impact on public 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.

### ***Ministry of Health***

- 98 The Ministry of Health has identified two areas which rely heavily on minimum wage workers and which will therefore be most affected by an increase in minimum wage rates. These are disability support workers and aged care workers. In addition, minimum wage rises are likely to indirectly affect the mental health support workforce.
- 99 While 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 staff. The estimated 4,000 workers in the community support workforce are employed by NGOs, many of whom are contracted by DHBs. If the NGOs could not absorb such a rise, this would, in turn, place pressure on the DHBs to provide the additional funding required. While this situation would have arisen in previous years due to increases in the minimum wage, this year NGOs may have less ability to absorb increases as many DHBs will constrain price increases to their NGO providers.
- 100 In the non-DHB health and disability sector, the Employment Court (the Court) has recently released a partial judgement that sleepovers performed by support workers in disability residential care facilities constitute 'work' for the purposes of the Minimum Wage Act 1983. Mitigating arguments around averaging of pay over a pay period are yet to be determined. A final judgement is pending from the Employment Court on this case.
- 101 Dependent on the decision, any rise in the minimum wage is likely to affect the cost of sleepovers. This will increase the level of financial risk to the sector (especially if the Court rules that payment for sleepovers must be backdated 6 years as allowed by the statute of limitations). Also, any rise in the minimum wage may add to the financial impact of providing sleepovers where residential care providers are paying at or near the minimum wage for ordinary hours of work dependent on the averaging decision.

### ***Ministry of Social Development***

- 102 The Ministry of Social Development (MSD) advises that an increase will have fiscal implications for the Community Max and Job Support Scheme initiatives as these programmes provide assistance based on the minimum wage of \$12.50 an hour.

### **Community Max**

- 103 Any increase in the minimum wage will have an impact on Community Max because the Community Max wage subsidy is paid at the adult minimum wage rate. Any increase in the minimum wage rate therefore means that the total cost of providing 3,000 places would increase.
- 104 However, at this stage MSD consider that there may be sufficient funding available within the appropriation (from funding allocated for training and supervision expenses) to allow the original 3,000 Community Max places to be provided even if the minimum wage increases to either \$12.75 or \$13.10. An increase to either \$15.00 or \$16.75 would either require additional funding to cover the cost of the 3,000 places or a reduction in the number of Community Max places.

### **Job Support Scheme**

- 105 While an increase in the minimum wage would have an impact on Job Support Scheme funding, there is sufficient funding available from the amount originally appropriated for the Job Support Scheme to cover any increased payments that may be required as a result of an increase in the minimum wage.

### **Ministry of Education**

- 106 The Ministry of Education estimates that an increase in the minimum wage is unlikely to have a fiscal impact on the approximately 51,000 teaching positions funded by Vote: Education and ECE Funding Rates. However, except for option 2 (\$12.75 an hour), an increase is likely to have a direct fiscal impact on funding the 27,000 non-teaching positions in state and integrated schools.

### **Accident Compensation Corporation**

- 107 Raising the minimum wage to \$12.75 or \$13.10, will have limited impact for ACC as its home carers and support providers tend to be paid around \$13.82 an hour. This allows clients to pay carers \$12.50 an hour and \$1.32 contributes to other employment entitlements such as annual holidays and sick leave. Any increase to the minimum wage will erode the contribution to other entitlements. Increases to \$15.00 or \$16.75 an hour will have a significant effect on the cost of these services.

### **Other fiscal impacts**

- 108 As well as impacting on wage costs, increasing the minimum wage will have other fiscal impacts. It is difficult, however, to assess the net effect of these impacts. Social assistance costs through benefit payments may rise, if a rise in minimum wage increases unemployment. Higher incomes lead to the abatement of social assistance and can increase the amount of income tax received.

### **Impact on productivity**

- 109 The latest official productivity statistics for the measured sector<sup>49</sup> show strong labour productivity growth of 2.0% in the year to March 2008. However, economy-wide labour

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<sup>49</sup> The official productivity statistics from Statistics New Zealand cover the measured sector of the economy, which includes around 73% of GDP and excludes the hard-to-measure industries such as education and health.

productivity growth (output per hour worked) has fallen by 1.0% in the year to June 2009, reflecting the downturn in the wider economy. As the economy recovers over the next two years, labour productivity growth is likely to rise.

- 110 There is little existing empirical evidence on the impact of minimum wages on productivity. The OECD Employment Outlook for 2007 found that minimum wages were estimated to have a positive impact on labour productivity<sup>50</sup>. If minimum wage increases encourage better workplace practices, including increased training or investment in technical innovations, it can lead to productivity improvements. Alternatively, if minimum wage increases lead to the substitution of skilled for unskilled workers or lead to a decrease in employment, then measured labour productivity can also increase, although this may not be considered a desirable outcome. The OECD research could not separate the two impacts. There may also be longer-term negative impacts on labour productivity emanating from increases in the minimum wage if it encourages young workers to work more and study less<sup>51</sup>.
- 111 In Australia and the United Kingdom, research has found little impact, adverse or otherwise, of the minimum wage on either labour productivity or total factor productivity in the economy as a whole or in the low-paying sectors in particular<sup>52</sup>.

## **OTHER CONSIDERATIONS**

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

- 112 Table 8 shows the options assessed against the principles of fairness, protection, income distribution and work incentives. An explanation of these principles and the benchmarks used to assess them is in [appendix 1](#).

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<sup>50</sup> OECD (2007) *OECD Employment Outlook 2007*. Available at:

[http://www.oecd.org/document/0/0,3343,en\\_2649\\_33927\\_40774656\\_1\\_1\\_1\\_37457,00.html](http://www.oecd.org/document/0/0,3343,en_2649_33927_40774656_1_1_1_37457,00.html).

<sup>51</sup> Hyslop, D. and S. Stillman (2004) *Youth Minimum Wage Reform and the Labour Market* New Zealand Treasury Working Paper 04/03, Wellington, the Treasury. Available online at <http://www.treasury.govt.nz/workingpapers/2004/04-03.asp>. This research found a statistically significant fall in the fraction of 16 and 17 year olds studying of about 3-4 percent in each year after the minimum wage increases and a generally smaller drop in study rates for 18 and 19 year olds of 1-2 percent, which were statistically significant in 2001 and 2002. Pacheco, G. and A. Cruickshank (2007) *Minimum Wage Effects on Educational Enrolments in New Zealand*. Economics of Education Review, also find a statistically significant negative effect on enrolment levels for 16 to 19 year olds over 1986-2004.

<sup>52</sup> *National Minimum Wage*, Low Pay Commission Report 2009

**Table 8: Options assessed against the principles of fairness, protection, income distribution and work incentives**

<b>Option</b>	<b>Assessment against the principles</b>
Option 1: \$12.50 an hour	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 a reduction in the difference between the minimum wage rate and benefit levels (which are adjusted annually in line with the Consumers Price Index).
Option 2: \$12.75 an hour	This option will maintain current levels of fairness and existing work incentives as it will increase by a similar percentage as benefits. It may erode existing levels of income distribution and protection as the movement is lower than the increase in average wages and the average minimum wages in collective agreements.
Option 3: \$13.10 an hour	This option maintains 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 similar to movements in average minimum wages in collective agreements so it is likely to maintain current protections.
Option 4: \$15.00 an hour	This option will strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is higher than the benchmarks used.
Option 5: \$16.75 an hour	This option will very strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is significantly higher than the benchmarks used.

### Comparison with international benchmarks

- 113 Internationally, minimum wage levels vary greatly. In many countries, despite the economic crisis, minimum wages have continued to increase, either as the result of long-term adjustment plans or reviews of their domestic economic and labour market situations<sup>53</sup>.
- 114 There are a number of factors that might contribute towards cross-country differences in minimum wage levels. The Department considers that 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.

<sup>53</sup> ILO, *Global Wage Report*, 2009.

115 The current Australian federal minimum wage is AU\$14.31 (which equates to NZ\$18.28 on 30 November 2009<sup>54</sup>). The ratio of the minimum wage to median full-time wages is 54.4% for Australia<sup>55</sup> and 64.0% for New Zealand<sup>56</sup>. There was no increase in the Australian federal minimum wage following their 2009 review.

***Submitters' views on minimum wage levels compared with international benchmarks***

116 Submitters expressed a variety of opinions on the appropriate level and setting for the minimum wage in relation to other countries' minimum wages. The New Zealand Nurses Organisation submitted 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 for Jobs commented that continued minimum wage protection was necessary to avoid increasing wage disparities between Australia and New Zealand. Federated Farmers considers that large increases in the minimum wage will work against the Government's goal of closing the income gap with Australia.

**Changes in the minimum wage compared against the CPI and PPI**

117 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 has been increasing at a faster rate than those benchmarks shown.

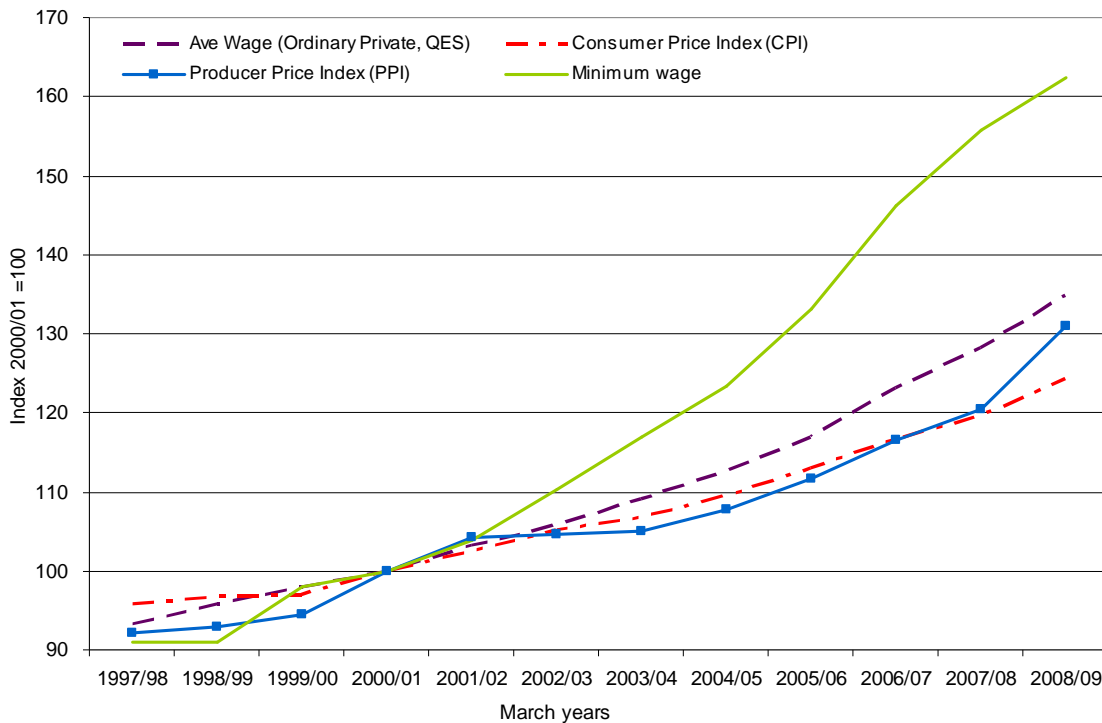
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<sup>54</sup> Based on an exchange rate of 0.7826 from New Zealand Reserve Bank.

<sup>55</sup> Source: Employee Earnings, Benefits and Trade Union Membership, Australia, Aug 2008, using median full-time weekly earnings. Calculation is based on a 38 hour week for the minimum wage.

<sup>56</sup> Using the New Zealand Income Survey, June 2009

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



### Impact on the rate of non-compliance

- 118 It is possible that increasing the minimum wage may increase non-compliance with the minimum wage.
- 119 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 with below minimum wages increased from around 5% in 1999 to 16% in 2004, 18 and 19 year olds experienced an increase in reported below minimum wage workers of over 20 percentage points between 2000 and 2006, and by 4 and 2 percentage points, between 2004 and 2006, for 20 to 24 year olds and 25 to 64 year olds respectively. The Department was directed in last year's minimum wage review to undertake further work to analyse the reasons for an increase in the reporting of below minimum wage rates.
- 120 The Department notes that if a proposed increase in the minimum wage is expected to impact a relatively large number of workers, then there is typically an increase in the share of workers reporting below minimum wages following the increase.
- 121 Between 1999 and 2009 raising the minimum wage had a relatively large impact on the workforce, compared with previous years. The first period was the youth minimum wage reforms in 2001 and 2002, which impacted 16 to 19 year olds only, and the second period was the minimum wage increases in 2003 and 2006.
- 122 There is evidence that following an unusually large minimum wage increase the proportion of individuals that report below minimum wages falls, even if the impact of raising the minimum wage in the following year remains at a similar level. For example, for 16 and 17 year olds the proportion of workers impacted by minimum wage changes

increased from 8% percent to 30% between 2000 and 2004 and the share reporting below the minimum rose from 3% to 16%. However, between 2004 and 2007 the impacted share remained at around 30% of workers, but the proportion reporting below minimum wages declined by nearly half from 16% to 9%.

- 123 It is not possible to identify (using existing data sources) whether an increase in the share of workers reporting below minimum wage is caused by an increase in exemptions, measurement error or non-compliance. The Department considers that growth in the proportion of those workers reporting below minimum wage appears to be short-lived and related to where a minimum wage increase impacts a relatively large share of the workforce.
- 124 The Department will continue monitoring of the proportion of below minimum wage workers to ensure that any growth in below minimum wage workers is not persistent.

## **ASSESSMENT CRITERION 2: OTHER INCOME AND EMPLOYMENT-RELATED INTERVENTIONS**

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

### **Interface with other government interventions**

- 127 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.

#### ***Labour market policies***

- 128 The Redundancy and Employment Transitions Advisory Group (RETAG) formerly known as the 'Security in Change Steering Group' is a forum established to provide government agencies with an avenue to consult with business and union groups in raising issues of concern or interest, initiate specific actions and / or develop and progress joint initiatives in relation to redundancy.
- 129 In 2008, the ReStart package was introduced, which provides assistance to eligible full-time workers who are made redundant through financial assistance and job-search assistance.
- 130 Active labour market policies that assist the transition between jobs reduce the negative impacts of unemployment on people, including loss of income, negative psychological effects and the potential loss of skills created by long periods of unemployment. While they may not directly increase peoples' incomes, they can assist people to up-skill through the promotion of lifelong learning and training, which may lead to higher paid employment.

#### ***Taxation***

- 131 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 do individuals with higher incomes. The recent reduction in the lowest rate of

income tax to 12.50 cents in the dollar for incomes up to \$14,000 particularly targets earners in part-time work and those earning around the minimum wage.

- 132 There are a range of tax credits for families to help them meet the costs of raising a family, or ensure that families in work are better off than comparable families receiving a social security benefit. Individuals who do not qualify for the Working for Families tax credits, New Zealand Superannuation, or an income-tested benefit may qualify for the independent earner tax credit if their earnings are in the relevant range. The independent earner tax credit is \$10 a week (\$520 a year) for individuals earning between \$24,000 and \$44,000 a year. The credit abates at 13 cents in the dollar for income from \$44,001.

### ***Education and training***

- 133 The Youth Guarantee programme by the Ministry of Education will deliver a range of free alternative education pathways for 16 and 17 year old students to attain level one to level three qualifications in other educational environments. The Ministry is working with schools, training and tertiary providers, business and industry, to ensure that young people can study towards worthwhile qualifications in a range of educational settings.
- 134 The Government is also committed to establishing at least five Trades Academies in the next three years, specialising in providing students with learning opportunities that are relevant to careers in trades or industry. The aim is to have every student under the age of 18 in work, education or training and to have a productive labour market underpinned by skilled workers.

### ***Comment***

- 135 The Department recognises that these interventions and initiatives play an important role in supporting all 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.

## **SUMMARY**

- 136 The Department recommends taking a cautious approach this year when considering potential changes to minimum wage rates for 2010.
- 137 The merits of an increase depend on balancing the benefits of preserving low paid workers incomes against potential costs from employment impacts arising from an increase. 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 \$12.50 an hour** will erode the real value of the minimum wage. It is likely that there would be no impact on employment growth, national weekly wage earnings or inflation
  - **option 2 of \$12.75 an hour** could preserve the minimum wage's real value and maintain relativity with benefit payments. It will maintain existing work incentives, but it may erode existing levels of income distribution and protection as the movement is lower than the increase in average wages and the average minimum wages in collective agreements. This option could directly affect up to 96,400

workers; it is likely that it would not constrain employment growth. The national weekly wage earnings could increase by 0.04% and it could increase inflation by 0.02 percentage points

- **option 3 of \$13.10 an hour** could maintain existing levels of fairness and income distribution and may increase or maintain work incentives, as it is likely to have a higher percentage increase than benefits. The size of the increase is similar to movements in average minimum wages in collective agreements so it is likely to maintain current protections. This option could directly affect up to 151,300 workers. It may constrain employment growth by between 400 and 900 jobs (0.02% to 0.04%). The national weekly wage earnings could increase by 0.10% and it could increase inflation by 0.04 percentage points
- **option 4 of \$15.00 an hour** will increase the real value of the minimum wage and its relativity with other income benchmarks. It will strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is higher than the benchmarks used. It could directly affect up to 336,900 workers and it may constrain employment growth by between 5,400 and 8,100 jobs (0.3% to 0.4%). The national weekly wage earnings could increase by 0.96% and inflation could increase by 0.42 percentage points, and
- **option 5 of \$16.75 an hour** will significantly increase the real value of the minimum wage and will very strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is significantly higher than the benchmarks used. This could affect up to 524,800 workers. Employment growth may be constrained by between 10,100 and 14,800 jobs (0.5% to 0.7%). The national weekly wage earnings could increase by 2.55% and inflation could increase by 1.12 percentage points.

138 The Department considers that labour market conditions are robust enough to support an increase in the minimum wage to \$12.75 or \$13.10 an hour.

## **APPENDICES:**

- Appendix 1: Cabinet approved objective and assessment criteria of the minimum wage and an explanation of the principles
- Appendix 2: Recent changes to the minimum wage
- Appendix 3: Summary of submissions

## **APPENDIX 1: CABINET APPROVED OBJECTIVE AND ASSESSMENT CRITERIA**

### **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**

- 1 — “the extent to which any change to the minimum wage would produce gains that are more significant than any losses”.
- 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 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:
  - i. 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
  - ii. the net effects after corresponding withdrawal of social assistance
  - iii. 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:
  - i. earnings and the wage bill
  - ii. employment and unemployment
  - iii. labour productivity
  - iv. the number of employees and the hours they work
  - v. industry sectors
  - vi. Gross Domestic Product and inflation
- f. potential impacts on the rate of non-compliance

## **Explanation of the principles**

### ***Fairness***

- 1 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, CPI.

### ***Protection***

- 2 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 strike 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***

- 3 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 64.2 per cent of median total hourly earnings. (using the Quarterly Employment Survey). Benchmarks: changes in average and median wages.

### ***Work incentives***

- 4 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

- 1 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 10: 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 wage rates increased by 6.3%, higher than average wage increase of 2.7% from the year 20002. 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 wage rates 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 wage rates 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 wage rates 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 rate increased by 6.7%, higher than the average wage increase of 5.2%.	\$12.00 6.7% 50.0%		\$9.60
2009	Adult minimum wage rate increased by 4.2%, lower than the average wage increase of 5.3%.	\$12.50 4.2% 50.0%		\$10.00 4.2%

### 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**

- 1 Submissions were received from the following organisations: Business New Zealand, Federated Farmers of New Zealand, New Zealand Chambers of Commerce, Hospitality Association of New Zealand, New Zealand Retailers Association, 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 Pacific representative, Piki te Ora ki Te Awakairangi PHO, Unite Union, Mayors' Taskforce for Jobs and National Advisory Council on the Employment of Women.
- 2 Officials met with representatives from Business New Zealand, New Zealand Council of Trade Unions, New Zealand Chambers of Commerce, Small Business Advisory Group, New Zealand Hospitality Association and New Zealand Retailers Association to discuss their submissions.
- 3 The main points made in each submission are outlined in the table below.

### **Employer representative groups**

#### ***Business New Zealand***

- No change to the current adult or new entrants' minimum wages until the adult minimum wage falls below 25% of the average national wage.
  - The youth minimum wage (16-18 years) should be reinstated as a permanent separate rate set at 80% of the adult minimum wage and applied until the earlier of the employee:
    - reaching age 18, or
    - completing a trial period, or
    - completing 90 days of employment, or
    - being appointed to a role requiring supervision of others.
  - The extremely short period that any under 18 year old will be paid the new entrants' minimum wage has had apparent effect of encouraging employers to concentrate their recruitment on those who have already gained at least some experience of the workplace. From a policy alignment perspective, the new entrants' minimum wage should be aligned with the trial periods as the arguments for a trial period are largely the same as those for having a new entrants' minimum wage.
  - Given the fact that an estimated third of New Zealand wage and salary earners have their wages set either directly by or in direct relativity to the minimum wage, the Government creates unintended wage pressures in the New Zealand labour market by increasing minimum wages, with little regard for the practicalities of that market, particularly in recessionary times.
  - Movements in the minimum wage are increasingly and directly responsible for reductions in staffing or other service costs.
- 4 Business New Zealand included their submission for 2008 Minimum Wage Review as they considered the points made are still relevant. They include:

- The minimum wage has encroached a long way into the freedom of employers to set wages. The minimum wage is at a level where it figures significantly in the setting of minimum rates for many jobs, particularly those covered by collective bargaining.
- The sectors most likely to be affected by increases in the minimum wage (manufacturing; accommodation, cafes and restaurants; retail trade; and construction) are also most likely to suffer a more sustained period of downturn compared with other sectors of the economy. The slowing economy is likely to exacerbate existing pressure to cut the least productive jobs, affecting particularly those who are young or unskilled.
- Continued increases in the minimum wage are inconsistent with the government's priority on raising productivity and growth. Minimum wage increases do not improve productivity performance. Instead, the government should concentrate on providing employment opportunities and training schemes to enhance people's productive capacity.
- A decrease in tax rates is a more viable alternative to increase workers' net income without affecting overall costs to employers and therefore employment opportunities. It also means that the relativity of those earning slightly more than the minimum wage is kept as they also experience an increase. Tax cuts would also have a positive impact on savings rates and debt reduction.

#### ***Federated Farmers of New Zealand***

- The current rate for the minimum wage should be held constant for the coming year. An increase in the minimum wage would hamper employment and damage our chances of an economic recovery.
- Large increases in the minimum wage will damage our economy and hinder productivity growth and work against the Government's goal of closing the income gap with Australia.
- Increasing the minimum wage is simply not affordable for farm businesses, as many will be making losses this season.
- The ability of businesses to pay higher wages is determined by worker productivity. New Zealand has recently seen a marked decline in its productivity performance and increasing the minimum wage would exacerbate this and threaten GDP and wage growth in the long term.
- The minimum wage has already increased substantially since 1999. There is little social need for further increases in the minimum wage as a result of substantial increases in government transfer payments through *Working for Families* and more recently through the *Independent Earner Tax Credit*.
- The Government should undertake a study on the impact of the training minimum wage as it is unclear whether the introduction of the training minimum wage is acting as a disincentive for employers to offer training to young, inexperienced and unskilled people.
- The Minister of Labour review the limitations on the amount an employer may deduct from an employee's wages for board or lodging as the vast majority of farm workers do have a choice whether or not to live on the farm due to the improved transport situation. Employers are also required to deduct board or lodging at something close to 'market rates' by Inland Revenue.

### ***New Zealand Retailers Association***

- The present adult minimum wage should be maintained with no increase.
- New Zealand is facing the most severe business downturn. Unemployment rates continue to increase and the impact of the crisis on the employment of Māori, Pacific Islanders, school leavers and students is most severe.
- Employers in the retail industry have been progressively reducing the hours that their employees are needed to work in an effort to match the reduction in business activity. A significant number of small businesses have to make staff redundant just to maintain a positive cash flow.
- Retail employers are unable to afford wage increases except for a few significant senior employees to retain their skills and experience. Wages for junior employees are most unlikely to rise this year.

### ***Hospitality Association of New Zealand (HANZ)***

- Current minimum wage rates should be unchanged for the coming year, and a review of the role and effect of the minimum wage should be undertaken in light of the significant movements over the past nine years.
- If further assistance is needed in support of the Government's employment and income objectives, targeted assistance and increased access to training opportunities and incentives should be investigated.
- The Government should focus on increased access to employment opportunities to achieve higher productivity and increased real earnings over time.
- Increases in minimum wage rates above the market wage level have a negative effect on employment, especially for young and less skilled workers employed in competitive industries that are significantly influenced by minimum wage rates at the microeconomic level. The general economic situation of the last 12-18 months has shown that increases in labour costs are not sustainable during recessionary periods and have led to a significant increase in closures, downsizing and job losses throughout the sector.
- The majority of HANZ's members are directly affected by the level of the minimum wage as it sets the benchmark or 'market wage' for many positions in the hospitality sector.
- Increases in minimum wage rates would lead to increased costs to the industry. This would reduce the profitability of businesses and employment levels in the industry.
- Continued increases in minimum wage rates may signal to younger people that further education and training is not warranted with the consequence that many young people become trapped in low skilled and low paying jobs over time. Also this may deter many employers from offering training opportunities to young people.
- Lower tax rates and targeted social assistance may have advantages over increases in minimum wage rates as they do not cause direct cost to employers and the increases in disposable income could increase employment.
- Increases in minimum wage rates can place additional obstacles in the path of particular demographic groups particularly those who are young and unskilled or in

lower socio-economic groups of which Māori and Pacific peoples often comprise disproportionately to other groups.

- A rise in minimum wage rates could compromise the opportunities available through the 'Straight to Work' programme.

***New Zealand Chambers of Commerce Incorporated***

- The minimum wage should be maintained at its current level for 2010.
- Raising the minimum wage is not the way to achieve a high wage economy. Policies that focus on increasing productivity, improving skills and enhancing the business environment are far more effective ways to raise the overall level of wages in New Zealand.
- Demand for labour will be reduced where a government-imposed minimum wage exceeds the value of a person's labour.
- A minimum wage serves a purpose in protecting vulnerable workers. However, if it is set too high the minimum wage also imposes costs on businesses (which will either impact on profitability or be passed on to customers) and hinder employment growth.
- Recent increases to the minimum wage have almost certainly contributed to rising unemployment. New Zealand business generally cannot afford wage rises imposed upon them by way of increasing minimum wage in the current economic climate.
- Given unemployment continues increasing and the economic recovery is fragile, an increase in the minimum wage rates would generate more negative than positive effects as a result of general wage rise from both the minimum wage and passing on pay rises to maintain relativity.
- Lower rates for new entrants are positive, as they provide an incentive for employers to give young people a "foot in the door" – increasing opportunities for them to gain work experience. If the minimum wage continues rising, employers will be more reluctant to employ young and less experienced and skilled workers.

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

- There should be no increase in the minimum wage rates; instead there should be an increased focus on training for young people.
- Further increases in the minimum wage rate would have an adverse effect on the labour market by further reducing jobs and therefore employment opportunities.
- Of those young people who do receive the minimum wage, many are 'after-school' workers, not reliant on the minimum wage as a long-term source of income. Frequently such employees have no intention of staying in the retail grocery industry but nonetheless are gaining valuable skills and work experience.
- Continued increases in the minimum wage rate could send a signal to some younger people that further formal education and training is not warranted.
- A further minimum wage increase would see many of NARGON's members thinking seriously not only about employing unskilled labour, but also about the number of staff they can afford to employ.

- Any minimum wage increase has flow-on effects in terms of increased costs of goods and services.
- Minimum wage rate increases are sustainable only if based on corresponding increases in productivity.
- Many of NARGON's members have experienced a decline in sales and in some cases have been forced to reduce staff hours or make staff redundant. A minimum wage that undermines business viability serves, among other things, to reduce the ability of business owners to provide employment opportunities.

***Small Business Advisory Group (SBAG)***

- When considering any increase to the minimum wage the Government should take account of the current economic environment: a high tax regime compared to Australia and an economic downturn which is not over yet. Employers have recently had to cope with increased costs and as a result of the economic downturn, have taken some major hits. These are uncertain and difficult times for many SMEs.
- A higher minimum wage could cause increased hardship to employers and contribute to more SMEs failing altogether.
- One member commented that she would support an increase in the minimum wage only if the youth minimum wage was restored so that school leavers could still be employed on a rate that reflected their net contribution to the company, which can be very low while they are acquiring initial work and life skills. The current new entrants' minimum wage is too hard to administer. The complexity of compliance means most SMEs simply do not use the existing introductory wage rate option.
- SBAG is not opposed to higher wages. Indeed it recognises that higher wages would bring closer relativity with Australia and make it easier to retain employees in New Zealand. They emphasise the principle that wage increases need to be driven by growth and increased productivity.
- The Group noted that the relativity between skilled and unskilled workers had decreased. Some members felt that wages should go up with experience and qualifications.

## **Employee representative groups**

### ***New Zealand Council of Trade Unions (NZCTU)***

- 5 The NZCTU made the following recommendations:
- Increase the minimum wage based on indexation to 66% of the average wage. At the present time this equates to \$16.87<sup>57</sup>.
  - Remove the new entrants' minimum wage so that the minimum wage applies fully to those aged 16 years and over.
  - An ongoing dialogue regarding the minimum wage for children aged under 16 years. They support the review of the employment of children and additional protective mechanisms for children and young people in work, including the ratification of ILO Convention 138. They propose that the minimum wage should apply regardless of age in some sectors and occupational categories.
  - Either to remove the training minimum wage or to introduce a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. The Department of Labour undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.
  - They supported the Minimum Wage and Remuneration Amendment Bill and its underlying principle that no one should earn less than a socially-acceptable minimum for their labour. They believe it addressed a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. According to the ILO, "The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period in time and its ability to meet the different needs of all parties concerned".<sup>58</sup> The NZCTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective at extending protection to non-standard working arrangements like contracting.
  - There should be a government agency charged with gathering more information about low pay in New Zealand. This should collect and publish information on ethnic, migrant and gender aspects of low pay.
  - Responsible contractor policies represent an important tool in addressing low wages.
  - More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.
  - The Employment Relations Act 2000 needs to be significantly amended to genuinely promote industry and multi-employer collective bargaining.

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<sup>57</sup> This is based on the average ordinary time wage of \$25.06 an hour in the June 2009 Quarterly Employment Survey. This is then increased by 2% to allow for wage increases, and 66.0% calculated from this figure.

<sup>58</sup> International Labour Organisation, "Minimum Wage Fixing: A Summary of Selected Issues", Briefing Note No. 14, 1998

6 Other points made by the NZCTU include:

- The NZCTU acknowledge that several important steps have been taken in the area of minimum wages since December 1999. They encourage the Government to continue to build on this excellent progress.
- Low wages are more than a social issue or debate about the balance of competing interests. Low wages are a barrier to economic transformation as they discourage investment in capital and skills and increase worker turnover.
- Indexing minimum wages to average wages will avoid widening income disparity and allow low paid workers to share in the benefits of productivity increases.
- It is important to maintain wage relativity with Australia. The Australian Federal Minimum Wage is 39% higher than our current minimum wage.
- New Zealand has low wages relative to other developed economies (such as Australia, Canada, the United Kingdom and the United States), despite low unemployment and reported skill shortages. While wages will not simply increase through annual minimum wage reviews, it does play a symbolic role and have flow on effects.
- Raising the minimum wage does not increase unemployment. The minimum wage has increased 79% since 1999 and it has not been a disincentive for employers to take on new staff.
- While many overseas studies find a 10% increase in the minimum wage would result in a 3% increase in unemployment, in New Zealand, a 41% increase in the minimum wage has coincided with a 10-15% increase in hours worked. Any analysis in a New Zealand context needs to draw on more recent analysis of the behaviour of the labour market. It has shown that it is unlikely an increase in the minimum wage would have an impact on employment.
- Social policies to assist labour market participation are undermined if low minimum wages discourage participation in the labour force.
- Minimum wages are able to play a role in reducing the gender pay gap, enabling social inclusion and improving the pay gap for Māori and Pacific Island workers who are over represented in low pay sectors and part-time jobs.
- The minimum wage will not decrease enrolment in education. Many people on the minimum wage are studying so having higher minimum wages may mean that they could work fewer hours and spend more time studying.
- The minimum wage has an increasingly important role in providing an employer incentive to increase labour productivity, improve skills in the workforce and improve the ratio of capital to labour to increase overall productivity.

***National Distribution Union (NDU)***

- The NDU recommend increasing the minimum wage to \$16.87 an hour. A minimum wage set at two-thirds of the average wage would bring it into line with

recommendations made in 1973 by the Royal Commission into Social Security, the International Labour Organisation (ILO) and the European Social Standard<sup>59</sup>.

- The NDU supports the submission by NZCTU.
- The NDU notes that it is Government policy to take measures to close the wage gap with Australia. A significant increase in the minimum wage is a real step towards the transition of New Zealand from a low wage economy to a high income, more productive society.
- The NDU strongly supports the NZCTU's position seeking the immediate removal of the new entrants' minimum wage. A minimum wage should apply irrespective of age, including those under 16 years of age.
- In many cases the market is failing to pay people what they are worth. The NDU would like to see additional legislative and structural mechanisms to address these issues. A substantial increase in the minimum wage is the most immediate means available.
- A substantial 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.
- For the last two years, around 10% of the jobs covered by NDU were affected by the minimum wage increase. As a large number of jobs hover just above the legal minimum wage, a significant increase in the minimum wage will affect a large proportion of NDU members.
- The NDU gave examples to demonstrate the importance of clarity and effective enforcement of the minimum wage.
- The retail sector has experienced enormous growth over the past 10 years. Substantial increases in retail wages are long overdue.
- Many minimum wage households are struggling to cope with the significant increases in food and living costs over the past year. The recent announced changes to the ACC Scheme, particularly the increases in earner levies, will have a disproportionate effect on those on low incomes.
- An increase in the minimum wage to two-thirds of the average wage is justified as it contributes to the principles of fairness, protection, income distribution and reducing the gender pay gap.

### ***New Zealand Nurses Organisation (NZNO)***

- The NZNO recommend increasing the minimum wage to \$16.87 an hour. They fully support the submission of the NZCTU.
- With particular reference to the health sector, the NZNO believes that the current minimum wage is inadequate because it is:

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<sup>59</sup> The Department has been unsuccessful in locating this reference. However, the NZCTU have calculated that in 1973 the minimum wage was 66% of average ordinary time earnings. This followed a significant increase in the weekly minimum wage from \$27 to \$45.

- affecting the safety and quality of care in aged and residential care, where the minimum wage is standard for most health care assistants
  - entrenching current disparities in health, as a disproportionate number of Māori, Pacific and migrant workers earn the minimum wage
  - 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, and
  - 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.
- The minimum wage is the only factor protecting workers from gross underpayment in the health sector, and protecting New Zealand's labour market from further disparity with comparable OECD countries, particularly Australia.
  - NZNO advocates raising the minimum wage as the single most effective way in which the government could alleviate poverty and boost productivity; mitigate the risks of dependency on transitory migrant labour in the health sector; and ensure the skilled workforce necessary to sustain a modern developed economy.

#### ***Service and Food Workers Union (SFWU)***

- The SFWU supports increasing the minimum wage to \$16.87 an hour and the submission made by the NZCTU.
- Some of the collective agreements negotiated by the SFWU have pay rates only marginally above the minimum wage and will be directly affected by any increase. Many employers/contractors will only move the pay rates if the Government moves the statutory minimum wage.
- Low pay is connected to low unionisation. Amendments to the Employment Relations Act need to be made to address the issue of extremely low collective bargaining coverage.
- Many members in the service sector are working two or even three jobs to earn enough to support themselves and their families. Anecdotal evidence showed the increase of their pay rates enables them to reduce long working hours. There is increasing evidence of the link between low pay, long hours of work and ill health.
- The SFWU's members do not see any negative increase from a movement in the minimum wage. Studies in the United Kingdom show that employment growth had been stronger than average among those groups and sectors most affected by the introduction of the national minimum wage. This may be because those workers spend all of the extra income on food items and other items of consumption, which in turn impacts directly on workers in the retail industry.
- The minimum wage is a critical mechanism in improving the pay gap for Māori and Pacific Island workers as they are over-represented in low pay sectors of the economy. They are often the first to feel the effects of restructuring, reduced hours of work and layoffs. The previous increase has improved the position of Māori and Pacific women but they still earn only 74 cents and 72 cents respectively of each dollar that a Pakeha male earns. Lifting the minimum wage is an effective way of further closing this gap.

- The removal of youth minimum wage and the introduction of the new entrants' minimum wage had no significant impact on their members as there is no widespread use of them.
- Responsible contractor policies represent an important tool in addressing low wages.
- More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

### ***Unite Union***

- Unite recommends that the Government move the adult minimum wage to \$15 an hour immediately and then peg it to two-thirds of the average total hourly earnings over the next two and a half years. Unite fully endorse the submission made by the NZCTU.
- Unite recommends abolishing the new entrants' minimum wage. The removal of the youth minimum wage has had no adverse effects on employment of young people and they have no agreements with the new entrants' minimum wage. Only smaller employers where young workers are particularly vulnerable continue to use the new entrants' minimum wage.
- With the very low union density in the private sector the Government has the responsibility to set minimum rates of pay for the most vulnerable of workers – young, Māori, Pacific and new migrant workers who are employed on these low pay rates.
- Lifting the minimum wage means workers are not played off against each other. By shifting all wages together the Government would prevent companies competing on how low they can keep their workers' remuneration.
- There has been a decline in real wages from 1982 to 2009.
- Unite give 10 reasons for increasing the minimum wage to \$15.00 an hour, based on issues such as the large number of workers on low wages, fairness, relativity with Australia and benefits and support from political parties.

### **Other organisations**

#### ***Mayors Taskforce for Jobs***

- Lifting minimum wages, in line with ensuring protection and encouraging good employment practices overall, will help address issues such as retention of young people, effective transitions and greater investment in industry training.
- Annual reviews of the minimum wage should be continued to provide an opportunity to review wage rates and poverty levels on an on-going basis and inform the policy development process.
- Despite the current recession business continues to report labour and skill shortages, in some sectors, particularly in the trades.
- Maintaining wage levels will help to attract young people who are currently studying to achieve higher qualifications into businesses in the future.
- 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. Continued reviewing and lifting of the minimum wage could

contribute to an environment where there is a greater investment in skill training leading to increases in productivity.

- Continued minimum wage protection is necessary to encourage investment in skill development and to avoid increasing disparity in wage levels between Australia and New Zealand.
- There is a positive relationship between protective mechanisms such as the minimum wage and reducing the gender pay gap.
- Minimum wage levels will continue to have an impact on the apprenticeship strategy as increasing wages on the completion of qualifications is crucial to its on-going success.
- There is no evidence that rising wages has resulted in young people leaving school early.
- An increase in the number of working families seeking assistance, particularly with food, transport and power bills, suggests that wages are insufficient to meet the needs of these families and points to the need to lift the minimum wage.
- The minimum wage offers some protection in areas with high use of migrant and seasonal labour. High proportion of low-paid population has a depressive effect on the business sector, social agencies and the general well-being of the community.

***National Advisory Council on the Employment of Women (NACEW)***

- The majority of NACEW 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.
- Women are highly represented among 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.
- NACEW continue to be concerned about the gender pay gap. There is evidence to suggest that there is a positive (though modest) relationship between protective mechanisms such as the minimum wage and reducing the gender pay gap.
- Increasing the minimum wage will contribute to a fairer distribution of income in society both by gender and ethnicity, as Māori and Pacific women are over-represented among low paid workers. The Government will also benefit from this increase as there may be less need for welfare benefits and an increase in tax revenue from income and spending.
- Other strategies that need to be used alongside minimum wage policy to effectively address low pay issues include the value of work, occupational segregation, the equal sharing of paid and unpaid work between men and women and learning and training throughout a lifetime.

***Piki te Ora ki Te Awakairangi Primary Health Organisation (Piki te Ora)***

- Piki te Ora support a big increase to the minimum wage up to a level of at least \$15.00 an hour. However, they recognise that even a moderate increase would have a major impact on their members and their families. Piki te Ora only see positives from increasing the minimum wage.

- Piki te Ora represent a population that is predominantly at the bottom end of the labour market, including Māori, Pacific, beneficiaries, refugees and other low-income people. A big proportion of their population are either on or near to the minimum wage and are directly affected by any increases to this wage.
- Increases in the minimum wage in the last five years have eased the pressure on these families, but there is still a long way to go.
- Many of their members in the service sector currently work two or even three jobs to earn enough to support themselves and their families. These long hours have a profound effect on their own health, their ability to spend more time with their families and their ability to perform their own jobs towards the standard that is expected by their employers and the public generally. While they often recommend their patients reduce their working hours to something more realistic, the financial pressures to support their families is too much for them to choose a healthier option.
- There is increasing medical evidence of the link between low pay and ill health and any increase in the minimum wage is heading in the right direction.
- The removal of the youth minimum wage has meant greater family income because many of the teenage children work part-time jobs. There does not seem to have been much uptake of the new entrants' minimum wage by employers.
- Māori and Pacific Island workers are over-represented in low pay sectors and amongst part-time workers. They are often employed in areas that feel the first effects of restructuring, reduced hours of work and layoffs. Low pay results in lower life time earnings and reduced economic security.