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Department of Labour
TE TARI MAHI



REGULATORY IMPACT STATEMENT

Minimum Wage Review 2009 –
Agency Disclosure Statement

- 1 This Regulatory Impact Statement has been prepared by the Department of Labour. It provides an analysis of options for the Minister of Labour's annual statutory review of the minimum wage rates.
- 2 The Government's agreed objective for the minimum wage, assessment criteria and related considerations (outlined at paragraph 40) provide a framework for assessing the specific options considered. There is a range of different economic theories on the minimum wage and its impacts on the economy and other factors. The Department does not prescribe to any one economic theory. We provide Ministers with analysis based on what robust data is available, which can be limited.
- 3 The Department of Labour's analysis incorporates a number of factors including the numbers and characteristics of workers directly affected; the impact on employment growth and wage earnings/costs; the types of sectors affected; an assessment of the labour market conditions; and the views of submitters.
- 4 The options based on changes in consumer prices and average wages use data for the year ending June 2009. This is in line with the data used in our analysis which is also based on the June year. The indicators used provide a proxy for the actual changes in prices and wages at the time when any change to the minimum wage is implemented. It is possible that the actual change in consumer prices and average wages may be higher or lower on 1 April 2010¹.
- 5 We are only able to provide robust estimates of the direct impacts of minimum wage changes. Indirect impacts, such as changes to wage relativities or changes in consumer spending, are unable to be accurately estimated. There is no robust data available on some types of workers who are more likely to be on the minimum wage, such as new migrants and disabled people.
- 6 Estimates using data from the New Zealand Income Survey do not include workers who report an hourly wage below the minimum². It is likely that this group is a mix of trainees, people with minimum wage exemptions, non-compliance and reporting error.
- 7 Data limitations also mean that more detailed, lower level (e.g. within sectors or at an individual firm level) analysis is not possible. Assessing the impacts of increases to the minimum wage on firms involves trying to isolate the nature of the employment impacts due to minimum wages from other employment changes occurring in the economy. It is difficult to do this with the level of certainty that would be preferable in a review of this type. Empirical research from New Zealand and overseas is included in the review. Submitters' views on the impacts of increases to the minimum wage on firm behaviour vary according to whether they represent employer or employee perspectives, but they are nevertheless firmly held by the different groups.
- 8 The estimates of the potential impacts on job growth use a range of employment adjustment factors (elasticities) that are broadly derived from econometric analysis conducted by the Department and elsewhere. It assumes that everything else remains

¹ For instance, the Treasury are forecasting that consumer prices will rise by 2.5% in the year ending March 2010 (compared with the actual change of 1.9% for the June 2009 year) and nominal wages are forecast to rise by 2.8% (compared with the actual change of 4.5% for the June 2009 year).

² In the 2009 New Zealand Income Survey, 4.2% of 18-64 year olds reported wages below the adult minimum wage.

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)³. The timing of the adjustment is also simplified and a one year adjustment period is assumed. The estimates of constraint on job growth are based on a neo-classical model of firm decision-making, whereby firms operating in perfectly competitive markets adjust output and inputs, including labour, in response to relative prices. This modelling approach does not adequately reflect the dynamic nature of employment responses to changes in minimum wages, and, in particular, any investments that employers may make to increase the productivity of low paid workers. One consideration for the impact on the demand for low wage workers is how minimum wages change relative to average wages. If minimum wages keep pace with average wages then we would expect to see little change in the relative demand for low wage workers or low wage jobs.

- 9 Some of our estimates assume that all 16 and 17 year olds are eligible to earn (at least) the adult minimum wage. This assumption is made because we are unable to estimate how many 16 and 17 year olds may be eligible for the new entrants' minimum wage. The data suggests that the majority are on at least the adult minimum wage.
- 10 Much of the recent empirical research was undertaken when economic growth was higher than now. It is uncertain whether similar results would be replicated in different economic circumstances.
- 11 Apart from previous empirical research on the youth minimum wage (e.g. the impact on firms employing teenage workers), there is uncertainty around the impact of previous changes in the minimum wage. This is because the data used in the Department's analysis is cross-sectional and no robust longitudinal data is available. Submitters' views on the impacts of the 2008 increase to the minimum wage varied according to whether they represented employer or employee perspectives.
- 12 The Ministries of Health, Education and Social Development have provided estimates of the direct costs for some state sector employers and state sector-funded employers. ACC was unable to provide estimates of the direct costs in the timeframe provided. The estimates do not include indirect costs (e.g. if other workers' wages are increased to maintain wage relativities). We are also unable to provide an estimate of other fiscal impacts, such as changes to social assistance and taxation.
- 13 Apart from the analysis provided to the Minister of Labour and in the Regulatory Impact Statement, there are some gaps and uncertainties around the impacts of any change in the minimum wage, the distribution of these impacts and the impacts of past changes in the minimum wage, as outlined above.
- 14 Those policy options considered in this Regulatory Impact Statement that result in an increase in the minimum wage are likely to have an effect that the Government has said will require a particularly strong case before regulation is considered, as they may impose additional wage costs on businesses employing staff on the minimum wage and, possibly, those with workers earning near the minimum wage. Any increase in the minimum wage seeks to balance increased wage costs with the benefits to workers from increased incomes and the other considerations identified in the minimum wage objective. Increasing the minimum wage from \$12.50 to \$15.00 or \$16.75 an hour will significantly increase the wage bill/costs for employers.

³ One could argue that all these effects are "loaded" into the econometric estimates but they are not explicit.

EXECUTIVE SUMMARY

- 15 The Minimum Wage Act 1983 requires that any minimum wage rates must be reviewed by 31 December each year.
- 16 Five options have been considered for the adult minimum wage in 2010:
- **Option 1 of \$12.50 an hour** will directly affect up to 87,400 workers. While this option erodes the real⁴ value of the minimum wage, it is likely that there would be no impact on employment growth, national weekly wage earnings or inflation. No change in the minimum wage may decrease its relativity with benefit payments that are likely to increase from 1 April 2010, which may reduce incentives to work.
 - **Option 2 of \$12.75 an hour** could preserve the real value of the minimum wage and maintain relativity with benefit payments. It will maintain existing work incentives, as it will increase by a similar percentage as benefits, and current levels of fairness. It may erode existing levels of income distribution and protection as the movement is lower than the increase in average wages and average minimum wages in collective agreements. This option could directly affect up to 96,400 workers. It is estimated that it will have no constraints on 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 preserve the real value of the minimum wage and 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 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. This option could directly affect up to 336,900 workers. 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.
 - **Option 5 of \$16.75 an hour** will significantly increase the real value of the minimum wage and very strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is significantly higher than the benchmarks used. This option 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.
- 17 The new entrants' minimum wage is set at 80% of the adult minimum wage. This is the relativity that was set when the new entrants' minimum wage was first introduced in April

⁴ i.e. if we adjust for changes in prices.

2008, and has not been reviewed since then. The training minimum wage is also set at 80% of the adult minimum wage. It is set at the same relativity as the new entrants' minimum wage to ensure that there is no incentive to employ one type of minimum wage employee over another. The relativities for the new entrants' and training minimum wages have not been reviewed in this minimum wage review process. Therefore, we recommend that they continue to be set at 80% of the adult minimum wage.

STATUS QUO AND PROBLEM DEFINITION

Overview

- 18 The Minister of Labour has a statutory duty to review the minimum wage rates every year. Subsection 5(1) of the Minimum Wage Act 1983 states that "The Minister of Labour shall, in each year ending on the 31st day of December, review any minimum rate prescribed pursuant to section 4 of this Act".
- 19 The minimum wage sets 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. It is part of the Government's general responsibility to prescribe socially acceptable minimum employment standards. It exists within the wider context of the range of policy measures and tools to support higher quality working lives, productive workplaces and income adequacy. These include the ReStart package, active labour market policies, the income tax system, the Working for Families package, the Youth Guarantee programme, employment legislation and sector specific initiatives.
- 20 Benefit rates are indexed to the Consumers Price Index and are likely to increase from 1 April 2010. This increase may reduce some people's incentives to work if the minimum wage is unchanged and impact on the alignment with the direction of proposed benefit reforms to encourage people into work.
- 21 There are formal international commitments that establish an explicit obligation on the Government to ensure an adequate minimum wage, including under the International Labour Organisation 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", and recommends that minimum wages should be set according to the "general level of wages prevailing in the country".

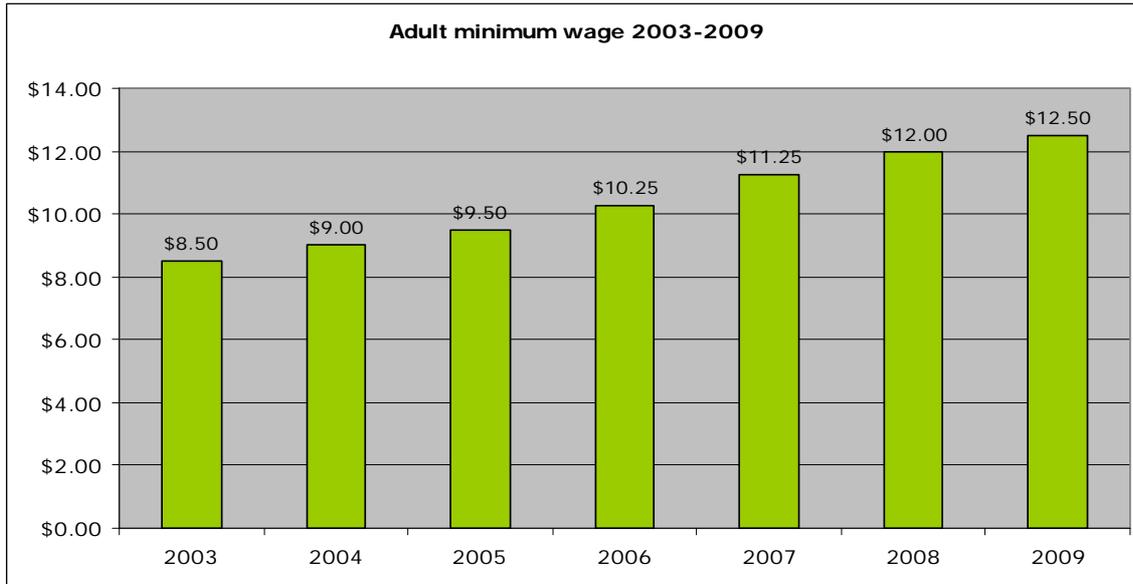
Current minimum wage rates

- 22 The current minimum wage rates are as follows:
 - 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.
 - 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.

Past minimum wage rates

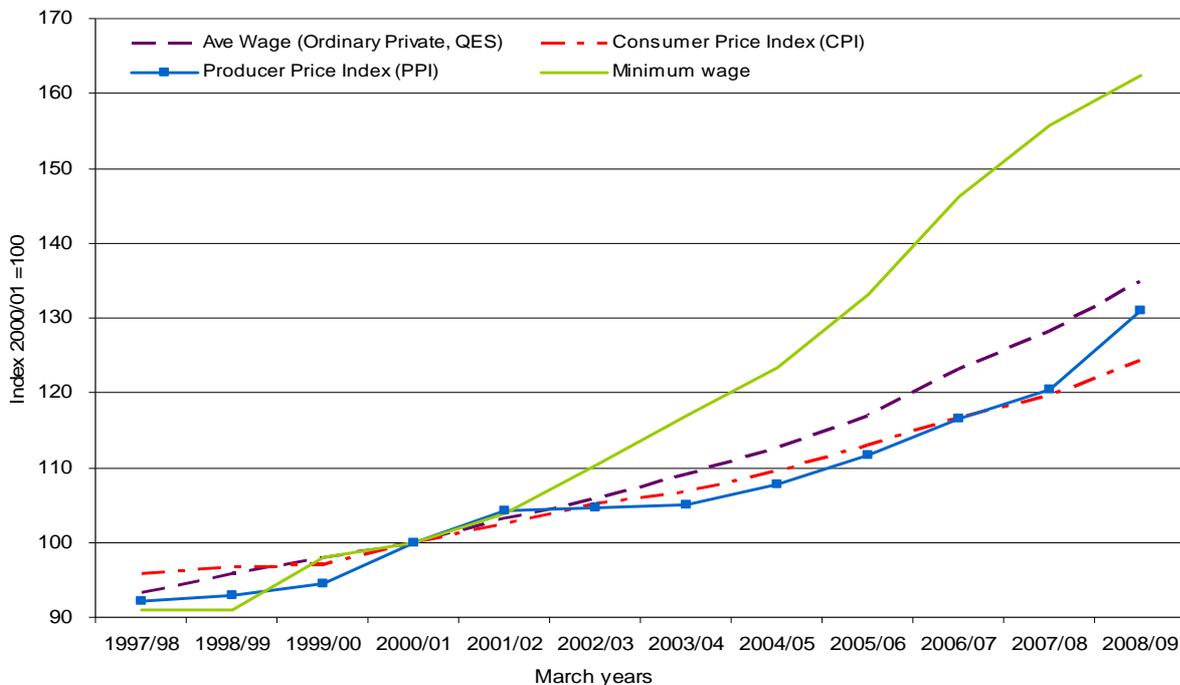
- 23 Figure 1 shows the adult minimum wage rates since 2003.

Figure 1: Adult minimum wage rates 2003 to 2009



24 Figure 2 illustrates how the adult minimum wage has been tracking against three benchmarks since 1997/98: average wages, the Producers Price Index and the Consumers Price Index. In recent years the minimum wage has been increasing at a faster rate than these benchmarks. This followed a period over the 1990s where there were small or no changes to the minimum wage. Between 1997 and 2000 the three benchmarks increased at a faster rate than that of the minimum wage.

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



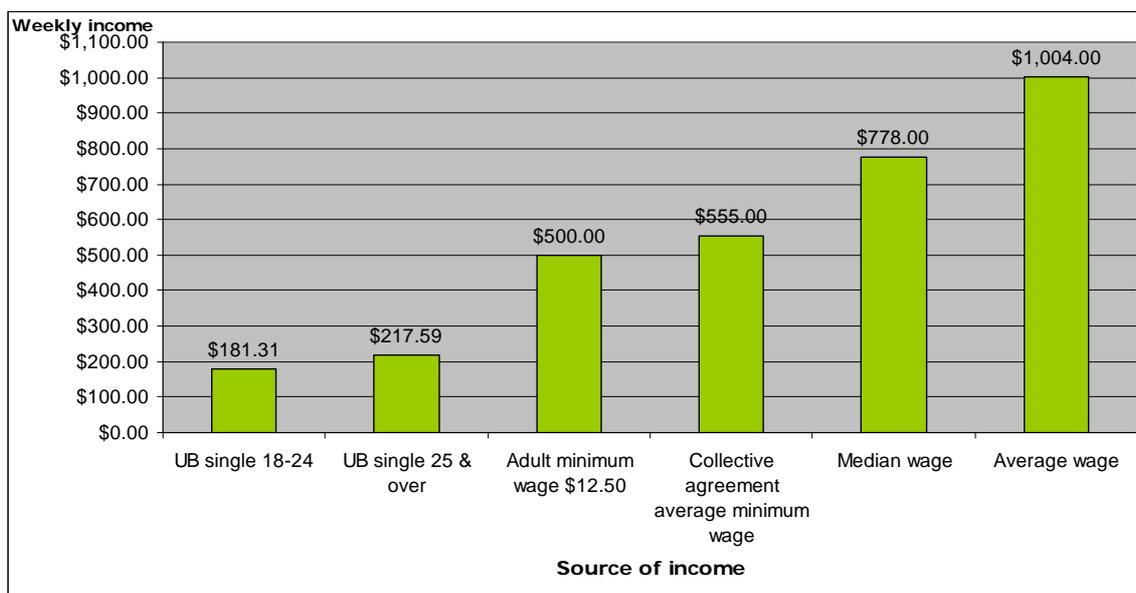
Comparisons with income and international benchmarks

25 The minimum wage was last increased on 1 April 2009 by 4%, based on the change in consumer prices. Since then, consumer prices have increased by 1.9% (for the year to

June 2009) and average total hourly earnings have increased by 4.5% (for the year to June 2009) resulting in a decrease in the real value of the minimum wage.

- 26 The current adult minimum wage of \$12.50 an 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 supplement⁵). Benefit rates are indexed to the Consumers Price Index and are likely to increase from 1 April 2010.
- 27 The current adult minimum wage is around 50.0% of average total hourly earnings (\$25.09 an hour in the Quarterly Employment Survey, June 2009) and 64.2% of median total hourly earnings (\$19.47 an hour in the New Zealand Income Survey, June 2009)⁶.

Figure 3: Current adult minimum wage compared with other income benchmarks⁷



- 28 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 situations⁸.
- 29 There are a number of factors that might contribute towards cross-country differences in minimum wage levels. Australia provides a useful comparison due to its close economic

⁵ Those on the unemployment benefit may receive an accommodation supplement, the amount of which depends on the level of rent, board or mortgage they pay. Depending on location, some people will receive a significantly higher accommodation supplement than others. People on minimum wages or low incomes may also receive an accommodation supplement.

⁶ The QES average and the New Zealand Income Survey (NZIS) average differ because of the relative weight given to part-time and full-time wages. The NZIS mean is an average 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.

⁷ UB stands for unemployment benefit.

⁸ International Labour Organisation (2009) *Global Wage Report Update 2009*.

connections to New Zealand and the relatively free movement of labour between the two countries.

- 30 The current Australian federal minimum wage is AU\$14.31 (which equates to NZ\$17.86 on 14 January 2010⁹). The ratio of the minimum wage to median full-time wages is 54.4% for Australia¹⁰ and 64.2% for New Zealand¹¹. There was no change to the Australian federal minimum wage following their 2009 review.
- 31 One way of comparing minimum wages across countries is to convert their values to a common currency using nominal exchange rates (ERs) or purchasing power parity (PPP) exchange rates¹². The following table from the Australian Fair Pay Commission compares the hourly value of minimum wages across 13 OECD countries using these methods¹³.

Table 1: Value of gross hourly minimum wage, various countries, April 2009

Country	National currency	Hourly rate AUD (ER)	Hourly rate AUD (PPP)	Date of last change
Australia	AUD 14.31	14.31	14.31	Oct-2008
Luxembourg	EUR 9.47	17.79	14.12	Jan-2009
France	EUR 8.71	16.37	13.75	Jul-2008
Netherlands	EUR 8.39	15.76	13.59	Jan-2009
Belgium	EUR 8.00	15.04	12.53	Oct-2008
UK	GBP 5.73	11.87	12.37	Oct-2008
New Zealand	NZD 12.50	10.11	11.76	Apr-2009
Ireland	EUR 8.65	16.25	11.53	Jul-2007
Canada	CAD 8.80	10.09	9.99	-
US	USD 6.55	9.26	9.08	Jul-2008
Spain	EUR 4.20	7.89	7.59	Jan-2009
Greece	EUR 4.05	7.60	7.53	Sep-2008
Portugal	EUR 2.60	4.88	5.13	Jan-2009

Source: Fair Pay Australia, Minimum Wage Decision No 2/2009 and Reasons for Decision July 2009. Available at www.fairpay.gov.au¹⁴

Note: AFPC calculations based on nominal exchange rates (ER) and purchasing power parity (PPP) exchange rates.

For countries that do not have an hourly rate, the minimum rate has been converted to an hourly basis assuming a working time of 8 hours per day, 40 hours per week. Average exchange rate over the month to 22 April 2009. PPPs are derived from the OECD Comparative Price Levels for February 2009. The hourly rate for Canada is the weighted

⁹ Based on an exchange rate of 0.8012 from New Zealand Reserve Bank.

¹⁰ 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.

¹¹ Using the New Zealand Income Survey, June 2009

¹² Purchasing power parity calculations attempt to compensate for differences in the cost of living across countries.

¹³ <http://www.fairpay.gov.au/fairpay/WageSettingDecisions/General/2009/Documents/Decisiondocuments.htm>

¹⁴ Sources: Wage rates <<http://www.fedee.com/minwage.html>>; <<http://www.ers.dol.govt.nz/pay/minimum.html>>; <<http://canadaonline.about.com/library/bl/blminwage.htm>>; <<http://www.dol.gov/dol/topic/wages/minimumwage.htm>>; <<http://www.lowpay.gov.uk/>>; <http://internationalezaken.szw.nl/index.cfm?fuseaction=dsp_rubriek&rubriek_id=391035-76611000>; ER <<http://www.rba.gov.au/Statistics/HistoricalExchangeRates/2009.xls>>; PPP <<http://www.oecd.org/dataoecd/48/18/18598721.pdf>>

average of the provincial/territorial rates. Date of last change varies between areas. The hourly rate for Spain, Greece and Portugal does not include annual supplementary pay of two additional months of salary for full-time workers.

Labour market conditions and outlook

- 32 This minimum wage review 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 January 2010 (including data from the September Household Labour Force Survey, business surveys and the commentary of economic analysts).
- 33 The New Zealand economy experienced a downturn over the five quarters to March 2009. The downturn was originally caused by domestic factors and then exacerbated by the onset of the global financial crisis in September 2008. This saw sharp falls in real Gross Domestic Product (GDP) in the December 2008 and March 2009 quarters. From its peak, economic activity fell 3.3% over five quarters. However, in the June 2009 quarter, the economy grew by 0.2% ending the longest recession for thirty years, making the recession both shorter and shallower than most forecasters had previously expected. Economic activity increased by 0.2% in the September 2009 quarter, confirming that the economy is continuing to recover, but in a subdued manner.
- 34 The downturn in the New Zealand economy has led to an easing 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%. 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 youth¹⁵ increased to 14.9% for the year to September 2009, up from 10.5% recorded for the year to September 2008.
- 35 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, is at the highest levels since 1999 when the economy was recovering from the Asian Financial Crisis. Rising net migration, increased activity in the housing market and a brighter global outlook all point to signs of recovery.
- 36 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 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" shaped recovery that has been seen in previous recessions where growth rebounded strongly.
- 37 Over the next two years, economic growth is expected to be positive but relatively subdued. The Treasury's December 2009 Half Year Economic and Fiscal Update also
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¹⁵ Aged 15 to 24 years

pointed towards a stronger fiscal and economic outlook than anticipated, with a gradual economic recovery led initially by domestic demand rather than by export volume. Real GDP is forecast by Treasury to rise 2.4% in the March 2011 year owing to higher consumer spending and a recovery in residential investment. Growth is forecast to accelerate to 3.2% in the March 2012 year owing to higher export volumes, and the Rugby World Cup and stronger world growth boost tourism. These growth projections are in line with NZIER's Consensus Forecasts. Most commentators now expect unemployment to peak at around 7% in mid 2010, a rate well below that of most of our trading partners and OECD averages.

Minimum wage impacts

38 As discussed more fully in the following sections, the minimum wage review is more likely to directly impact on:

- low paid workers particularly women (who make up 52.4% of minimum wage workers), Māori (15.8%), Pacific peoples (8.1%) and youth (51.7% of 18 to 24 year olds are on the adult minimum wage)
- the hospitality sector (32.7% of workers in this sector would be directly affected by an increase in the minimum wage to \$13.10 an hour), retail trade (22.7%) and agriculture (9.6%), and
- small and medium-sized businesses.

39 There may be indirect impacts if employers pass on wage increases to other workers to maintain relativities with minimum wage workers. Research indicates that firms will respond in a number of ways to minimum wage increases. The most common response is to reduce wage relativities across staff¹⁶. The sectors most affected by minimum wage increases (the retail and hospitality sectors) had more scope to raise prices, as they supply non-tradable products to the domestic market, and so can do this to offset an increased wage bill.

Objectives

40 The Government's agreed objective for the minimum wage [CAB Min (08) 28/24 refers] forms the basis of this review. The minimum wage objective is "to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions, and social impacts".

41 Two assessment criteria, and related considerations, have been identified to apply the minimum wage objective through minimum wage reviews.

42 The first assessment criterion is the extent to which any change to the minimum wage would produce gains that are more significant than any losses. The assessment criteria for this criterion include consideration of:

- consistency with the principles of fairness, protection, income distribution and work incentives
- comparison with other income benchmarks and international benchmarks

¹⁶ Dalziel P. et al. (2006) *Firm Responses to Changes in the Minimum Wage* AERU Research Unit, Lincoln University. Available from the Department of Labour on request.

- consideration of the social and economic impacts of any change to the level of the minimum wage, including on groups likely to be low paid, the net effects of any corresponding withdrawal of social assistance and impacts on the gender pay gap, and
- consideration of the forecast labour and economic impacts of changing the minimum wage, including on earnings, employment and unemployment, labour productivity, the number of employees and the hours they work, industry sectors, nominal gross domestic product and inflation.

43 The second assessment criterion is the consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment-related interventions, and would meet the broader objectives of the Government.

44 As per Cabinet's decision, the assessment criteria and considerations are not weighted. Their relative importance depends on the conditions at the time of the review and the Government's judgement. For instance, if adverse employment or economic impacts are the forecast result of a minimum wage rate change, this may be a risk for Ministers to consider. Employment opportunities may need to be protected as well as wages. If adverse impacts are not forecast, then the risks around a minimum wage rate change may be low. Raising minimum wages, however, can also increase labour supply by changing thresholds for participation.

Options

45 Five options have been considered and assessed for this year's review. These options are set out in Table 2 below.

Table 2: Options for 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) ¹⁷	\$10.20
Option 3	\$13.10 (4.8% increase) ¹⁸	\$10.50
Option 4	\$15.00 (20.0% increase) ¹⁹	\$12.00
Option 5	\$16.75 (34.0% increase) ²⁰	\$13.40

46 The options considered are broadly consistent with the options considered in last year's minimum wage review.

¹⁷ Based on the movement in consumer prices for the June 2009 year (1.9%), rounded up to the nearest \$0.05.

¹⁸ 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.

¹⁹ This option arose from the consultation process.

²⁰ Based on total average hourly earnings of \$25.09 in the Quarterly Employment Survey June 2009, rounded up to the nearest \$0.05.

- 47 Option 2 is based on an increase in line with the change in consumer prices. It seeks to maintain the real value of the minimum wage and its relativity with benefits. Option 3 is based on an increase in line with the change in average wages. It seeks to maintain relativity with workers who have experienced average wage increases.
- 48 Option 4 was suggested by some submitters. It also provides a mid-point between options 3 and 5. Option 5 is two-thirds of average wages. This has been the recommended option by unions in previous reviews.
- 49 No other feasible options were raised in submissions. Some unions suggested \$16.87 an hour, however, this option was not considered. It is likely to have similar impacts as option 5.

Overall assessment of the options

Impact on employment

- 50 Empirical evidence of the impact of minimum wage increases on employment, unemployment and hours of work is mixed. Research suggests that modest increases in the minimum wage may improve the livelihoods of low wage workers without adverse consequences²¹. However, employment can be reduced if minimum wages are set at too high a level²².
- 51 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 concerned²³.
- 52 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 likely to be on minimum wages and at higher risk of unemployment²⁴.
- 53 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 worked²⁵.
- 54 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 resign²⁶.

²¹ See for example, the Economic Policy Institute Briefing Paper 3178 *Minimum Wage Trends: Understanding past and contemporary research*. Available at <http://www.epi.org/content.cfm/bp178>. And International Labour Organisation (2008) *Revisiting the minimum wage in the enlarged European Union*. Available at: http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Feature_stories/lang--en/WCMS_099896/index.htm.

²² [Http://www.oecd.org/dataoecd/60/26/39005490.pdf](http://www.oecd.org/dataoecd/60/26/39005490.pdf).

²³ Youcef, Ghellab. "Minimum Wages and Youth Unemployment", ILO, 1998. p.58.

²⁴ 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.

²⁵ Low Pay Commission Report (2009) *National Minimum Wage*. Available at www.lowpay.gov.uk

55 The Department of Labour is projecting job growth for the year to March 2011 to be 19,200 jobs (0.9%)²⁷. This is an estimate of the number of extra jobs created in the economy. The Department has analysed the potential constraints on the projected job growth for the options considered (i.e. by how much job growth may be lower by under each option). The Department estimates that options 1 (\$12.50) and 2 (\$12.75) will have no constraint on employment growth. Option 3 (\$13.10) may have a small constraint on employment growth (of between 400 and 900 jobs, or 0.02% to 0.04%). Options 4 (\$15.00) and 5 (\$16.75) will have more significant constraints on employment growth (between 5,400 and 8,100 jobs (0.3% to 0.4%) and between 10,100 and 14,800 jobs (0.5% to 0.7%) respectively).

Impact on low paid workers

- 56 Women, Māori, Pacific peoples and youth are more likely to be low paid workers. A modest increase in the minimum wage could have a positive economic and social impact for low paid workers through an increase in their income. The minimum wage can play an important role in maintaining income equity for low paid workers, who tend to have lower bargaining power and may only receive pay rises through increases in the minimum wage.
- 57 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).
- 58 The impact of a minimum wage increase on the gender pay gap would be minimal. If for instance the minimum wage was raised to \$13.10 (option 3), then the gender pay gap narrows by a negligible amount from 85.6% to 85.7%. The level of potential impacts is similar to that of previous years.
- 59 The interplay between the minimum wage and the Working for Families package can have a combined impact on household incomes. An increase in the household income of families with children, as a result of an increase in the minimum wage rates, may result in a reduction in the amount of assistance a family may receive. Any reduction depends on current household income, the number and age of children in the household and the number of hours worked. The Department of Labour considered 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. In the three scenarios there were increases in net household income the size of which increased as the minimum wage increased. The largest increases in income, and corresponding reductions in assistance, were for a family with one child engaged in seasonal work on the minimum wage.

²⁶ 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.

²⁷ Some commentators are predicting that there will be a “jobless recovery”. This is not incompatible with our projection of job growth for the year to March 2011. It depends on what commentators mean by a “jobless recovery”. To the Department’s knowledge, most commentators use the phrase “jobless recovery” as the Department does, that is that the bulk of recovery (recovery in GDP) will come from increased hours rather than workers, not that employment will not grow. Growth of 19,200 jobs over a year is well below our long-term average of 50,000, and GDP is currently expected (both by the Treasury and Consensus Forecasts) to grow by around 2-3% over this period. The Leading Indicator of Employment is predicting that employment will commence growth in the June 2010 quarter.

Impact on youth

- 60 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.
- 61 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 wage²⁸, which included four studies based in New Zealand²⁹. The review says that, in general, no evidence was found of negative employment effects from minimum wage changes (with one exception³⁰). 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)³¹.
- 62 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 olds³².
- 63 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 2000s³³. Research has not been carried out on what effect more recent increases in

²⁸ NZIER (2004) *The Youth Minimum Wage: a literature review and analysis*.

²⁹ 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.

³⁰ 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.

³¹ NZIER (2004) *The Youth Minimum Wage: a literature review and analysis*. NZIER. p.1.

³² 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>. 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. 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.

³³ 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.

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 2008³⁴. 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.

Impact on industry sectors and firms

- 64 An increase in the minimum wage is likely to increase the wage bill for employers of minimum wage workers. The impact of minimum wage increases varies across industry sectors. Industries and firms that employ a large proportion of low paid workers will experience larger increases in their wage bill than other firms.
- 65 An increased minimum wage is likely to impact more on the retail and hospitality sectors and small and medium-sized enterprises. For example, if the minimum wage was increased to \$13.10 (option 3) this could affect nearly a third of workers in the hospitality sector.
- 66 Options 2 (\$12.75) and 3 (\$13.10) are estimated to increase the weekly wage bill by 0.04% and 0.10% respectively. Options 4 (\$15.00) and 5 (\$16.75) will have a more significant impact on the weekly wage bill, increasing it by 0.96% and 2.55% respectively.
- 67 New Zealand research indicates the ways that firms may respond to minimum wage increases³⁵. The most common response was to reduce wage relativities across their staff. Other responses included 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. The response may also vary depending on the type of sector. For instance, service firms may not see any opportunity for offsetting reductions in other costs of their business, as most of their expenses are labour-related.
- 68 More generally, firms' responses were based on supply and demand variables. The sectors most affected by minimum wage increases (the retail and hospitality sectors) had more scope to raise prices, as they supply non-tradable products to the domestic market, and so can do this to offset an increased wage bill.
- 69 The research also found that firms regarded an increase higher than the rate of inflation as an adverse shock that needed to be managed.
- 70 Research from overseas suggests that increases may have a small negative impact on profitability, but found no evidence of it increasing the probability of firm closure³⁶.

³⁴ Ministry of Education, *April 2009 tertiary education enrolments snapshot*.

³⁵ Dalziel P. et al. (2006) *Firm Responses to Changes in the Minimum Wage* AERU Research Unit, Lincoln University. Available from the Department of Labour on request. This analysis was undertaken in different economic circumstances than currently exist. It is uncertain what difference the economic situation may have on firms' reactions.

³⁶ Denvir A. and G. Loukas (2006) *The Impact of the National Minimum Wage: Pay Differentials*. Available at: www.lowpay.gov.uk/lowpay/rep_research_index.shtml. Draca M., S. Machin and J. Van Reenen (2008) *Minimum Wages and Firm Profitability*. NBER Working Paper 13966. Available at: www.nber.org/papers/w13996.

- 71 Research has been undertaken into the patterns of firm-level teenage (16 to 19 years) employment in New Zealand between 1999 and 2007³⁷. 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%.
- 72 Increasing the minimum wage could potentially impose compliance costs on employers, beyond the impacts already described, in adjusting payroll systems to meet the effects of an increase in the minimum wage.

Fiscal impact

- 73 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 and state sector-funded employers. 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.
- 74 As well as impacting on wage costs, increasing the minimum wage might have other fiscal impacts. It is difficult, however, to assess the net effect of these impacts.
- 75 Social assistance costs through benefit payments may rise, if an increase in the minimum wage increases unemployment. Alternatively, higher incomes can increase the amount of income tax received and lead to the abatement of social assistance, such as Working for Families. In this situation, the "cost" is shifted from the Government to employers. There will be overall revenue implications, from both pay as you earn (PAYE) and businesses.
- 76 No change to the minimum wage may also have fiscal impacts, for instance, if it increases tertiary benefit support because the minimum wage does not meet living costs.

Ministry of Health

- 77 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.
- 78 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 an increase, 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

³⁷ 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>.

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.

- 79 In the non-DHB health and disability sector, the Employment Court (the Court) has recently released a partial judgment that sleepovers performed by support workers in disability residential care facilities constitute 'work' for the purpose of the Minimum Wage Act 1983. Mitigating arguments around averaging of pay over a pay period have not been accepted by a subsequent majority decision of the Court. The decisions are likely to be appealed.
- 80 Dependent on any future appeals, 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 six 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.

Ministry of Social Development

- 81 The Ministry of Social Development (MSD) advises that any increase in the minimum wage will impact on the Home Help programme (a non-taxable payment that provides financial assistance to people who require temporary part-time home help to complete tasks normally performed in the home such as laundry, housework and food preparation). An increase in the minimum wage to \$12.75 an hour would add approximately \$45,000 per annum to the costs of the Home Help programme while an increase to \$13.10 an hour would add approximately \$110,000 per annum to the costs of the Home Help programme.
- 82 An increase in the minimum wage 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

- 83 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.
- 84 However, at this stage MSD considers 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 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

- 85 While an increase in the minimum wage would have an impact on Job Support Scheme funding, there is sufficient funding 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

- 86 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 Early Childhood Education 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. Increasing the minimum wage to \$15.00 or \$16.75 is also likely to impact on some Kindergarten teaching positions. There are also likely to be additional fiscal impacts from workers seeking to restore relativities.

Accident Compensation Corporation

87 Raising the minimum wage to \$12.75 or \$13.10, will have limited impact for ACC as it provides an entitlement to clients of around \$13.82 an hour, for home care and support services. This allows clients to pay carers \$12.50 an hour and contribute the remaining \$1.32 to other employment entitlements such as annual holidays and sick leave. Any increase to the minimum wage will reduce this contribution towards other employment entitlements. Increases to \$15.00 or \$16.75 an hour will have a significant impact on the cost of these services.

Assessment of the options

88 Table 3 provides a comparison of the impacts under the key assessment criteria between the five options:

Table 3: Summary of the Assessment Criteria for the Minimum Wage Review

Assessment criteria/ consideration	Option 1: \$12.50	Option 2: \$12.75	Option 3: \$13.10	Option 4 \$15.00	Option 5 \$16.75
Percentage increase in minimum wage	0	2.0%	4.8%	20.0%	34.0%
Assessment against the principles of - fairness ³⁸	Erodes existing levels of fairness for minimum wage workers when compared with other workers who are experiencing changes in average wages.	Maintains existing levels of fairness when consider changes in living costs. May slightly erode fairness when compared with changes in average wages.	Maintains existing levels of fairness.	Will strongly improve existing levels as the increase is higher than the benchmarks used.	Will very strongly improve existing levels as the increase is significantly higher than the benchmarks used.
- protection ³⁹	Erodes existing levels of protection for minimum wage workers who tend to have a relative lack of bargaining power to negotiate higher wages.	This may erode existing levels of protection due to the increase possibly being less than increases in average wages and the average minimum wages in collective	Will maintain current levels.	Will strongly improve existing levels as the increase is higher than the benchmarks used.	Will very strongly improve existing levels as the increase is significantly higher than the benchmarks used.

³⁸ To ensure that wages paid are no lower than a socially acceptable minimum. Benchmarks: average wages, CPI

³⁹ To offer wage protection to workers who are disadvantaged in the labour market so that workers are paid wages that reflect their worth or productivity. Benchmarks: minimum wages paid under collective agreements

Assessment criteria/ consideration	Option 1: \$12.50	Option 2: \$12.75	Option 3: \$13.10	Option 4 \$15.00	Option 5 \$16.75
		agreements.			
- income distribution⁴⁰	Reduces relative to other workers whose income increases.	This may erode existing relativities due to the increase being less than increases in average wages and the average minimum wages in collective agreements.	Maintains existing levels.	Will strongly improve existing levels as the increase is higher than the benchmarks used.	Will very strongly improve existing levels as the increase is significantly higher than the benchmarks used.
- work incentives⁴¹	These are impacted as there is a reduction in the difference between the minimum wage rate and benefit levels.	Maintains existing levels.	This may maintain or increase work incentives, because it may be a higher percentage increase than benefits.	Will strongly improve existing levels as the increase is higher than the benchmarks used.	Will very strongly improve existing levels as the increase is significantly higher than the benchmarks used.
International comparisons	The current Australian federal minimum wage is AU\$14.31 (which equates to NZ\$17.86 on 14 January 2010 ⁴²). The ratio of the minimum wage to median full-time wages is 54.4% for Australia ⁴³ and 64.2% for New Zealand ⁴⁴ . There was no increase in the Australian federal minimum wage following their 2009 review.				
Comparison with other income benchmarks	The current adult minimum wage is significantly higher than the unemployment benefit for a single adult aged 18 to 24 years and 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). 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) ⁴⁵ . 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 ⁴⁶ .				
Number of workers directly affected (18-	67,900	76,000	124,900	304,600	490,400

⁴⁰ To ensure that earnings of people on low incomes do not deteriorate relative to those of other workers.

Benchmarks: changes in average and median wages

⁴¹ To increase the incentives to work, for people considering work. Benchmarks: benefit levels and costs associated with working

⁴² Based on an exchange rate of 0.8012 from New Zealand Reserve Bank.

⁴³ Source: Employee Earnings, Benefits and Trade Union Membership, Australia, August 2008, using median full-time weekly earnings. Calculation is based on a 38 hour week for the minimum wage.

⁴⁴ Using the New Zealand Income Survey, June 2009

⁴⁵ The Quarterly Employment Survey (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.

⁴⁶ Blumenfeld S. and P. Kiely (2009) *Employment Agreements: Bargaining Trends & Employment Law Update 2008/2009*. Victoria University of Wellington.

Assessment criteria/consideration	Option 1: \$12.50	Option 2: \$12.75	Option 3: \$13.10	Option 4 \$15.00	Option 5 \$16.75
64 years)					
Percentage of workers directly affected (18-64 years)	4.0%	4.5%	7.3%	17.9%	28.9%
Number of workers directly affected (16-17 years) ⁴⁷	19,500	20,400	26,400	32,300	34,400
Impact on low paid workers	A modest increase in the minimum wage can have a positive economic and social impact on people who are likely to be low paid through increasing their income and maintaining income equity for low paid workers. 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). Our data indicates that youth, women, Māori, Pacific and part-time workers are more likely to be low paid workers.				
Gender pay gap	Increasing minimum wage rates is likely to have a small, positive outcome on the gender pay gap. If the minimum wage was raised to \$13.10, then the gender pay gap narrows from 85.6% to 85.7%.				
Interaction with social assistance (based on modelling three scenarios)	Scenario 1A	A sole parent with two children aged 5 and 9 years, receiving the DPB.	Small positive net impact on income across all options, with the increase being higher with each option.		
	Scenario 1B	Identical to scenario 1B except that instead of receiving the DPB, he/she is receiving the in-work tax credit and minimum family tax credit	Small positive net impact on income. Lowest increase comes through option 5.		
	Scenario 2	A couple with one full-time worker and one part-time worker and a child aged 14.	Small positive net impacts on income for options 1 to 3, higher impacts for options 4 and 5.		
	Scenario 3	A couple with a 2 year old child, who are doing seasonal work	Small positive net impacts on income for options 1 to 2. Proportionally, larger increase for option 3. Significantly larger increases for options 4 and 5.		
Increase in economy-wide weekly earnings (%)	0.00%	0.04%	0.10%	0.96%	2.55%
Wage earnings increase ('000)	0	\$538	\$1,553	\$14,790	\$39,164
Increase in inflation (% points)	0.00	0.02	0.04	0.42	1.12
Projected job growth (reflecting potential constraint)	19,200 (0.9%)	19,200 (0.9%)	18,300 (0.88%) - 18,800 (0.86%)	11,100 (0.5%) - 13,800 (0.6%)	4,400 (0.2%) - 9,100 (0.4%)
Potential constraint on	0	0	400 – 900	5,400 - 8,100	10,100 - 14,800

⁴⁷ Assuming that all 16 and 17 year olds are eligible for the adult minimum wage.

Assessment criteria/ consideration	Option 1: \$12.50	Option 2: \$12.75	Option 3: \$13.10	Option 4 \$15.00	Option 5 \$16.75	
job growth (absolute change)						
Potential constraint on job growth (relative change)	0.0%	0.0%	0.02% - 0.04%	0.3% - 0.4%	0.5% - 0.7%	
Industry Sectors	Generally, industries that are most likely to be affected by a minimum wage increase are retail and hospitality. If, for example, the minimum wage was to be increased to \$13.10, then the hospitality sector would be likely to be the most affected sector with around 32.7% of workers, followed by retail trade (22.7%) and agriculture (9.6%).					
State Sector (fiscal impacts – direct wage costs)	Health⁴⁸	\$11.3m	\$27.1m	\$102.8m ⁴⁹	\$191.7m ⁸⁸	
	Education⁵⁰	\$0	\$314,184	\$18.0m	\$67.4m	
	Social Development					
	– Home Help⁵¹	\$46,000	\$111,000	\$465,000	\$790,000	
	- Community Max	An increase in the minimum wage will impact on Community Max because the wage subsidy is paid at the adult minimum wage rate. MSD considers that there may be sufficient funding available within the appropriation to allow the original 3,000 Community Max places to be provided if the minimum wage increases to either \$12.75 or \$13.10. An increase to \$15.00 or \$16.75 would require additional funding to cover the cost of 3,000 places.				
	- Job Support Scheme	An increase in the minimum wage would have an impact on this scheme's funding. However, there is sufficient funding from the amount originally appropriated to cover any increased payments.				
ACC	Raising the minimum wage to \$12.75 or \$13.10, will have limited impact for ACC as it provides an entitlement to clients of around \$13.82 an hour, for home care and support services.		Increases to \$15.00 or \$16.75 an hour will have a significant impact on the cost of these services.			
Interface with other government interventions	Labour Market Policies	Active labour market policies that assist the transition between jobs reduce the negative impacts of unemployment on people, two examples are: <ul style="list-style-type: none"> the ReStart package, which provides assistance to eligible full-time workers who are made redundant through financial assistance and job-search assistance, and the Redundancy and Employment Transitions Advisory Group which is a 				

⁴⁸ These are best estimates only and focus on two areas which rely heavily on minimum wage workers, disability support and aged care. There are likely to be indirect affects on the mental health support sector.

⁴⁹ Additionally increasing the minimum wage to \$15.00 an hour would also significantly impact directly and indirectly on DHBs where there are numbers of clerical staff, cleaners and orderlies on current multi-employer collective agreements (MECA) base rates of \$14.62 an hour. If increased to \$16.75 an hour, the impact would be even greater with large numbers of staff with base rates below \$16.00 an hour across the health sector, and create great pressure for flow on to relativities.

⁵⁰ Estimated impact on non-teaching positions and untrained and entry-level teaching positions. Some Kindergarten teaching positions would also be affected by options 4 and 5, however, it is not possible to determine the fiscal impact on these positions in the timeframe provided as they are not paid via the Ministry of Education's payroll system. There are also likely to be additional fiscal impacts from non-minimum wage workers seeking to restore wage relativities.

⁵¹ These are estimates for home help (a non-taxable payment that provides financial assistance to people who require temporary part-time home help). They are the increased fiscal costs for the year 2010/11.

Assessment criteria/consideration	Option 1: \$12.50	Option 2: \$12.75	Option 3: \$13.10	Option 4 \$15.00	Option 5 \$16.75
		forum for government agencies to consult with business and union groups on specific issues of concern or interest, initiate specific actions and / or develop and progress joint initiatives in relation to redundancy.			
	Taxation	The New Zealand income tax system generally ensures that those on the lowest incomes pay a smaller proportion of their income in tax than individuals with higher incomes. There are also a range of tax credits for families to assist them to meet the costs of raising a family, or ensure that families in work are better off than comparable families receiving a social security benefit. Additionally, the independent earner tax credit is available to some people.			
	Education and Training	The Ministry of Education 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. The Government is also committed to establishing at least five Trades Academies in the next three years, to provide learning opportunities for trade or industry careers.			

Consultation

Feedback from submitters

- 89 From September to October 2009, 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 in total. Officials met with representatives from Business New Zealand, NZCTU, New Zealand Chambers of Commerce, SBAG, New Zealand Hospitality Association and New Zealand Retailers Association to discuss their submissions.
- 90 Business New Zealand, the Chambers of Commerce, New Zealand Retailers Association, the Federated Farmers of New Zealand, the National Association of Retail Grocers and Supermarkets of New Zealand (Incorporated) (NARGON) and the Hospitality Association of New Zealand recommended no increase to the minimum wage (option 1).
- 91 The Unite Union and Piki te Ora ki Te Awakairangi Primary Health Organisation recommended an increase to \$15.00 (option 4).
- 92 The 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 hour⁵².
- 93 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.
- 94 SBAG 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.

⁵² 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.

Agency feedback

95 The Treasury, Ministry of Economic Development, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Te Puni Kōkiri, Ministry of Youth Development, the Office for Disability Issues, Ministry of Social Development, Ministry of Health, Tertiary Education Commission, Ministry of Education, Accident Compensation Corporation, Inland Revenue and the Department of the Prime Minister and Cabinet have been consulted in this review.

Ministry of Pacific Island Affairs

96 The Ministry of Pacific Island Affairs (MPIA) endorses an increase of the minimum wage to \$13.10 (option 3). This increase will be in line with average wage increases. Pacific peoples earn less than other groups and experience slower income growth. Increasing the minimum wage will help ensure income equity for Pacific peoples in work. A rise in the minimum wage will have positive economic and social impacts. We also note that the impacts of employment effects will be minimal.

97 The MPIA considers that proposed changes to the social welfare system are work focused. For benefits system changes to succeed, they must be considered alongside minimum wage increases to ensure that there are strong work incentives.

98 Of the options presented, option 3 is more likely to be of maximal benefit to Pacific peoples working in areas of low wage employment.

99 Option 1 – \$12.50 (status quo) – is not preferred as it provides no real positive impact for Pacific peoples affected by this review. Option 2 – \$12.75 – is also not preferred as the increase offers minimal positive impact for Pacific peoples affected by this review.

Ministry of Women's Affairs

100 The Ministry of Women's Affairs (MWA) notes that despite the recession and a weakening labour market, average hourly earnings and median hourly earnings have increased by 3.2 percent and 4.1 percent respectively over the past year (New Zealand Income Survey). So, in spite of concerns surrounding the affordability of wage increases during a recession, this indicates wages have increased for those workers around the middle of the wage distribution. MWA's view is that it would be unfair on minimum wage workers, the majority of whom are women, not to receive a similar increase in their earnings. Based on the information provided, MWA's preferred option would be for the minimum wage to maintain its relative position to the average worker, in other words an increase in the minimum wage to \$13.10 (option 3). In the analysis of option 3 the Department of Labour notes that around 124,900 workers⁵³, of which 55.6 percent are women, are likely to see an increase in their wage if the minimum was increased to \$13.10, but that this increase may constrain job growth by 400 to 900 jobs. Given there is no clear consensus in the literature surrounding the impact of the minimum wage on job growth, MWA is confident that the benefit to women from option 3 would far outweigh any potential costs.

Ministry of Social Development

101 The Ministry of Social Development (MSD) recommends a cautious approach to reviewing the minimum wage. A balance needs to be struck between providing strong financial incentives for people to leave benefit and move into work and ensuring that minimum wage levels do not constrain the creation of jobs. The government is considering

⁵³ Aged 18 to 64.

changes to the social welfare system that are work focused. For these changes to succeed, the welfare system must provide strong financial incentives for people to enter work as well as not deterring employers from creating jobs. Beneficiaries, especially Māori, Pacific and youth, are only able to benefit from a higher minimum wage if there are jobs that they can move into. If Cabinet agrees to raise the minimum wage then MSD recommends that the increase be limited to \$12.75 to reduce the possibility of the increased minimum wage resulting in fewer jobs being created.

- 102 Another factor to consider is that if the minimum wage is not increased but living costs increase then there is a risk that further hardship assistance may be required (for example, an increase in demand for Special Needs Grants).

Ministry of Youth Development

- 103 The Ministry of Youth Development's preferred options are either option 2 (\$12.75) or option 3 (\$13.10), as these options maintain existing levels of fairness, protection, and incentives to work for young people.

Te Puni Kōkiri

- 104 As advised in our analysis to the Department of Labour, Te Puni Kōkiri considers that the minimum wage should be increased to \$15.00 an hour over two years, with the first step of \$13.85 an hour in the first year 2010, rising to \$15.00 an hour in 2011, subject to favourable economic conditions⁵⁴.
- 105 Te Puni Kōkiri suggests a stepped approach to increasing the minimum rate to \$15.00 an hour over two years as this would mitigate the initial impact on employers. Indications from previous increases in minimum wages are that the impact on employers is lessened if the intended direction of future reviews is announced within a timeframe that gives them an opportunity to prepare for the change.
- 106 Te Puni Kōkiri notes that the Māori employment rates have not been significantly impacted by minimum wage increases between 1986 and 2006.
- 107 While noting the Department of Labour's assessment that \$13.10 would result in a potential constraint on employment growth of between 400 and 900 jobs, the empirical evidence assessed by Te Puni Kōkiri indicates that there may have been positive effects from substantial youth minimum wage increases⁵⁵.
- 108 It also suggests that the overall impact for Māori workers of a \$13.85 an hour minimum wage is likely to be positive, and particularly significant for low paid Māori and Māori beneficiaries wishing to re-enter the work force, as this will strengthen their attachment to the labour market during the recessionary period and limit the growth in numbers of discouraged workers⁵⁶.

The Treasury

- 109 Treasury supports taking a cautious approach to setting the minimum wage rate. Given New Zealand's currently weak labour market, minimum wage increases over the last decade, how high the minimum wage is as a proportion of the average wage relative to

⁵⁴ Increasing the minimum wage to \$13.85 or 10.8% is expected to strongly improve relative levels of fairness, protection, income distribution and work incentives.

⁵⁵ For example, Hyslop and Stillman's (2004) Youth Minimum Wage Reform and the Labour Market and international research by Card and Krueger on New Jersey's minimum wage increase in 1992.

⁵⁶ Assessment included in the Department of Labour's Cabinet paper on Minimum Wage Review 2008.

other OECD countries and the potential fiscal costs of an increase in the minimum wage, we consider that a cautious approach would lead to a zero increase in the minimum wage.

- 110 New Zealand's minimum wage has increased substantially in the last decade. See figure 2. Between 1999 and 2008 the real minimum wage increased by 36.6% for adults and 127.6% for 16-19 year olds.
- 111 New Zealand's minimum wage is also high compared to other OECD countries. In 2006 New Zealand's minimum wage as a proportion of the average wage was higher than competitor countries including Australia, the United Kingdom, United States, and Canada, and the second highest in the OECD.

Table S.2. Relative minimum-wage levels, 2000-2006

Gross earnings of full-time minimum-wage earners as per cent of gross average wages (AW)

	2000	2001	2002	2003	2004	2005	2006
Australia	50	51	50	49	48	48	47
Belgium	42	41	41	41	40	40	40
Canada	38	38	38	38	38	38	38
Czech Republic	30	36	38	40	40	41	41
France	43	43	44	44	45	47	47
Greece	43	43	43	43	41	39	39
Hungary	28	38	42	39	37	38	39
Ireland	53	51	49	51	50	53	52
Japan	27	27	28	28	28	28	28
Korea	22	22	23	24	23	25	26
Luxembourg	40	41	41	42	41	42	41
Mexico	27	25	25	24	24	24	24
Netherlands	46	45	45	45	43	42	43
New Zealand	45	44	45	46	47	48	50
Poland	33	34	33	34	34	36	37
Portugal	41	41	40	40	39	39	39
Slovak Republic	31	32	35	37	34	37	36
Spain	34	34	33	33	34	35	36
Turkey	18	16	19	21	27	27	27
United Kingdom	32	33	33	34	35	35	35
United States	39	38	37	36	35	34	33
OECD-21	36	37	37	38	38	38	38

Note: The available average wage figure for the US currently excludes supervisory and managerial workers. The ratios shown for the US would therefore be considerably lower if US average wages were available on the same basis as in other countries. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: Secretariat calculations based on the OECD Minimum Wage database.

StatLink  : <http://dx.doi.org/10.1787/233275325270>

- 112 The economic recovery is likely to be gradual, with any decrease in unemployment likely to come after a lag. Treasury considers that increasing the minimum wage in the current economic environment would create wage pressures for employers (both directly through increased wage costs and indirectly through pressure on wage relativities) who are retaining most of their workforce during the recession, and limit the opportunity of employers to expand their workforce as the recession eased.
- 113 Increases in the minimum wage carry direct fiscal costs and flow on costs in terms of maintaining wage relativities. Given the decline in the government's fiscal position over the last year, Treasury has concerns that the total fiscal costs have not been explicitly calculated in the minimum wage review.
- 114 Treasury believes there is a risk that increasing the minimum wage would exacerbate New Zealand's youth unemployment rate. Youth face barriers to entry into the labour market if the minimum wage is too high or set at the same rate as the adult minimum

wage because of their lack of work experience and low skill level. Youth unemployment is of particular concern because it can have long-term consequences in terms of lower income and poor labour market outcomes. Statistics New Zealand seasonally adjusted Household Labour Force Survey data for September 2009 recorded a youth unemployment rate of 25%. Ministers may wish to ask the Department of Labour to analyse the impact of the minimum wage on youth unemployment.

115 Treasury suspect that the measure of average wage increases used in this report overstates the earnings of the majority of workers in the last year. Option 3 in the paper is based on an average wage increase of 4.8% for the June 2009 year. The September 2009 release of the Labour Cost Index, which measures changes in wage rates for a fixed quantity and quality of labour, measured an annual percentage change in salary and ordinary time wages of 2.1%. The Labour cost index also showed that for 52% of workers, wages and salaries were no higher in September 2009 than in September 2008.

Conclusions and recommendations

116 The Department of Labour has assessed each option against the assessment criteria for the minimum wage and has found the following:

- **Option 1 of \$12.50 an hour** will directly affect up to 87,400 workers. While this option erodes 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. No change in the minimum wage may decrease its relativity with benefit payments that are likely to increase from 1 April 2010, which may reduce incentives to work.
- **Option 2 of \$12.75 an hour** could preserve the real value of the minimum wage and maintain relativity with benefit payments. It will maintain existing work incentives, as it will increase by a similar percentage as benefits, and current levels of fairness. It may erode existing levels of income distribution and protection as the movement is lower than the increase in average wages and average minimum wages in collective agreements. This option could directly affect up to 96,400 workers. It is estimated that it will have no constraints on 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 preserve the real value of the minimum wage and 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 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. This option could directly affect up to 336,900 workers. 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.

- **Option 5 of \$16.75 an hour** will significantly increase the real value of the minimum wage and very strongly improve relative levels of fairness, protection, income distribution and work incentives as the increase is significantly higher than the benchmarks used. This option 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.

117 Given the fragile economic recovery and the likelihood that unemployment will increase over the coming year, the Department of Labour recommends a cautious approach when setting the minimum wage rates for 2010. In considering a potential increase there needs to be a careful balancing in terms of the benefits of preserving low paid workers' incomes vis-à-vis potential costs from employment impacts arising from an increase. The Department's examination of the current labour market conditions suggests that they could be robust enough to support an increase to \$12.75 an hour (option 2) or \$13.10 an hour (option 3).

Implementation

118 The Department recommends implementing any changes to the minimum wage rates on 1 April 2010. Historically, any change in the minimum wage occurs on or before 1 April, thus providing consistency for employees and employers. The 1 April is also the same date that the adjustments to Accommodation Supplement, Minimum Family Tax Credit and ACC levies for the Work Account become effective.

119 The Minister of Labour intends to make a media statement following Cabinet confirmation. The Regulatory Impact Statement and the Officials' report will be made publicly available through the Department of Labour's website. If the minimum wage is increased, the Department of Labour will provide information through its website, call centre and other customer services to give employers warning of the changes.

Monitoring, evaluation and review

120 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.

121 There is no specific review planned of the decisions from the 2009 minimum wage review. The Department undertakes informal monitoring of the minimum wage during the year, including media reports, New Zealand empirical research and evidence from submitters to the following minimum wage review.

Disclaimer

122 Access to the data used in this study 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 in this study are the work of the author, not Statistics New Zealand