



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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REGULATORY IMPACT STATEMENT FOR MINIMUM WAGE REVIEW 2013

TABLE OF CONTENTS

AGENCY DISCLOSURE STATEMENT	3
STATUS QUO AND PROBLEM DEFINITION.....	5
The current minimum wage rates	5
Key findings from the Minimum Wage Review 2013.....	5
Current economic growth and labour market conditions.....	8
Problems associated with the status quo	10
OBJECTIVE OF THE MINIMUM WAGE REVIEW	11
REGULATORY IMPACT ANALYSIS	11
Options developed for the review.....	11
Impact on wages and inflation	12
Impacts on employment.....	12
Impacts on minimum wage workers	13
Impact on industries	18
Impact on the state sector	19
Interface of the minimum wage policy with other government interventions	17
CONSULTATION	20
Feedback from submitters.....	20
Agency comments	21
CONCLUSIONS AND RECOMMENDATIONS.....	24
Summary of the assessment.....	24
Recommendation from the Ministry.....	25
IMPLEMENTATION	26
MONITORING, EVALUATION AND REVIEW	26

AGENCY DISCLOSURE STATEMENT

1. This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (the Ministry). It provides an analysis of options for the minimum wage for the Minister of Labour's annual minimum wage review in 2013.
2. In accordance with the Cabinet minute (CAB Min (12) 41/58 refers), the 2013 review has been undertaken following a streamlined approach. This means some aspects of the minimum wage increase, such as implications for broader productivity, have not been analysed. Consultation with stakeholders for this minimum wage review has been limited to the social partners – New Zealand Council of Trade Unions (NZCTU) and Business New Zealand.
3. The Ministry has modelled the impacts on employment, wages and inflation, and the interface with other government interventions. The impacts on workers and industries are derived from NZ Income Survey estimates. The impacts on the state sector are estimated by the agencies themselves.
4. The Ministry is only able to estimate the direct impacts of minimum wage changes. We do not have adequate data to assess any flow-on effects of an increase in the minimum wage. Apart from the direct costs provided by some government agencies, the Ministry is unable to assess other fiscal impacts, such as changes to social assistance and taxation due to a lack of information. However, we believe that this lack of information is not significant enough to affect decision on the minimum wage rate.
5. The review has focused on the adult minimum wage rate with a presumption that the starting-out minimum wage rate and the training minimum wage rate continue to be 80 per cent of the adult minimum wage rate.
6. An increase in the minimum wage imposes extra labour costs for employers, especially for those industries that employ a large number of minimum wage workers such as retail and hospitality. An increase in the minimum wage will also have a fiscal impact on the state sector. Therefore, any option for minimum wage change (except option 1) will require a particularly strong case before regulation is considered.

Gerard Clark

Manager, Employment Standards Policy

Ministry of Business, Innovation and Employment

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20 February 2014

Table 1: Summary of the impacts of the minimum wage options for 2013

Minimum wage impact measures	Option 1 (status quo)	Option 2 (broadly in line with CPI increase of 1.4%)	Option 3 (broadly in line with average wage increase of 2.1%)	Option 4 (broadly in line with median wage increase of 3.5%)	Option 5 (previously proposed by NZCTU)	Option 6 (proposed 'living wage')
Adult minimum wage (hourly rate)	\$13.75	\$13.90	\$14.00	\$14.25	\$15.00	\$18.40
Adult minimum wage (week income)	\$550	\$556	\$560	\$570	\$600	\$736
Percentage increase	N/C ¹	1.1%	1.8%	3.6%	9.1%	33.8%
Relativity to median wage ²	63.7%	64.4%	64.9%	66%	69.5%	85.3%
Number of people impacted	54,600	61,900	65,200	109,000	178,800	530,000
Restraint on employment	N/C	N/C	N/C	Negligible	5,000	24,000
Economy-wide increase in wages (\$m, annual)	N/C	11	20	56	224	2,302
Inflationary impact/GDP (percentage points)	N/C	0.01	0.01	0.03	0.10	1.05
Additional annual costs to the government (\$m) ³	N/C	4.39	7.91	18.32	58.78	454.81 ⁴

Note: the following table is brought forward for formatting convenience.

¹ N/C stands for 'no change'.

² The median wage is \$21.58 an hour (New Zealand Income Survey, June 2013).

³ This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education and the Accident Compensation Corporation from higher wage costs to their employees and service providers.

⁴ This estimate in particular is likely to be an underestimate because employees and contractors working for state agencies other than the four surveyed here would be affected by a minimum wage increase to \$18.40.

STATUS QUO AND PROBLEM DEFINITION

The current minimum wage rates

7. Minimum wages are set through an Order in Council made under section 4 of the Minimum Wage Act 1983 (the Act). The current minimum wage rates are set out as follows:
 - The minimum adult rate is \$13.75 an hour
 - The minimum starting-out rate is \$11 an hour
 - The minimum training rate is \$11 an hour
8. Minimum wages are being paid to just over 54,600 New Zealand workers, making up about 2.4 per cent of all employees. They are more likely to be paid to young people, women, Māori, Pacific peoples and people without formal qualifications. These people are more likely to work in the retail and hospitality industries.

Key findings from the Minimum Wage Review 2013

9. The Ministry conducted the Minimum Wage Review 2013 on behalf of the Minister of Labour. The review examined the current level of the minimum wage rates in comparison with other income benchmarks and other Organisation of Economic Cooperation and Development (OECD) countries, as well as some other key features regarding the minimum wage.

Recent changes in the minimum wage

10. The minimum wage rates normally increase every year after the completion of the annual review. Table 2 shows the recent changes in the hourly rate.

Table 2: Recent changes in minimum wage rates

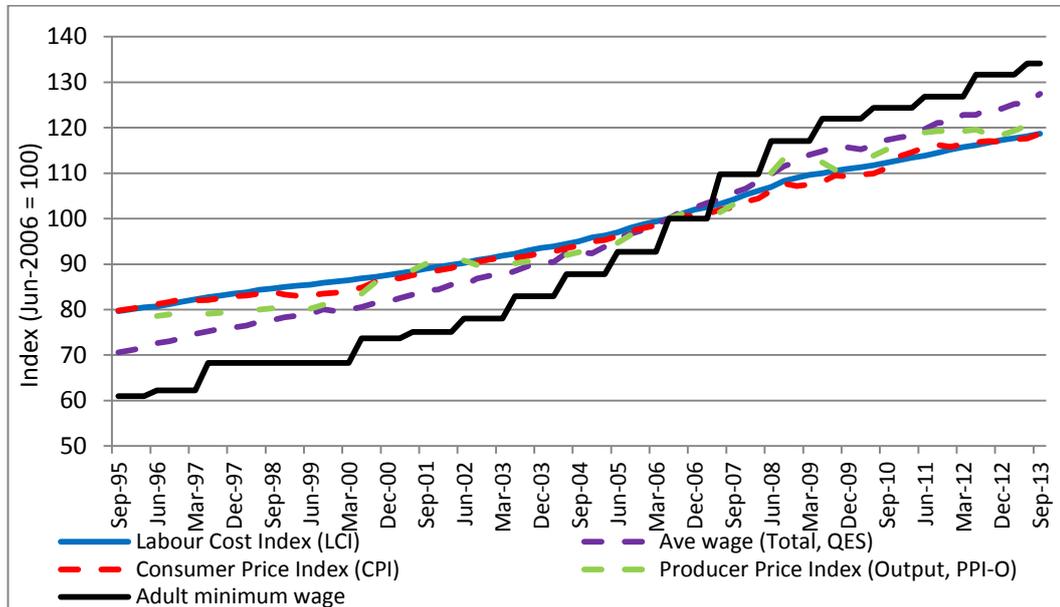
Time Period	Adult Minimum Wage	Youth Minimum Wage ⁵	% Change
April 2005	\$9.50	\$7.60	5.6%
April 2006	\$10.25	\$8.20	7.9%
April 2007	\$11.25	\$9.00	9.8%
April 2008	\$12.00	\$9.60	6.7%
April 2009	\$12.50	\$10.00	4.2%
April 2010	\$12.75	\$10.20	2.0%
April 2011	\$13.00	\$10.40	1.9%
April 2012	\$13.50	\$10.80	3.7%
April 2013	\$13.75	\$11.00	1.9%

11. Between 2000 and 2008, the minimum wage was increased at a faster rate than general wages (as measured by the Labour Cost Index or the Quarterly Employers Survey (QES)) and general prices (as measured by the Consumers Price Index (CPI)), but recent increases have been more in line with price inflation. Figure 1 shows increases in the

⁵ This includes new entrants and training rates and the starting-out wages rates (from 2013).

minimum wage compared with various measurements of inflation over the past 18 years.

Figure 1: Increases in the minimum wage compared with various measurements of inflation

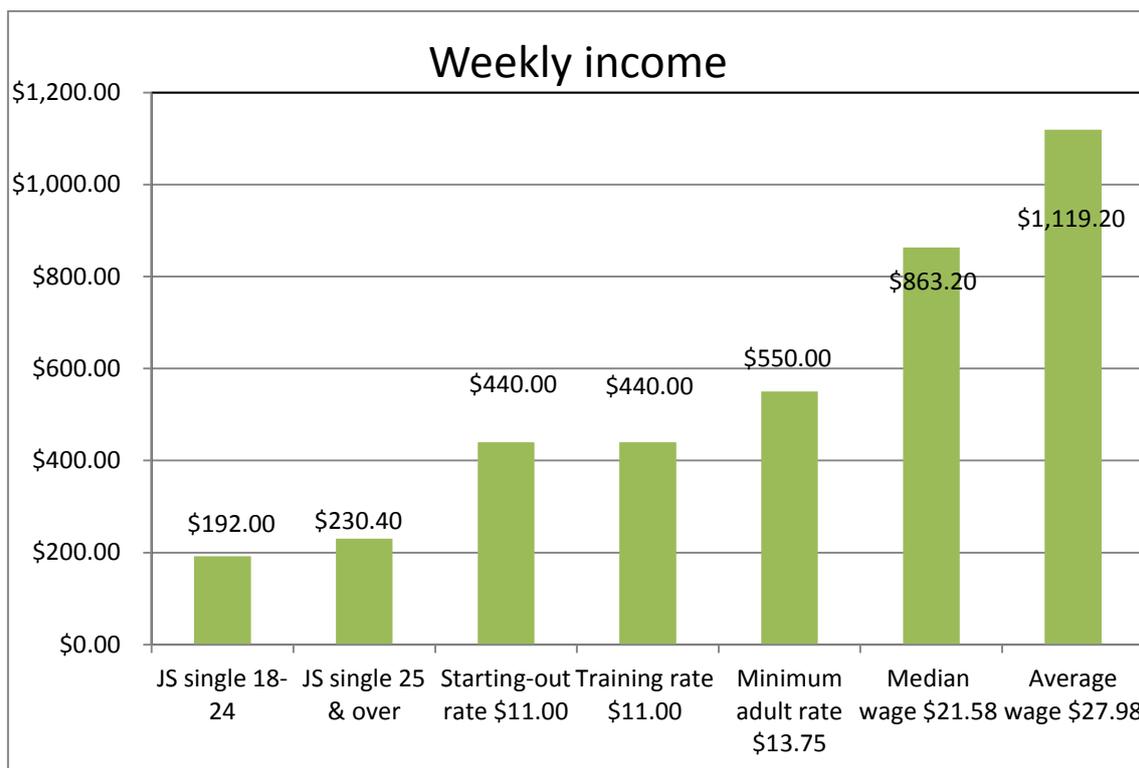


Source: Statistics New Zealand

The current minimum wage rate compared with other income benchmarks

12. Compared with other income benchmarks, the adult minimum wage is more than twice the effective rate for a single adult on Jobseeker Support (JS in the figure, calculated to be \$4.80 an hour for a single adult aged 18-24 years old). It is approximately 64 per cent of the median wage (\$21.58 an hour in the New Zealand Income Survey, June 2013) and 49 per cent of the average wage (\$27.98 an hour in the QES, September 2013). However, it is lower than the average minimum weekly adult wage in collective agreements, which is \$637 a week (\$15.92 an hour for a 40 hours week).
13. The following figure compares the minimum wage rates with other income benchmarks, all calculated as gross weekly income for a 40-hour week.

Figure 2: Minimum wages compared with other income benchmarks



Note: JS stands for Jobseekers Support. For the purpose of meaningful comparison, the weekly median wage and average wage are calculated on the basis of a 40-hour week.

International comparisons

- New Zealand has a high minimum wage compared with similar countries. Among the OECD countries, four countries (Australia, Luxembourg, France and Belgium) had higher minimum wage rates than New Zealand in 2012 in terms of absolute wage level. If transferred to annual income assuming a standard working week for each country, only two other countries have a higher annual income for a minimum wage worker than New Zealand (Australia and Luxembourg).

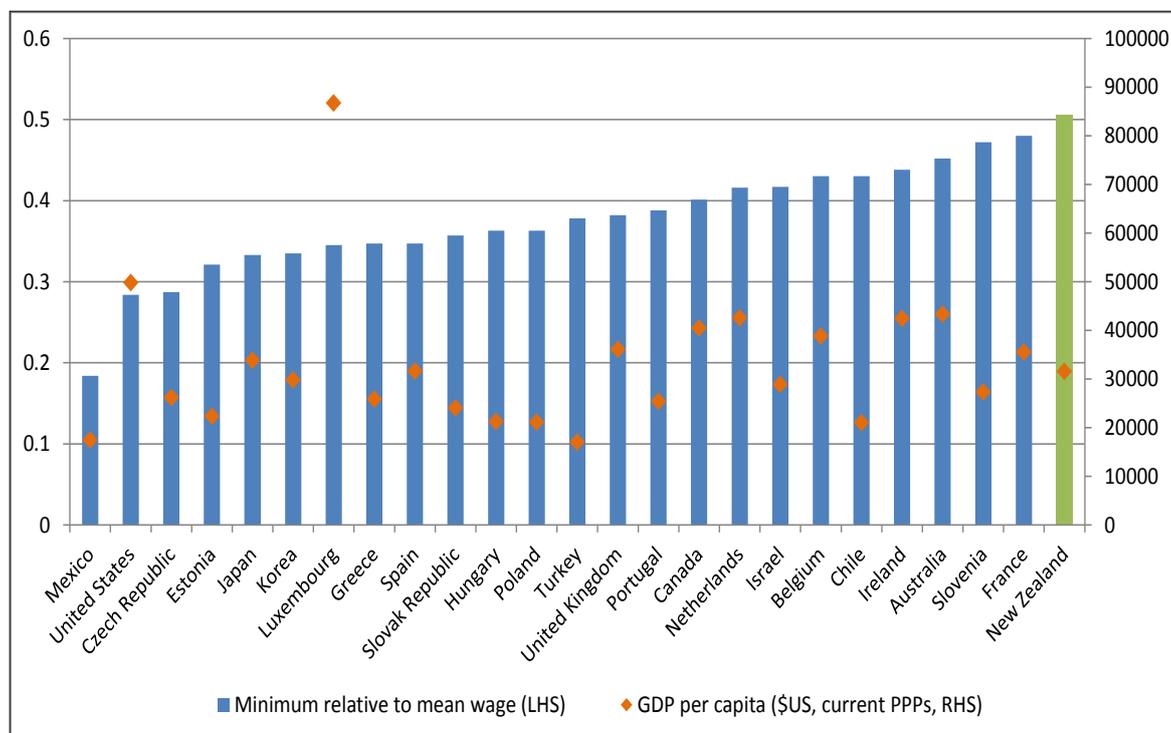
Table 3: Ranking of minimum wage in OECD countries

As Annual Income			Standard work week (hours)	As Hourly Rate		
Rank	Country	US\$		Rank	Country	US\$
1	Australia	US\$33,355	38	1	Australia	US\$16.88
2	Luxembourg	US\$29,611		2	Luxembourg	US\$14.24
3	New Zealand	US\$23,252	40	3	France	US\$12.09
4	Belgium	US\$23,104	38	4	Belgium	US\$11.69
5	Canada	US\$22,766	44	5	New Zealand	US\$11.18
6	Netherlands	US\$22,747	40	6	Ireland	US\$11.09
7	Ireland	US\$22,490	39	7	Netherlands	US\$10.94
8	United Kingdom	US\$19,896	38.2	8	United Kingdom	US\$10.02

Note: The exchange rates used to convert local currency to US dollars are the official exchange rates listed by the World Bank for 2012. They are calculated as an annual average based on monthly averages of the local currency unit to US dollars in 2012.

15. New Zealand has the highest ratio of the minimum wage to the mean wage (average wage) amongst OECD countries, as is shown in Figure 3.

Figure 3: Comparison of minimum relative to mean wages and GDP per capita among OECD, 2011



Source: OECD

16. New Zealand's ratio of 51 per cent (in 2011) compares with 45 per cent in Australia, 38 per cent in the United Kingdom, 40 per cent in Canada, and 28 per cent in the United States. New Zealand's high ratio of minimum to mean wages is a result of both a comparatively high minimum wage and a comparatively low average wage.
17. The ratio is relevant as it measures the extent to which the minimum wage compresses the wage distribution. The higher the ratio, the better the relative position of minimum wage workers. The higher the minimum wage is relative to average wages (the greater the bite⁶), the greater the proportion of workers that will be impacted, which could increase the likelihood of dis-employment effects.
18. Figure 3 also indicates the Gross Domestic Product (GDP) per capita of the OECD countries. New Zealand ranks 20th out of 34 OECD countries for GDP per capita, about 15 per cent below the OECD average.⁷

Current economic growth and labour market conditions

19. Economic growth began to strengthen in 2013. According to the latest New Zealand Institute of Economic Research (NZIER) Consensus Forecasts,⁸ economic growth will

⁶ The 'bite' is a standard indicator used in the minimum wage literature, defined as the ratio of the nominal value of the minimum wage to the average wage (either mean or median). Usually the median is preferred to the mean as it is less likely to be distorted by changes in earnings dispersion.

⁷ This is measured by 2012 data in US dollars (PPP) with New Zealand at US\$32,163 and OECD average at US\$36,931.

increase from 2.5 per cent in 2013 to 2.6 per cent and 3.0 per cent in the following two years before easing off slightly in 2016 to 2.3 per cent. Figure 4 shows the real GDP growth in coming years until 2015.

Figure 4: History and forecasts of real GDP growth



Source: Statistics New Zealand and NZIER

20. Data from the September 2013 quarter indicates that a recovering economy is translating into an improving labour market situation.
21. In the Household Labour Force Survey (HLFS), total employment increased by 54,000 between September 2012 and September 2013. This equates to a 2.4 per cent rise - the largest annual increase since December 2007. Most of this growth occurred over the latest quarter, where employment increased by 27,000, a 1.2 per cent rise. The Ministry forecasted in June 2013 that annual employment growth will be 1.3 per cent in the year to March 2014, increasing to 2.3 per cent in the year to March 2015. Figure 5 also provides a forecast of employment growth in the next three years.
22. The unemployment rate dropped from 7.3 per cent to 6.2 per cent in the year to September 2013. Over the year, the total number of people unemployed fell by 23,000 (a 13 per cent decrease). This is mainly due to a drop in the number of people in long-term unemployment (defined as unemployed for more than 26 weeks), which fell by 10,400 (or 19 per cent). Unemployment is expected to remain relatively flat at 6.3 per cent in March 2014, and then decline to 5.5 per cent by March 2015 in association with stronger employment growth.

⁸ NZIER's Consensus Forecasts in September 2013.

Figure 5: history and forecast of employment growth



Source: Statistics New Zealand and NZIER

Wage growth and inflation

23. The annual median hourly earnings from wages and salaries increased by 3.5 per cent to \$21.58 an hour in the year to June 2013 year according to the New Zealand Income Survey 2013.
24. According to the QES, the unadjusted, average ordinary time hourly earnings (average wage) rose 2.6 per cent to \$27.98 an hour in the year to September 2013. In terms of the Labour Cost Index, salary and ordinary wage rates rose 1.6 per cent over the same period.
25. CPI increased by 1.4 per cent in the year to September 2013 quarter and it is forecast to increase by 2.2 per cent in 2014 and 2.4 per cent in the 2015.

Problems associated with the status quo

26. While many employers and employees use CPI to negotiate wage increases, some employees do not have the power to do this. If the minimum wage rate is not increased or it is increased less than the CPI increase, it would result in a loss of real value of the minimum wage. This would be detrimental to a fair labour market. Labour participation would also be discouraged. Although increasing the minimum wage in line with CPI change will preserve the real value for the time being, it will result in a larger wage gap between minimum wage workers and other wage workers over time. The change to the objective of the minimum wage review in 2012 (refer to paragraph 30) reflects this concern.
27. Problems associated with the status quo have also been discussed by submitters during consultation. Both the New Zealand Council of Trade Unions (NZCTU) and Business New Zealand commented on the problems of the current minimum wage rates. Their submissions are summarised in the consultation section below.

OBJECTIVE OF THE MINIMUM WAGE REVIEW

28. Under section 5 of the Minimum Wage Act 1983, the Minister of Labour has a statutory obligation to review the minimum wage rates by 31 December each year.
29. In addition to imposing an obligation on the government to ensure an adequate minimum wage,⁹ the International Labour Organisation (ILO) also supports that the minimum wage rate be reviewed regularly to preserve its purchasing power.¹⁰ According to the ILO, 'The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period of time and its ability to meet the different needs of all parties concerned'.¹¹
30. The government's objective for the minimum wage review as 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses' (CAB Min (12) 41/58 refers).
31. To evaluate the options against this objective, the Ministry has used the following criteria:
 - the potential impact on inflation
 - any impacts on employment
 - the potential positive impact on minimum wage workers
 - the impact on business and the government

REGULATORY IMPACT ANALYSIS

Options developed for the review

32. For the purposes of analysis and modelling of the impacts of any minimum wage increase, the Ministry continues its practice of developing a range of options with reference to economic indicators such as inflation and wage growth, and proposals from the social partners in their submissions for previous reviews.
33. The following options are considered for the adult minimum wage rate for 2014:
 - Option 1: \$13.75 an hour (status quo)
 - Option 2: \$13.90 an hour (in line with CPI change)
 - Option 3: \$14.00 an hour (in line with annual average wage change)
 - Option 4: \$14.25 an hour (in line with annual median wage change)
 - Option 5: \$15.00 an hour (proposed by NZCTU in 2012 review)
 - Option 6: \$18.40 an hour (proposed as a 'living wage'¹²).

⁹ The Minimum Wage-Fixing Machinery Convention (1928), to which New Zealand is a signatory, obliges the Government to create minimum wage-fixing machinery where "no arrangements exist for the effective regulation of wages ... and wages are exceptionally low".

¹⁰ International Labour Organisation, 'Global Wage Report 2008/2009'.

¹¹ International Labour Organisation (1998) "Minimum Wage Fixing: A Summary of Selected Issues", Briefing Note No.14.

¹² This figure is proposed by the Living Wage Aotearoa New Zealand Campaign led by the Service and Food Workers' Union. The wage is intended to provide the income necessary to meet a set of specified

34. The CPI increase in the year to June 2013 (1.4 per cent) is used to develop option 2, resulting in an increase of 15 cents to \$13.90 an hour.
35. According to the QES in June 2013, the average ordinary hourly wage increased 2.1 per cent compared to June 2012.¹³ This increase was used to develop option 3 of \$14.00 an hour.
36. According to the New Zealand Income Survey 2013, the annual median hourly earnings from wages and salaries increased by 3.5 per cent to \$21.58 an hour in the year to June 2013 year. Option 4 (\$14.25) reflects this increase.
37. Options 5 (\$15.00) and 6 (\$18.40) are from the NZCTU's previous submission and the current living wage campaign respectively.

Impact on wages and inflation

38. When the minimum wage rises, labour costs for businesses increase. Businesses may respond to their increased costs by increasing the price of goods produced using minimum wage labour. Whether this leads to general inflation depends on the drivers of inflation. The price of minimum wage goods may increase but others may decline and therefore there may be no net impact.
39. Table 4 shows the number of workers affected by each option, and the estimated impacts on the economy-wide wage expenditure and the potential inflationary impacts. For simplicity, this modelling assumes that all affected workers receive a wage increase. This leads to an increase in economy-wide wages and inflationary pressure. Options 1-4 (\$13.75 - \$14.25) have a minimal impact on inflation. Options 5 (\$15.00) and 6 (\$18.40) would greatly increase the whole economy-wide wages and lead to greater inflation.

Table 4: Economy-wide impacts of minimum wage options

Option	Workers earning between current and new options of minimum wage	Economy-wide increase in wages (\$m, annual)	Increase inflation (%)
\$13.75	54,600	0	0.00
\$13.90	61,800	11	0.01
\$14.00	65,200	20	0.01
\$14.25	109,000	56	0.03
\$15.00	178,800	224	0.10
\$18.40	530,000	2,302	1.05

Impacts on employment

40. The increases to the minimum wage may have negative employment effects, including lower job growth and reduced hours. The extent of these effects will depend on the size of the wage increase and the economic and labour market context in which it occurs.

needs for a family of two adults and two children where one adult works 40 hours a week and the other 20 hours.

¹³ The later data is 2.6 per cent increase in the year to September 2013. But when we were developing the options, this was still not available.

41. The Ministry's modelling, both this year and in previous reviews, indicate that only when changes to the minimum wage significantly increase the ratio of the minimum wage to the average wage, do they start to notably constrain employment growth. This is consistent with the domestic and international literature.
42. The Ministry's model predicts employment impacts from changes in the relativity between the minimum wage and the average wage by using a range of employment elasticities derived from econometric analysis of historical data. This analysis has focused on groups that are most sensitive to changes in the minimum wage (young people, women, and Pacific people) and the employment impacts presented are the sum of the impacts on these groups.
43. The Ministry's employment forecasts are used as a benchmark to estimate the impacts on employment growth of the various minimum wage options. The benchmark projected job growth is 1.3 per cent for the year to March 2014.
44. The Ministry's modelling is able to assess the employment impact of any proposed level of minimum wage. The Ministry's modelling suggests that an increase in the minimum wage of up to 5 per cent in the current economic climate (a rate of approximately \$14.40 an hour) is not likely to inhibit overall employment growth. Out of the options being considered, only option 5 (\$15.00 an hour) and option 6 (\$18.40 an hour) are predicted to restrain employment growth.

Table 5: Summary of employment impacts

Option	Potential restraint on employment growth
\$13.75	N/C
\$13.90	N/C
\$14.00	N/C
\$14.25	Negligible
\$15.00	5,000
\$18.40	24,000

Source: the Ministry's modelling

45. Even where the overall employment impacts of a minimum wage change are predicted to be negligible there may still be impacts on particular groups of workers. These impacts are discussed in the following section.

Impacts on minimum wage workers

The number and demographics of people affected

46. Currently, amongst the 2,272,000 people employed in New Zealand, approximately 54,600 are paid the minimum wage. The following tables estimate the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options.
47. Data from the New Zealand Income Survey from 1997 to 2012 shows that workers who are young people, women, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are more likely to be on the minimum wage. These people are generally more likely to benefit from any increase in the minimum wage. However, they may also be the first to experience any negative impacts that could result from a change in the minimum wage (eg reduced

hours offered or substitution of some groups of workers for others). A significant rise in the level of the minimum wage may have the effect of employment losses and subsequently increased hardship for lower skilled workers.

48. Table 6 shows that a much larger proportion of workers in the 18 to 24 age group will be affected by even a modest increase in the minimum wage, while a large increase to \$15.00 an hour or above will affect a great proportion of the adult workers. Table 7 shows a much larger number of 16 to 17 year olds will be affected by increases in the minimum wage because very few young people are paid the starting-out wage.
49. Changes in the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. Currently there are about 178,800 low wage workers aged between 16 and 64 years, earning between \$13.75 and \$15 an hour. Nearly half of these workers are under 25 years old.

Table 6: Estimated affected adult workers (18 - 64 years)

Options	18-64		18-19		20-24		25-64	
	%	Number	%	Number	%	Number	%	Number
\$13.75	2.5	44,800	20.9	10,400	6.4	13,200	1.4	21,100
\$13.90	2.9	51,300	22.1	11,000	7.1	14,800	1.7	25,500
\$14.00	3.1	54,700	22.1	11,000	7.4	15,300	1.9	28,400
\$14.25	5.4	96,300	29.9	14,900	14.2	29,400	3.4	52,000
\$15.00	9.3	164,500	43.4	21,700	23.7	49,100	6.2	93,700
\$18.40	28.8	510,200	73	36,500	56.5	117,100	23.6	356,600

Source: New Zealand Income Survey 2013

Note: % refers to the percentage of workers earning below the relevant wage level among the whole wage earners.

Table 7: Estimated affected young workers (16 - 17 years)

Options	Starting-out rate		Options	Minimum adult rate	
	%	Number		%	Number
\$11.00	4	1,300	\$13.75	29.5	9,800
\$11.15	4	1,300	\$13.90	31.5	10,500
\$11.20	4	1,300	\$14.00	31.5	10,500
\$11.40	4	1,300	\$14.25	37.9	12,700
\$12.00	5.5	1,800	\$15.00	43	14,300
\$14.70	67.6	22,600	\$18.40	59.5	19,800

Source: 2013 New Zealand Income Survey

50. Table 8 shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics. Minimum wage earners are divided into three age groups. The Table shows, for example, that 61.4 per cent of minimum wage earners aged 16-24 years are studying, compared with 11.8 per cent of all wage earners.

Table 8: Demographics of wage earners

Demographic	Minimum wage earners			Total wage earners
	16-24	25-64	16-64	16-64
Aged 16–24	100.0%	0.0%	61.3%	16.1%
Female	49.4%	57.9%	52.7%	49.0%
European/Pakeha	59.4%	37.2%	50.8%	67.7%
Maori	17.0%	14.3%	16.0%	12.2%
Pacific	4.4%	7.1%	5.4%	4.3%
Part-time	67.9%	45.6%	59.3%	20.3%
Studying	61.4%	9.1%	41.2%	11.8%
Total	33,500	21,100	54,600	1,802,300

Source: 2013 New Zealand Income Survey

Young people

51. Minimum wage increases can be expected to have two offsetting impacts on young people. Those who remain in work may see an increase in their wages. However, some people might lose their jobs due to the dis-employment effect of increases in the minimum wage. Young people who do not successfully transition into employment, particularly those with low skills and prolonged spells of inactivity, are at risk of low employability over the long-term.
52. Young people tend to earn less than older employees due to their lower work experience and stage in career development. For example, almost all teenagers and the majority of people in their twenties earn less than \$18.40 an hour. Table 8 shows that over 60 per cent of those earning the minimum wage are between 16 and 24 years of age, while they account for around 16 per cent of total wage workers. However, most young people do not remain in minimum wage jobs long term. They move on to higher paying jobs as they gain skills and work experience.
53. The former Department of Labour examined the impact of the 2008 youth minimum wage reform, which extended the adult minimum wage rate to the majority of young people aged from 16 years.¹⁴ The study found that the new entrants' minimum wage was largely not used by businesses and that firms generally paid the majority of 16 and 17 year old workers the adult minimum wage.
54. The policy change resulted in a minimum wage increase for 16 and 17 year olds, leading to a rise in average hourly earnings of 8.5 per cent in 2008 for this group. As a result, the minimum wage increase lowered the proportion of 16 and 17 year olds in employment by between 3 and 6 percentage points (4,500-9,000 jobs), which accounted for between 20 and 40 per cent of the fall in the proportion of 16 and 17 year olds in work between 2008 and 2010. However, the jobs that were lost by 16 and 17 year olds were generally taken up by 18 to 19 years olds.

¹⁴ Hyslop and Stillman, (2011).

Women

55. Women are more likely to be affected by any changes to the minimum wage rate as they tend to be overrepresented in low paid jobs (eg part-time and service sector jobs). Table 8 shows that just over half of all minimum wage workers are women, and 58 per cent of minimum wage workers aged between 25 and 64 are women. In comparison, just under half of the total workforce is female.
56. The Ministry calculates that, on average, the hourly wage rate for women is 86.8 per cent of the hourly wage rate for men. Thus women earn about 13 per cent less than men per hour.¹⁵ However, a small increase in the minimum wage is unlikely to significantly affect the gender pay gap. For example, if the wages of all workers earning between \$13.75 and \$13.99 were raised to \$14.00, the gender pay gap would be unaffected. This is in line with previous impacts estimated by the Ministry.

Māori and Pacific peoples

57. Māori and Pacific peoples are overrepresented among those in low paid jobs and are more likely to benefit from an increase in the minimum wage, compared with people of European descent. Māori people account for around 12 per cent of the total wage earners while accounting for 16 per cent of minimum wage workers.
58. Māori people may be more likely to be adversely affected by a higher minimum wage. A report by Auckland University economist Gail Pacheco finds that Māori people who were earning the minimum wage experienced significant falls in their employment propensity and total weekly work hours when the minimum wage rate increased significantly.¹⁶ The Ministry's modelling indicates that Pacific people are also more likely to be affected by minimum wage changes than other groups.

Part-time workers

59. Part-time wage earners are over-represented in the low-wage group. It is estimated that just under half (45 per cent) of those earning less than \$18.40 an hour are part-time workers, and just over half (55 per cent) of those earning under \$15.00 an hour are working part-time.¹⁷ Table 8 shows that about two thirds (67.9 per cent) of minimum wage workers aged 16 to 24 years work part-time, whereas under half of minimum wage workers age 25 and over work part-time.
60. Therefore, any increase in the minimum wage will directly benefit a large proportion of low paid, part-time workers in terms of income level. However, they might suffer from negative reactions to a minimum wage increase by employers, such as reducing hours and recruiting fewer people. A survey by the former Department of Labour in 2010 found that some employers changed their hiring practices in reaction to the changes to minimum wage rates.¹⁸

¹⁵ This is calculated according to the QES in September quarter 2013.

¹⁶ Pacheco, G. (2011), Estimating Employment Impacts with Binding Minimum Wage Constraints, *The Economic Record*. VOL. 87, No. 279, December, 2011, 587-602.

¹⁷ Source from New Zealand Income Survey 2013 at www.stats.govt.nz.

¹⁸ Department of Labour (2012), *Employers' attitudes and practice around the change to the minimum wage*, Wellington.

Students

61. Table 8 shows that over 60 per cent of the minimum wage workers aged 16 to 24 years are in study, compared with 11 per cent of the total wage workers. The high proportion of young workers in part-time minimum wage jobs while studying suggests that they are likely to move into higher paying, full-time jobs in the future.
62. A higher minimum wage may either encourage young people to enter the workforce (rather than continue in training or education) or encourage them to remain in study. The impact depends on the level of the minimum wage, the costs of education and the job opportunities available. Hyslop and Stillman's study also found that the policy change to abolish the youth minimum wage in 2008 increased the proportion of 16 and 17 year olds participating in study, but the proportion looking for work (unemployed) or inactive did not increase following the rise in minimum wages (inactivity actually fell).

Interface of the minimum wage policy with other government interventions

63. The Ministry recognises that the minimum wage is often only part of the income of low income workers. There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the social assistance system, the taxation system, and education and training policies, among which social assistance and taxation generally have a more direct impact on low paid people.
64. While increases to the minimum wage rate will generally provide increased incomes for those on the minimum wage, the net income for a family is affected by taxation and other income support. Within the current policy context, families with dependent children on low to middle incomes will receive tax credits through Working for Families to boost their net family income to help meet the costs of raising a family.
65. The following two scenarios (in Tables 9 and 10) provide a clear illustration of the combined effect of a wage increase and the abatement of government assistance on household incomes. The net gain for a family of four people (a couple and two dependent children), with the working parents having no Kiwisaver and student loans, is relatively small.

Table 9: Scenario 1 - A couple working for 60 hours a week between them at \$13.75 an hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$550.00	\$28,600	\$4025.00	\$486.20	\$24,088.80
Parent B	20	\$275.00	\$14,300	\$1522.50	\$243.10	\$12,534.40
Combined earnings without other income support				\$36,623.20		
In Work Tax Credit				\$3,120		
Family Tax Credit				\$8,173		
Abatement				\$1,391.88		
Working for Families				\$9,901.13		
Effective annual earnings for the household				\$46,524.33		

Table 10: Scenario 2 - A couple working for 60 hours a week between them at \$15.00 an hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$600.00	\$31,200	\$4480.00	\$530.40	\$26,189.60
Parent B	20	\$300.00	\$15,600	\$1750.00	\$265.20	\$13,584.80
Combined earnings without other income support				\$39774.40		
In Work Tax Credit				\$3,120		
Family Tax Credit				\$8,173		
Abatement				\$2,220.63		
Working for Families				\$9,072.38		
Effective annual earnings for the household				\$48,846.78		

66. These two scenarios demonstrate that when the workers' wages increase from \$13.75 an hour to \$15.00 an hour, the net gain is \$2,322.45 rather than \$3,900.¹⁹ The additional income that people on Working for Families would receive from smaller increases in the minimum wage would be even smaller. This is partly due to the effect of the abatement settings on income support as well as the interplay of taxes.
67. As a minimum wage increase will not be able to significantly increase the net gain for those on benefits or working for limited hours, the Expert Advisory Group on Solutions to Child Poverty did not recommend raising the minimum wage rate as a solution.²⁰ Previous minimum wage reviews also show that increase in the minimum wage rate is not the most effective way of reducing poverty.²¹

Impact on industries

68. The impact of a minimum wage change on industries depends on the number of minimum wage workers that the industry employs. Changes to the minimum wage impact on the minimum wage employees and may also have flow on effect on other employees' wages.
69. A survey conducted by former Department of Labour in 2012 shows that employers in the accommodation/food services, manufacturing, and wholesale and retail trade groups are more likely to have staff on or near the minimum wage than the professional/technical services and health and social services industries.²² Employers typically also increase the wages of staff earning slightly above the minimum wage when the minimum wage increases so the associated flow-on effect has a significant impact on their businesses.
70. Some employers stated that regular increases in the minimum wage were useful for their internal wage-setting. The flow-on effect was also a consequence of employers benchmarking their wages to the minimum wage. Table 11 provides an indication of how different industries would be affected by an increase in the minimum wage to \$14.00 an hour. For example, in the hospitality industry 13.9 per cent of workers (a total of 14,500 people) are paid below \$14.00 an hour and would be affected by such a minimum wage increase.

¹⁹ This is calculated by multiplying 60 (hours) and 52 (weeks) and \$1.25 (\$15 - \$13.75).

²⁰ Children's Commissioner (2012), Solutions to Child Poverty in New Zealand: evidence for action.

²¹ For example, Department of Labour (2012), Minimum Wage Review 2011.

²² *Employers' perspectives - Part Two: The Minimum Wage System*, Department of Labour, 2012.

Table 11: Industry affected by \$14.00 option (by estimated workers aged 16 to 64 years)

Industry	Workers		Their working Hours	Their Earnings
	%	Number	%	%
Agriculture	3.8	3,000	3.1	2.1
Manufacturing	2.5	5,300	2.3	1.2
Construction	0.9	1,100	0.8	0.4
Wholesale	2.3	1,600	2.3	1.2
Retail	11.2	21,700	8.8	6.1
Hospitality	13.9	14,500	9.9	7.5
Transport and Storage	1.4	1,200	0.9	0.5
IM and Telecommunications	S	S	S	S
Real Estate	S	S	S	S
Admin services	8.1	4,200	6.4	4
Education	1	1,600	0.6	0.3
Health	1.8	3,800	1.3	0.6
Arts & rec	S	S	S	S
Other services	2.8	1,900	2.4	1.4
Total	3.6	65,200	2.6	1.4

Source: 2013 New Zealand Income Survey, Statistics New Zealand

Note: S stands for suppressed for those values less than 1,000.

Impact on the state sector

71. Increases in the minimum wage are likely to have a direct (and possibly also indirect or 'flow-on') fiscal impact on some state sector employers. The Ministries of Health, Social Development (MSD), Education, and the Accident Compensation Corporation (ACC) have been identified as the agencies which are most likely to be impacted by changes in the minimum wage. For these four government agencies, total annual costs directly related to a minimum wage increase are estimated to be:
- \$4.39 million for \$13.90 an hour
 - \$7.91 million for \$14.00 an hour
 - \$18.32 million for \$14.25 an hour
 - \$58.78 million for \$15.00 an hour
 - \$454.81 million for \$18.40 an hour
72. It should be noted that these are high level estimates based on the additional costs to these four agencies from higher wage costs to their employees and service providers. The estimate for the \$18.40 option in particular is likely to be an underestimate because employees and contractors working for state agencies other than the four surveyed here might also be affected by a minimum wage increase to \$18.40 an hour.

CONSULTATION

Feedback from submitters

73. The Government's social partners Business New Zealand and the NZCTU have been consulted and their views and submissions have been analysed and assessed through the review process.

Business New Zealand

74. Business NZ considers that the minimum wage places additional obstacles in the path of particular workers (particularly those who are young and unskilled) at the bottom end of the economic ladder. They outlined specific reasons why increases in the minimum wage rates (particularly the youth rate) negatively affect employment. Their key points include:

- Most employees on the youth minimum wage are not in a vulnerable position and do not rely on the minimum wage as a long term source of income.
- Many of those receiving the youth minimum wage rate are "after-school" workers, who are generally employed from a goodwill or social standpoint.
- Increases in minimum wage rates reduce job and training opportunities for youth, as does the extension of the youth minimum wage to employees on training agreements.
- Continued increases and extensions of coverage to the minimum wage rate may send a signal to younger people that further education and training is not warranted.

75. Business NZ also believes increases in the minimum wage create unnecessary inflationary pressures.

76. Therefore, among other recommendations, Business NZ submitted that the minimum wage be maintained at its present level until it falls below 25 per cent of the average national wage, which is currently calculated to be just under \$7 an hour.²³

New Zealand Council of Trade Unions

77. The NZCTU made a substantial submission for the review. Their preference is for an immediate rise in the minimum wage to 66 per cent of the average ordinary time wage, estimated at \$18.63 an hour for April 2014. Using the Treasury forecast, this would mean a minimum wage of \$19.60 an hour as from 1 April 2016.²⁴ However, a possible alternative is to move to this position over three years with \$15.50 an hour as from 1 April 2014.

78. They consider that an increased minimum wage level is needed as a contribution towards:

²³ This is calculated using the current average ordinary time hourly wage of \$27.98 an hour according to the QES in September 2013.

²⁴ The Treasury forecasts 2.5 per cent increases in the average ordinary-time hourly wage in the years to both March 2015 and March 2016.

- addressing the needs of many low income workers
 - compensating for rising costs
 - narrowing the wage gap with Australia
 - providing a safety net for many vulnerable workers
 - encouraging employers to invest in raising productivity
 - raising New Zealand’s low general wage levels
 - maintaining domestic demand and employment levels
 - reducing New Zealand’s high income inequality
 - reducing poverty and especially child poverty
 - reducing gender inequality
 - improving the positions of Māori and Pacific workers
 - increasing labour participation rates, particularly of disadvantaged groups.
79. The NZCTU is seeking a return to the previous system of conducting a comprehensive review of the minimum wage annually as they consider that the current streamlined system provides inadequate opportunity for the social partners to consult on the appropriate level for the minimum wage.
80. They oppose the ‘Starting Out’ rate and advocate moving back to the position where the minimum wage applies fully to those aged 16 years and over. They hold the view that it is unfair and discriminatory to pay lower wages to a worker performing the same work as another worker on the basis of age.
81. In addition, the NZCTU made some broader points on employment relations issues such as:
- research on the extent to which training minimum wage rate are used and the quality of the training received
 - on-going dialogue in respect to the minimum wage for those aged less than 16 years
 - more thorough enforcement and stronger penalties for ensuring comprehensive adherence to the minimum wage, and
 - review of the minimum wage exemption permits.
82. The Ministry has assessed and modelled NZCTU’s proposals of \$15.50 (alternative step for 1 April 2014) and \$18.63 an hour. These proposals would have the following impacts.

Table 12: Brief assessment of NZCTU’s proposal for minimum wage

Option	Workers affected	Inflationary impact	Annual increase in wages (\$m)	Midpoint constraint on employment growth
\$15.50	260,600	0.2%	408	8,000
\$18.63	546,000	1.1%	2,490	25,000

Agency comments

83. The Treasury (TSY), State Services Commission, Ministry of Pacific Island Affairs (MPIA), Ministry of Women’s Affairs(MWA), Te Puni Kōkiri (TPK), Ministry of Social Development (MSD), Ministry of Health, Ministry of Education, Accident Compensation Corporation

and Inland Revenue Department have been consulted on the minimum wage review. The Department of the Prime Minister and Cabinet has been informed of the review.

84. Comments from TSY, MWA, MSD, MPI A and TPK are summarised in Table 13.

Table 13: Summary of agency comments

	Preferred option	Reasons given	Other comments
TSY	\$13.75	<p>The minimum wage has grown at a faster rate than the median and average wage over the past decade, and also at a higher rate than inflation.</p> <p>Relative to our OECD counterparts, New Zealand has one of the highest minimum wage rates relative to median wages (third in OECD) and average wages (highest in OECD at 49% of the average wage – likely to be a combination of a comparatively high minimum wage and a comparatively low average wage). As labour is an input into production, high minimum wage rates for low skilled workers may have an adverse impact on our international competitiveness.</p> <p>A high proportion of minimum wage workers are aged under 25. The youth unemployment rate remains high and increasing the minimum wage by 50 cents per hour may have adverse employment effects for this group.</p> <p>Holding off an increase in the minimum wage this year delivers a small real cost reduction to business.</p> <p>It also avoids direct and flow on costs to the state sector.</p>	
MWA	\$14.25	<p>To maintain current relativity in respect of the rise in median hourly wage rates and the gender pay gap.</p> <p>This option will have minimum impact on employment or inflation, or on incentives to work. It may also provide incentives for beneficiaries, including sole-parent mothers, to enter the workforce.</p>	
MSD	\$14.00	<p>This option maintains the real value of the minimum wage and its relativity with other income benchmarks.</p>	<p>A moderate increase is appropriate in the current labour market.</p>

	Preferred option	Reasons given	Other comments
MPIA	\$14.25	<p>Its policy outcome is “Pacific peoples’ earnings on a par with all New Zealanders’ earnings”.</p> <p>The key consideration for them will therefore focus on increased earnings whilst not constraining employment growth. This is best reflected in this option.</p> <p>The improved overall labour market situation has not filtered down to the labour market status of Pacific peoples.</p>	The unemployment rate for Pacific peoples remains high at 15.7 per cent.
TPK	\$16.00	<p>Based on this favourable economic condition, and trend analysis and consistent with the approach proposed by TPK from 2009 to 2012, TPK’s preference is for the minimum wage to be raised in steps over four years to \$18.00 per hour, with the first increase to \$16.00 in 2014, then increases to \$16.60, and \$17.30 per hour over the ensuing years, subject to continuing favourable economic outlook.</p>	<p>TPK proposes supportive, active labour market policies to improve protection for low-skilled workers and up-skilling for low-skilled workers.</p> <p>TPK supports a policy approach that complements the minimum wage to incentivise people to join the workforce, encourages longer term labour market attachment and builds skills to enhance Māori social mobility.</p>

85. Submitters’ and government agencies’ comments have been carefully considered and their concerns have been addressed accordingly. No change has been made to the proposed minimum wage options as the Ministry considers that :

- Business New Zealand’s recommendation is inconsistent with the objective for the minimum wage review.
- NZCTU’s proposals have been assessed in the review and it is considered that it will unduly constrain employment growth and increase wage costs for employers.
- The Treasury’s suggestion is inconsistent with the objective for the minimum wage review.
- TPK’s preferred option of \$16.00 an hour is considered that it will unduly constrain employment growth.

CONCLUSIONS AND RECOMMENDATIONS

Summary of the assessment

86. In general, minimum wage increases could have the following impacts:

- Increased earnings for minimum wage workers (although net household income is also affected by other government interventions, such as taxation and abatement for those receiving income support and tax credits) and potentially flow-on impacts for other workers earning close to the minimum wage.
- Increased labour costs for employers, especially for those industries that employ a large number of minimum wage workers such as retail and hospitality. This could result in greater inflation pressure. An increase in the minimum wage will also have a fiscal impact on the state sector, mainly the Ministries of Health, Social Development and Education and the Accident Compensation Corporation (ACC).
- Negative employment effects, including lower job growth and reduced hours, particularly from a significant rise in the level of the minimum wage. The extent of these effects will depend on the size of the wage increase and the economic and labour market context in which it occurs, and are most likely to impact on some demographic groups, such as youth and Māori/Pacific.

87. The 2013 minimum wage review provides an assessment of the options for change to the minimum wage for 2014, taking into account inflation, wage growth, restraint of employment and other relevant factors. Our analysis shows that these options could have the following main impacts²⁵:

- Option 1 of \$13.75 an hour will erode the real value of the minimum wage paid to about 54,600 workers. It would not constrain employment growth. It is estimated that there would be no impact on national weekly wage earnings or inflation.
- Option 2 of \$13.90 an hour will preserve the real value of the minimum wage at its 2013 level but not its relativity with the mean or median wage. This option could directly affect up to 61,900 workers. It would not constrain employment growth. It could increase annual economy-wide wages by \$11 million and inflation by 0.01 percentage points.
- Option 3 of \$14.00 an hour will slightly increase the real value of the minimum wage and maintain its relativity with the average wage. This option could directly affect up to 65,200 workers but would not constrain employment growth. It could increase annual economy-wide wages by \$20 million and inflation by 0.01 percentage points.
- Option 4 of \$14.25 an hour will slightly increase the real value of the minimum wage and maintain its relativity with the median wage. This option could directly affect up to 109,000 workers. The constraint on employment growth is negligible.

²⁵ A summary of the impacts of the minimum wage options for 2013 is also provided in Table 1.

It could increase annual economy-wide wages by \$56 million and inflation by 0.03 percentage points.

- Option 5 of \$15.00 an hour will significantly increase the real value of the minimum wage and its relativity to other income benchmarks. This option would affect up to 178,800 workers and constrain employment growth by up to 5,000 jobs per year. It could increase annual economy-wide wages by \$224 million and inflation by 0.10 percentage points.
- Option 6 of \$18.40 an hour will greatly increase the real value of the minimum wage and its relativity to other income benchmarks. This option would affect up to 530,000 workers and constrain employment growth by up to 24,000 jobs per year. It could increase annual economy-wide wages by \$2,302 million and inflation by 1.05 percentage points.

Recommendation from the Ministry

88. Setting the minimum wage requires balancing the benefits of any changes, such as the protection of the lowest paid, against the costs that any changes might bring, such as negative employment impacts.
89. The Ministry considers that a modest increase is appropriate in the current labour market. A modest adjustment in the minimum wage rate will not have a significant impact on either the demand or supply of minimum wage workers, or more broadly employment or unemployment. Further, it is unlikely that a modest rise in the minimum wage will have any significant impact on wage growth.
90. A modest increase aligns with our cautious approach taken in the previous reviews. It means a small incremental adjustment that maintains or increases the real value of the minimum wage while not constraining on employment growth. The following options align with this approach:
 - \$13.90 an hour (option 2) would maintain the purchasing power of minimum wage workers. It is expected to have no negative impacts on employment and minimal impacts on other economic variables.
 - \$14.00 an hour (option 3) would maintain the current relativity with the average wage. It is expected to have a minimal employment impact and low cost to business.
 - \$14.25 an hour (option 4) would further raise the incomes of minimum wage earners to maintain the current relativity with the median wage. It is also expected to have negligible impacts on employment. However, it would have a larger cost for businesses and the government.
91. Under options 5 and 6 (\$15.00 an hour and \$18.40 an hour), the costs are very likely to outweigh the benefits as employment growth could be significantly restrained. This is inconsistent with the objective for the minimum wage review.

IMPLEMENTATION

92. Changes to the minimum wage rates will be implemented through an Order in Council. Historically, change in the minimum wage rate occurs on or before 1 April.
93. The Ministry will provide information through its website, call centre and other customer services to inform employers and employees of any change to the minimum wage before it takes effect. No additional budget is required for the purpose of implementation.
94. Some employers may choose not to comply with minimum wage legislation or delay their compliance with an increase in the minimum wage. The Ministry will continue to support sustainable compliance through education, engagement and enforcement. The labour inspectors have a range of enforcement tools for responding to non-compliance. To address the increasing concerns and media attention regarding migrant exploitation (the majority of cases involve a breach of minimum wage law), the labour inspectorate is taking targeted enforcement activities in the high risk industries, such as hospitality, fishing, agriculture and the Canterbury rebuild. Where evidence of exploitation is identified, tougher enforcement actions have been taken.

MONITORING, EVALUATION AND REVIEW

95. It is a statutory obligation under section 5 of the Minimum Wage Act 1983 for the Minister of Labour to review the minimum wage rates by 31 December each year. The minimum wage rates resulting from the 2013 review will be reviewed by 31 December 2014.
96. The Ministry will monitor compliance and uptake of the minimum wage through the National Survey of Employers and the New Zealand Income Survey. The Ministry will continue to collect relevant data to effectively evaluate impacts of minimum wage change and provide advice on whether the objectives of the minimum wage are met and whether further mechanism changes are needed to the Minister of Labour to fulfil the obligation.