



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

**Submission**  
**to the**  
**Minimum Wage Review**  
**2010**

**22 October 2010**

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## 1. Summary

- 1.1. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2011 we estimate this to be \$17.22<sup>1</sup>) to set a clear base. However a possible alternative is, as an interim step on the way to this level, to increase the minimum wage to \$15.00 from 1 April 2011 and move to the 66 percent benchmark in April 2012.
- 1.2. The CTU is seeking the removal of the new entrant rate so that the minimum wage applies fully to those aged 16 years and over.
- 1.3. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support the review of the employment of children and additional protective mechanisms for children and young people in work, including a process to enable the ratification of ILO Convention 138. We propose that the review of the employment of children should recommend sectors and occupational categories where the minimum wage should apply regardless of age.
- 1.4. The CTU is seeking either the removal of the trainee rate or a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.
- 1.5. There is a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective at extending protection to non-standard working arrangements like contracting.
- 1.6. There should be a government agency charged with gathering more information about low pay in New Zealand. This should also collect and publish information on ethnic, migrant and gender aspects of low pay.
- 1.7. As well as the minimum wage, responsible contractor policies represent an important tool in addressing low wages.
- 1.8. More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

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<sup>1</sup> We are proposing that the minimum wage for 2011 is based on 66.0% of the average ordinary time hourly rate at 31 March 2011. The average ordinary time wage as at June 2010 in the Quarterly Employment Survey was \$25.45 an hour and we allow for a 2.5% increase to take it to the end of March 2011.

## 2. Introduction

- 2.1. The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) welcomes the opportunity to make a submission as part of the 2010 minimum wage review. The CTU is the internationally-recognised confederation of trade unions in New Zealand and represents 39 affiliated unions with a membership of over 350,000 workers. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Runanga o Nga Kaimahi Maori o Aotearoa (Te Runanga) the Maori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Maori workers.
- 2.2. New Zealand workers have low wages by developed country standards. The problems this is causing are well known. Three actions are vital in lifting the low wage levels in New Zealand.
- 2.3. Firstly, the minimum wage must be lifted significantly, and this submission makes this case. It represents the wage ‘floor’.
- 2.4. Secondly, we need strong increases in productivity so that higher wages can be sustained and continue to be improved. This is a wider policy issue in which the union movement is actively involved and we have discussed elsewhere.
- 2.5. Thirdly we need to ensure that productivity is passed on to workers in their wages. This has not been the case in recent years. The most important step to do this is to strengthen collective bargaining. We discuss this further below.
- 2.6. As an immediate matter, many low income wage earners are facing wages falling behind rising costs. The New Zealand Income Survey for the year to June 2010 showed falling living standards, with households receiving lower incomes than both 2009 and 2008, meaning they have fallen over 4 percent in real terms. The median weekly income was \$536 in June 2008, \$538 in 2009, and \$529 in 2010. The Labour Cost Index for wages and salaries rose only 1.6 percent in the year to June, compared to 1.7 percent inflation. Low income workers are facing steeply rising costs in the coming year with inflation expected to peak at an annual rate of 5 percent or more due to GST, other government charges and policy changes, and general inflation, yet gained the least from the October tax changes. We calculate that a worker on the minimum wage would have gained a net \$4 a week from the tax changes while a person on four times the minimum wage (\$106,080) will gain over ten times that amount – \$43. Some people on the lowest incomes will not receive any increase, and may even lose after the increase in GST, which affects people on low incomes particularly badly.
- 2.7. The CTU acknowledges that since December 1999 several important steps have been taken in the area of minimum wages. These include lifting the adult rate, lowering the age of application for the adult rate, increasing the rate for 16/17 year olds to 70 per cent, and then 80 per cent, of the adult rate, benchmarking the rate for trainees to no less than the youth rate and to

limiting the time spent for a 16 or 17 year old on the youth rate to 200 hours or 3 months whichever is the lesser. The minimum wage has increased by 82 per cent since 1999, in striking contrast to the 14 per cent increase over ten years from 1990.

- 2.8. The CTU strongly encourages the Government to continue to build on this progress. While we acknowledge that the Government increased the rate from \$12.00 to \$12.50 from 1 April 2009 and then to \$12.75 from 1 April 2010, these were only modest increases compared with prior years since 2000 and we regard a lift beyond this as necessary.
- 2.9. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2011 we estimate this to be \$17.22) to set a clear base. However a possible alternative is, as an interim step on the way to this level, to increase the minimum wage to \$15.00 from 1 April 2011 and move to the 66 percent benchmark in April 2012.
- 2.10. Some employer groups may counter that increases impose unbearable costs on employers. But low wages in New Zealand are now more than a social issue or a debate about the balance of competing interests. Low wages are now an intrinsic barrier to economic development in New Zealand.
- 2.11. The minimum wage in New Zealand currently stands at only 65 per cent of the Australian federal minimum wage<sup>2</sup> and even further behind its system of minimum wages under its Modern Award and National Minimum Wage Order system. It is time for the New Zealand Government to send an unambiguous signal that low wages will not be tolerated in this country.

### **3. The Minimum Wage is too low in relative terms**

- 3.1. The minimum wage is currently 50 per cent of the average hourly wage, the same proportion as in 2008.<sup>3</sup> This is low by several measures.
- 3.2. The minimum wage is low compared to minimum wages for workers covered by collective agreements. Currently, the average minimum printed weekly wage in collective agreements surveyed by the Industrial Relations Centre at Victoria University is \$576 – or \$14.40 per hour based on a 40-hour week.<sup>4</sup>
- 3.3. In historical terms, the ratio is well short of the 66 per cent it reached in April 1973 and even further behind the ratio of 83 per cent when the minimum wage was first introduced in 1946.

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<sup>2</sup> Calculated at an exchange rate of A\$0.76 to NZ\$1.00.

<sup>3</sup> Statistics New Zealand, "Quarterly Employment Survey", June 2010

<sup>4</sup> Stephen Blumenfeld, Sue Ryall and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2009/2010", Industrial Relations Centre, Victoria University of Wellington, Wellington, 2010.

- 3.4. The minimum wage affects many workers, and not only those actually on the minimum wage itself, but it is still significantly lower than the wage many low paid workers receive. According to the New Zealand Income Survey for the year to June 2010, half of male part-time wage and salary workers (72,200 people) receive less than \$14.50 an hour, and the equivalent level for women (157,000 people) is \$15.33. From an occupational view point, half of all sales workers (86,400 people) receive less than \$14.50, half of labourers (106,800 people) receive less than \$15.15, and half of Community and personal service workers (91,400 people) receive less than \$15.75.
- 3.5. As detailed above, incomes have also fallen behind rising costs, shown by a number of measures. Low income workers are also facing steeply rising costs in the coming year, yet gained the least from the October tax changes.
- 3.6. The minimum wage is also low compared to Australia. In Australia the national minimum wage was raised to A\$15.00 as of 1 July 2010<sup>5</sup>. This is approximately NZ\$19.74 or 55 percent higher than the New Zealand minimum wage in a straight exchange rate conversion (12 Oct 2010). In purchasing power parity terms, it is 38 percent higher<sup>6</sup>. These differences have increased since 2009 – from 44 percent and 32 percent respectively.
- 3.7. However the difference is much greater in reality. Firstly, Australia has a loading of 21 percent on the minimum wage for casual workers not covered by an award or agreement. The casual loading is particularly significant in that many people on the minimum wage are likely to be casual workers. For those people, the Australian national minimum wage is 87 percent higher on straight exchange rate conversion and 67 percent higher in purchasing power terms.
- 3.8. Secondly, the Australian minimum wage system is not a single wage as it is in New Zealand. In effect it is a skill-based minimum wage scale, based on their system of Modern Awards which according to the Australian government covers 96 percent of private sector employment; it also covers the majority of public sector workers (the main exceptions being some State and local government employees). In principle, all jobs are evaluated into skill classifications (some with sub-classifications), each of which has its own minimum wage, though existing awards are in transition to the new system. The following is taken from the Manufacturing and Associated Industries and Occupations Award 2010, with New Zealand dollar equivalents added. The lowest skill classification is C14 and its minimum wage is the same as the national minimum wage.

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<sup>5</sup> See <http://www.fwa.gov.au/alldocuments/PR072010.htm>

<sup>6</sup> Using OECD Comparative Price Levels for August 2010 (published Oct 2010).

Classification level	Minimum weekly wage	Minimum hourly wage				
		\$A	\$A	\$NZ <sup>7</sup>	Above NZ by	\$NZ PPP <sup>8</sup>
C14	569.90	15.00	19.74	55%	17.65	38%
C13	586.50	15.43	20.30	59%	18.15	42%
C12	609.00	16.03	21.09	65%	18.86	48%
C11	629.90	16.58	21.82	71%	19.51	53%
C10	663.60	17.46	22.97	80%	20.54	61%
C9	684.50	18.01	23.70	86%	21.19	66%
C8	705.30	18.56	24.42	92%	21.84	71%
C7	724.20	19.06	25.08	97%	22.42	76%
C6	760.90	20.02	26.34	107%	23.55	85%
C5	776.40	20.43	26.88	111%	24.04	89%
C4	797.20	20.98	27.61	117%	24.68	94%
C3	838.90	22.08	29.05	128%	25.98	104%
C2(a)	859.80	22.63	29.78	134%	26.62	109%
C2(b)	897.50	23.62	31.08	144%	27.79	118%

- 3.9. Australia's minimum wage is therefore considerably higher than New Zealand's in whatever terms it is compared. It can be more than double what a New Zealand worker would receive.
- 3.10. This is damaging to the New Zealand economy. Net outflows of people to Australia peaked in the year to December 2008 at 35,400 and until then there had been continual increases in outflows since 2001. This represents significant losses of workers to Australia, over 80 percent (net) being New Zealand-born. The net outflow to Australia was 15,908 in the June 2010 year. Although down from the peak (reflecting overall permanent and long-term migration trends and in part due to the global economic crisis), it is still at a level which merits concern, New Zealand continues to be the largest source country for permanent migrants to Australia, exceeding the UK. It is time for a significant step to be taken to address this issue and a lift in the minimum wage to \$17.22 would provide that signal.
- 3.11. Migration from New Zealand to Australia is not only by high income workers: it is across the wage and occupational spectrum. In fact one study suggests it is more attractive to lower income and lower skilled workers. For example Dr James Newell<sup>9</sup> using 2006 Census data found that "New Zealand-born workers are 4.3 per cent of all machinery operators and drivers in Australia, and 3.4 per cent of all labourers, but only 2.4 per cent of professionals"

<sup>7</sup> Calculated at a straight exchange rate conversion of A\$0.76 to NZ\$1.00.

<sup>8</sup> Purchasing Power Parity as above.

<sup>9</sup> Reported in the New Zealand Herald, 2 December 2009, p.A1, "Study confirms Oz 'myth' on unskilled Kiwis".

although there were some professional categories (including geologists, geophysicists, psychiatrists, anaesthetists and nurses) in which the New Zealand proportion was higher than the average 2.8 per cent of employed people born in New Zealand. “The percentage of NZ-born workers was more than the average in machinery operators and drivers, labourers and technicians and trades workers, at 2.9 per cent. But they were under-represented in all other groups, including managers, community and personal service workers and clerical and administrative workers (all 2.7 per cent), professionals (2.4 per cent) and sales workers (2.3 per cent)”.

- 3.12. Similarly, Richard Manning and Ram SriRamaratnam<sup>10</sup>, using arrival and departure information, found that “The PLT [Permanent and Long-Term] flow data between Australia and New Zealand indicates that New Zealand experienced an outflow of migrants at all different skill groups in each of the past 15 years”. The balance this study finds is somewhat different from Newell’s, but still shows emigration to Australia is across all skill levels: “The largest and most significant outflow of permanent and long-term migrants to Australia has been at the highly skilled, skilled and semi-skilled levels, with significantly less migrants categorised at the elementary skilled level departing to Australia. The outflow of migrants from New Zealand to Australia was even higher at the skilled and semi-skilled levels compared to the highly skilled level during the late 1990s. While the level of skilled migrant outflow has dropped off a little since 2000, the semi-skilled migrants has kept up or exceeded the highly skilled category of migrants”.
- 3.13. Clearly, the government’s goal of income parity with Australia by 2025 must pay as much attention to low income workers as to anyone else.
- 3.14. The most effective way to ensure that the minimum wage is set at a reasonable level is to index it to the average wage. As noted by Dowrick and Quiggin<sup>11</sup> there are sound reasons to index the minimum wage to average or median wages. They state that in order to avoid further widening of inequality, and to avoid the exacerbation of poverty traps, minimum wages need to be indexed not to the Consumer Price Index but to the average or median wage – allowing workers in low-pay occupations to share in the benefits of rising productivity. Indexing is also recognised as a vital mechanism to maintain the value of NZ Superannuation.
- 3.15. The CTU submits that it is time that the New Zealand Government accepted the International Labour Organisation guideline that the minimum wage should be based on the general level of wages and index at approximately

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<sup>10</sup> “Employment by skills in New Zealand and migrants’ share in its recent growth: trans-Tasman and wider comparisons”, by Richard Manning and Ram SriRamaratnam, Department of Labour, paper presented to the New Zealand Association of Economists conference, June 2010, available at <http://www.nzae.org.nz/conferences/2010/programme.html>.

<sup>11</sup> Steve Dowrick and John Quiggin. “A Survey of the Literature on Minimum Wages”. Australian National University and University of Queensland, February 2003, pg 6.

two-thirds of the average wage which is close to the recommended European Social Standard<sup>12</sup>.

- 3.16. Although there have been significant increases in the minimum wage in recent years and a modest increase over the last two years, there is also evidence of widening income disparities. One way of reducing this disparity is to adopt indexation at an adequate level.
- 3.17. We therefore propose a goal of setting the minimum wage at 66 percent of the ordinary time average wage, to be reached within two years. At 1 April 2011, we calculate that would be \$17.22, based on the average ordinary time wage of \$25.45 at 30 June 2010, and estimated inflation of 2.5 percent between then and 1 April 2011. As an immediate step towards that, the minimum wage should be raised to \$15.00 as from 1 April 2011.

#### **4. New Entrant Rate**

- 4.1. The CTU believes the new entrant rate should be removed immediately. It is simply unfair to reward young workers less for the same work as an older or more experienced employee.
- 4.2. There are no logical or moral grounds to treat workers differently in terms of remuneration in their initial months at work just because they are young. Older workers are not universally required to complete work hours to access a minimum wage and this practice is inconsistent with the ILO Convention that outlaws unequal payment for work of equal value.
- 4.3. The only way to sustain the argument for new entrant rates is to assume that work done by younger and new workers is inherently of lesser value than the work done by others. There is no evidence to support this.
- 4.4. In the New Zealand context there is relevant evidence that minimum wage increases have little or no impact on youth employment. In 2005 Steven Stillman told a Motu policy seminar in Wellington that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged less than 16 years would “have very little effect on youth employment opportunities”.<sup>13</sup>
- 4.5. The CTU also supports the minimum wage applying regardless of age including those aged less than 16 years of age.

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<sup>12</sup> The ILO does not recommend a precise level of the minimum wage. However Recommendation 30 in relation to ILO Convention 26 notes that the minimum wage should be set in relation to the general level of wages in the country. As Peter Brosnan from Griffith University has argued in *Can Australia Afford Low Pay?* that an appropriate guide to level can be found in the European Social Charter ‘decency threshold’ which suggests 68 per cent of the adult mean wage. Brosnan also suggests that 60 per cent could also be a reasonable level.

<sup>13</sup> Steven Stillman, “The impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform”, Motu Policy Seminar, Thursday 21 July 2005, Wellington.

- 4.6. More than 40 per cent of 11 to 14-year-olds are estimated to work at least occasionally; approximately 25 per cent of 15-year-olds are in regular part time work; nearly 40 per cent of 16-year-olds and 50 per cent of 17-year-olds are in employment.
- 4.7. Although it might be preferable in some respects to regard any work done by those under 16 years to be primarily of an incidental nature or part of a learning experience, the purpose of work should no more determine remuneration for young workers than it does for other workers. Similar arguments were used to justify gender pay rates for the same work prior to the passing of equal pay legislation. The reality of the figures above is that many under 16 year olds are working. There are now many 14 and 15-year-old young people in regular part time work that contribute to their personal or family income in a meaningful way. In such an environment it is vital to secure those workers' rights and to ensure that adult and other young workers in industries with a high dependence on youth employment are not disadvantaged by the downward pressure on their incomes that comes from the ability to replace them with, albeit with limited duration, lower paid youth workers.
- 4.8. Unions have negotiated arrangements similar to or better than the statutory new entrant position. However it also remains to be seen just how practical the 200 hours or 3 months qualification periods will be in practice. For instance in the retail sector, some employers are making use of the new entrant qualifying periods whereas other employers are simply paying not less than \$12.75 an hour.
- 4.9. The fast food industry is one of the largest employers of young people in New Zealand. The Unite union reports that in its collectives with McDonalds, Restaurant Brands, Burger King and Wendy's, youth rates have been abolished without any apparent impact on the level of youth employment. Between them these companies employ over 18,000 staff.
- 4.10. For all of these reasons the CTU submits that the Government should indicate that it intends to completely remove the remaining discrimination against young workers aged 16 and 17 years.
- 4.11. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support an approach to the ILO to explore how to comply with the ILO Convention 138 within the context of the current legislative and policy framework which provides thresholds to entry of young people to work in general and for partial types of work. There is however an urgent need for more data about young people. We don't know enough about what is happening in this area because of the absence of data.

## 5. Training Rates

- 5.1. The CTU conditionally accepts the continuation of an exemption for trainees. This should be based on a negotiated sliding scale for trainees which sees the rate payable progressively increased to the minimum wage and it must continue to require 60 credits of training. If this is not accepted we submit that the trainee rate should be abolished.
- 5.2. As discussed below, apprentices were previously on a graduated scale based on hours of training completed. But for those trainees and apprentices there was the *quid pro quo* of higher rates of pay in the future. This is no longer assured. Formalised training agreements now tend to be found in more male-dominated occupations where clearer apprenticeship structures exist. The evidence from a 2006 study shows that despite similar starting rates (a median of about \$10.54/hour), once an employee in the male-dominated occupations examined had completed their apprenticeship, their wages jump to a median of \$19/hour whereas the equivalent level for female-dominated roles was only \$12.50/hour.<sup>14</sup> The prevalence of penal rates and casual loadings in awards also meant that young people who were more likely to be employed outside core working hours and/or on a casual basis had lower hourly rates supplemented by penal rates and casual loadings.
- 5.3. We therefore propose that there should be a maximum length of time that a trainee can remain on a rate lower than the adult minimum wage. We suggest that a period of 12 months is appropriate. In the absence of a negotiated trainee scale, a minimum 60 credits of training and a limited time period, the CTU would support the removal of trainee rates. Some of the arguments for removing youth rates apply here.
- 5.4. Historically, there were exemptions from the Minimum Wage Act for apprentices. This was based on the argument that an apprentice was at an initial learning stage. However, at the end of the apprenticeship, the worker would be paid at a relatively higher qualified tradesperson rate. The lower starting rate was also an inducement to employers to take on apprentices. There are and have been apprenticeship scales that are in excess of the minimum wage. In other cases, it might have been only the first two steps of the scale that were below the minimum wage.
- 5.5. The scale for apprentices was set on the basis of particular time frames/length of service and a scale determined by a series of rates at a progressively increasing percentage of the qualified tradesperson rate.
- 5.6. However, the combined effect of the Industry Training Act 1992 which repealed the Apprenticeship Act 1983, and the Employment Contracts Act 1991, was that the continued relationship between an apprenticeship scale and a tradesperson rate in an appropriate award was not possible, and the

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<sup>14</sup> Prepared for the Ministry of Women's Affairs, "Research on wages and costs of education and training" by Jarrod Moyle and Catherine Hendry, Reward Consultants 1 September 2006.

process of agreeing on a scale was also lost. Some sectors have however kept a formal process to determine an apprenticeship scale.

- 5.7. In addition, many trainees are not progressing through to today's equivalent of tradesperson rates so the previous "balance" or "quid pro quo" between a lower start rate and a higher finishing rate has been lost to some extent.
- 5.8. The CTU has previously acknowledged that this issue was addressed by requiring that a trainee must not be paid less than the youth minimum wage. At the time, we submitted that it is preferable that no exemption should apply at all. Alternatively, if there is such an exemption then it should be on to a scale that is formally agreed between the appropriate employer and union group, and advised to the Department of Labour. Such a provision is necessary, we submitted, in the interests of protecting trainees, gathering information, reflecting the diverse training circumstances, and ensuring a good faith process in arriving at trainee scales.
- 5.9. There will also be concerns developing of trainees not seeing out their formal training if they are kept on a rate of 80 per cent of the minimum wage for an extended period.
- 5.10. The development of policy around the *Youth Guarantee* needs to consider the implications for trainees. The policy intention of Youth Guarantee is that "all those under the age of 18 should be in work, education, or training", including the possibility of being in an apprenticeship. It would not be desirable for 16 and 17 year olds to be in a trainee low pay trap.
- 5.11. Our proposal therefore is to either exempt trainees on the basis of a negotiated scale that might apply for a maximum period of 12 months for a trainee to be on a rate below the adult minimum wage or remove training rates completely.
- 5.12. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.

## **6. A low minimum wage is symptomatic of low wages in general**

- 6.1. In general, wages in New Zealand are low – in absolute terms, relative to Australia and other OECD countries, and in terms of an economic transformation in New Zealand to a high skill, high wage, and high value economy.
- 6.2. New Zealand workers have not seen productivity gains reflected in their wages. While labour productivity increased by 36 percent or 1.8 percent per year in the measured sector from 1992 to 2008, real wages as measured by the Labour Cost Index fell by 1 percent in this period.<sup>15</sup> Even the more

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<sup>15</sup> Statistics New Zealand, Productivity and Labour Cost Index.

favourable average ordinary hourly wage, which includes increases for recognition of individuals and reflects changes in labour market composition, rose only 18 percent in real terms from 1980 when productivity in the measured sector rose 82 percent or 2.2 percent per year. From 1989 the average ordinary time wage also rose 18 percent while productivity in the measured sector rose 49 percent or 2.1 percent per year and the ordinary time wage in the measured sector rose at most 17 percent<sup>16</sup>.

- 6.3. It is therefore essential that any increase in productivity is accompanied by mechanisms to ensure it is fairly distributed in wages. The minimum wage is one such mechanism. Another very effective mechanism is to strengthen collective bargaining.
- 6.4. According to the Industrial Relations Centre at Victoria University, only 17.5 percent of the workforce is covered by collective bargaining<sup>17</sup>, but their wage rates have increased significantly faster than the workforce in general. From June 1993 to June 2000 under the Employment Contracts Act which made collective bargaining very difficult and opened it to non-union parties, real wages measured by the LCI after CPI inflation did not rise at all – that is, 0 percent per year. At the same time, real wages in collective agreements (measured by the average adult minimum wage in them, after inflation) went up by 0.3 percent per year. During the Employment Relations Act period from June 2003 to June 2010, when only union collectives were permitted, and after all non-union collectives had expired, real wages measured by the LCI rose 0.1 percent a year. Over that period, real wages in collectives went up by 0.6 percent per year. Increases were not generous in either period, but there is a consistent picture of collectives doing better than individual agreements, and evidence suggesting that union collectives do better than non-union collectives.
- 6.5. New Zealand's unemployment rate until 2008 had been at or below 4 percent for an extended period (3.9 percent in September 2004 through to 4.0 per cent in June 2008 seasonally adjusted<sup>18</sup>). Despite continued labour shortages over this period Kiwi workers saw no significant change in their pay packets in real terms. In an environment of low and relatively unresponsive wage rates, and in light of the issues around productivity and economic transformation, a low minimum wage is symbolic of an economy with a low-skill, low technology approach to employment.
- 6.6. While unemployment has since risen (to 6.8 percent in June 2010) and is expected remain high for a considerable time (the Reserve Bank forecasts it to still be at 5.3 percent in March 2013 according to its September 2010 Monetary Policy Statement), these considerations continue to apply. Skill shortages have disappeared in many sectors, but they are re-emerging in

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<sup>16</sup> Statistics New Zealand Quarterly Employment Survey and Labour Cost Index.

<sup>17</sup> "Employment Agreements: Bargaining Trends and Employment Law Update 2009/2010", Stephen Blumenfeld, Sue Ryall and Peter Kiely, Industrial Relations Centre, Victoria University of Wellington, 2010.

<sup>18</sup> Statistics New Zealand, "Household Labour Force Survey", accessed through Infoshare.

others. It is likely that the construction industry has lost skilled workers to Australia during the very deep recession that sector experienced for example. This may well cause difficulties as the sector recovers and the needs of Christchurch following the earthquake put exceptional demands on the sector.

- 6.7. The intention should be to come out of this recession in a fit state to improve productivity, skills, and technology, and the Government has expressed this view. This should provide and be built on the assumption of better wages, not low cost labour.
- 6.8. OECD statistics show that between 1990 and 2009 (latest data available) real hourly earnings in the private sector increased by 1.5 percent annually in Australia but only 0.8 percent in New Zealand. The comparison is similar for the decade 1999-2009: private sector real hourly earnings rose 1.6 percent a year in Australia and 0.8 percent in New Zealand. Earnings in Denmark rose 1.5 percent a year, in Germany 2.2 percent, and in the U.K. 1.8 percent.
- 6.9. Average fulltime adult ordinary time earnings in Australia were A\$32.98 in May 2010<sup>19</sup>, and the New Zealand average ordinary time earnings were NZ\$24.45 in June 2010. At straight exchange rate conversion the Australian rate was \$43.39 or 70 percent higher than the New Zealand equivalent. In purchasing power terms it was worth NZ\$38.80 or 52 percent higher. Even if we add 7.9 percent to the New Zealand average wage to make allowance for it including part-time workers<sup>20</sup>, so estimating the average ordinary time wage for fulltime workers to be \$27.46, the gap is still 58 percent on the exchange rate comparison, and 41 percent in purchasing power terms. The gap has been growing rapidly since the beginning of the global financial crisis during which Australian wages continued to grow rapidly in real terms.
- 6.10. The sluggish nature of wage levels has been in striking contrast to corporate profits. There has been a long term shift in the balance between income to employees and returns to capital (gross operating surplus). Until 1993, employees received a greater (though rapidly falling) share of the economy's output than capital did. In 1981 for example, employees received 55.7 percent of GDP and capital received 35.9 percent. From 1994 until 2006 the position was reversed. A small part of that growth was rising numbers of self-employed due to employees being forced into contracting rather than employment relationships, but most was due to the stagnation or fall in real wage and salary incomes. The imbalance in how the growing production of the economy is shared (which also shows up in New Zealand's high levels of income inequality) is clearly a systemic issue which got steeply worse until

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<sup>19</sup> Average weekly full time ordinary time earnings, seasonally adjusted, were \$A1253.10 in May 2010 (Australian Bureau of Statistics). This is divided by 38 to obtain hourly earnings. Purchasing power is estimated using the latest (August 2010) OECD values for Comparative Price Levels between New Zealand and Australia.

<sup>20</sup> This is the difference between median hourly earnings for fulltime and all wage and salary earners shown in the New Zealand Income Survey, June 2010.

about 2002 when capital received a record 46.4 percent of GDP. After that, the imbalance moderated but has a long way to go to return to historical levels.

- 6.11. Executive pay has also risen steeply. One survey<sup>21</sup> showed that whereas in 2000, a CEO could expect to earn eight times as much as the pay of the average worker, by 2006, the average CEO pay-packet was 19 times the average wage.
- 6.12. A survey by Moyle Consulting released in May 2010<sup>22</sup> showed 48 percent of CEOs received a base salary increase in 2009, and of those who did receive an increase, the median increase was 5 percent. For the same period, the Labour Cost Index was showing that only 44 percent of wage and salary earners had received increases, over the year, with a median increase of 3.7 percent for those who received one.
- 6.13. From reports in the *New Zealand Herald* the following picture emerged for New Zealand’s top executives’ pay:

Year	2006	2007	2008
<b># of NZ’s largest companies</b>	44	56	49
<b>% increase</b>	23%	8%	25%*
<b>Average CEO salary</b>	\$1.018m	\$1.056m	\$1.217m
<b>Ratio to the NZ average wage</b>	25	27	25
<b>Ratio to the NZ min wage</b>	50	45	49

\*14% if one-off payouts to CEOs who left are excluded.

Source: *NZ Herald* "Richer than ever before" – 22 Mar 2008; "Price of success - what our chief executives earn" – 7 Apr 2007; "Top executives' pay averages \$1m" – 15 April 2006.

- 6.14. The CTU recognises that wages will not increase simply through a mechanism such as the annual review of the minimum wage. We recognise the significant increases in investment in skill development. Such investment in people can lift wages over a period, if it is alongside union collective bargaining and wider programmes to invest in new technology and infrastructure and engage workers in workplace and industry issues. But the symbolic and flow-on effect of minimum wage increases can play a vital role.
- 6.15. As well as underscoring the need for increased minimum wages, low wages point to the need for increased research into the nature of low pay in New Zealand. As such, the CTU continues to advocate the development of a Low Pay Unit to collect appropriate data about the extent and impact of low pay in this country.

<sup>21</sup> See <http://www.neon.org.nz/newsarchive/nzlwe/>.

<sup>22</sup> "Recession slams CEO pay", Moyle Consulting, 8 May 2010, <http://www.moyleconsulting.co.nz/NewsArticles/tabid/62/articleType/ArticleView/articleId/8/Recession-Slams-CEO-Pay.aspx>.

## 7. Raising the minimum wage does not increase unemployment

- 7.1. A 79 per cent increase in the minimum wage since 1999 has not been a disincentive for employers to take on new staff. There have been considerable periods during this time where rising labour force participation and falling unemployment demonstrated workers were not being priced out of the labour market and the tired old argument that an increase in the minimum wage must mean an increase in unemployment is now discredited.
- 7.2. We have provided evidence in the previous section that wages have not risen as fast as productivity. From both an employment and productivity perspective, there are good grounds for a substantial increase beyond the current \$12.75 an hour.
- 7.3. Increases in the minimum wage will have some impact on employment. But a much more sophisticated analysis of economic conditions and labour market characteristics is required rather than an outdated formula that purports to show a statistical relationship between minimum wage increases and unemployment.
- 7.4. For example, a Treasury working paper in 2004 found that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.<sup>23</sup> In fact, hours of work increased for 16 and 17-year-olds relative to other age groups.
- 7.5. Youcef Ghellab<sup>24</sup> of the ILO has concluded whether a minimum wage has a negative or a positive effect depends on many factors such as, its relative level, the structure of the labour market and the country concerned.
- 7.6. The latest meta-analysis of previous minimum wage research is by Doucouliagos and Stanley (2009<sup>25</sup>). It re-analysed 64 US minimum-wage studies including 39 relating to teenagers and found not only bias in selection of published studies towards ones which show an adverse effect for employment, but once such effects were corrected for, positive effects between an increase in the minimum wage and employment. Even without correcting for selection effects, adverse effects were so minimal (a doubling of the minimum wage would lead to only a 1 per cent decrease in teenage employment) that they had no policy implications.
- 7.7. For a more complete assessment of the literature in relation to the impact of wage increases see Appendix 1.

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<sup>23</sup> Dean Hyslop and Steven Stillman, "Youth Minimum Wage Reform and the Labour Market", NZ Treasury Working Paper 04/03, March 2004.

<sup>24</sup> Youcef Ghellab, "Minimum Wages and Youth Unemployment", ILO, 1998, p.58.

<sup>25</sup> Hristos Doucouliagos and T.D. Stanley, "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis", *British Journal of Industrial Relations*, 47:2, June 2009, pp. 406-428.

## 8. Labour participation rates and social policy

- 8.1. Rather than unemployment, rising minimum wages can contribute to improving labour force participation. Rising labour participation rates have been a recent feature of the New Zealand economy. In December 1999 the Labour Force Participation Rate was 65.4 per cent. In June 2010 it was 68.0 per cent having fallen from a peak of 69.1 percent in December 2008 (seasonally adjusted)<sup>26</sup>. In this context the CTU believes that low wages act as an impediment to higher labour market participation.
- 8.2. Labour market participation is an important part of social development policy. In general there has been a move in emphasis of social policy towards a benefit system that supports work. The National Party has declared, “an unrelenting focus on work,” in the benefit system.<sup>27</sup> This is underpinned by the belief that, “paid work is the route to independence and well-being for most people, and is the best way to reduce child poverty... work is beneficial not only for the greater earning potential it provides, but also for the dignity, self-worth, and sense of belonging that is part of being in a workplace, having colleagues, and being productive”<sup>28</sup>. Taken in tandem with its impact on participation rates, the minimum wage plays an important role in social inclusion, attempts to alleviate poverty and improving work life balance.
- 8.3. The CTU supported the repeal of the Disabled Person in Employment Protection Act which removes blanket exemptions to disabled people who are working in what was previously known as sheltered employment. This is an issue of human rights and removing that exemption ensures equality of employment and human rights for disabled people. The repeal of the Act is also supports and gives a strong signal to increasing employment opportunities and the need to ensure decent work and equality of opportunity for disabled people. The CTU recommend that there is tracking by the DOL of the impact of this change and the wider area of employment of disabled people.
- 8.4. There has been the development of a range of social policies to assist labour market participation. These include early childhood education funding and paid parental leave. However the policy intent of these initiatives is undermined if workers are discouraged from labour market participation by a low minimum wage.
- 8.5. Establishment of an acceptable minimum wage level, that enables people to participate in society and have a reasonable quality of life, is a means of redressing the unfair disadvantage and marginalisation that some social groups face in the labour market face - for example migrants and disabled people.

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<sup>26</sup> Household Labour Force Survey, Statistics New Zealand, various dates.

<sup>27</sup> John Key, Speech: “National’s Benefit Policy” 11 August 2008

<sup>28</sup> John Key, Speech: “National’s Benefit Policy” 11 August 2008

## 9. The minimum wage is an important safety net

- 9.1. It was estimated<sup>29</sup> that 96,400 workers would be directly affected by the 2009 increase of the minimum wage to \$12.75 an hour. The number of workers impacted increased with progressive increases to the minimum wage until last year. The fall last year was due to the relatively low level of the increase. However the New Zealand Income Survey for June 2010 showed 78,800 15-19 year olds in part-time work, with a median hourly wage exactly equal to the current minimum wage: \$12.75. This indicates that the majority of young part-time workers are on the minimum wage and would benefit from an increase. The number of workers affected by any increase is therefore likely to be substantially higher than the number estimated last year, which on the same basis seems could have been an underestimate: the June 2009 New Zealand Income Survey showed 78,100 15-19 year olds in part-time work, with a median hourly wage exactly equal to the then minimum wage: \$12.50.
- 9.2. It needs to be clearly acknowledged by the Government that the removal of the award system in 1991 has had a devastating effect on the wage levels of a large proportion of the workforce. In 1990 – the year before the Employment Contracts Act (ECA) removed national awards – almost half of the private sector workforce was covered by collective bargaining. The promotion of collective bargaining by the Employment Relations Act is important, but it has not reinstated the award system. Given the very weak measures in the Employment Relations Act to support industry or occupational agreements on pay and conditions, the abolition of the award system places much greater emphasis on universal policy tools like the minimum wage.
- 9.3. Under the award system the minimum wage was primarily a device to cover gaps in award coverage. Since the introduction of the Employment Contracts Act, and still so under the Employment Relations Act, the minimum wage now sets fundamentals of socially acceptable employment across a majority of the workforce.
- 9.4. Colm McLaughlin<sup>30</sup> notes that low-paid workers, particularly those in small workplaces, remain dependent on employment legislation to improve their position.
- 9.5. We know the characteristics of those who are affected most by increases in the minimum wage<sup>31</sup> - they are aged under 25 years, female, married female, part time, those studying, and workers in services related occupations, as well as the retail and hospitality industry. The Minimum

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<sup>29</sup> Minimum Wage Review Regulatory Impact Statement 2009.

<sup>30</sup> McLaughlin, Colm (2007), The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark, New Zealand and Ireland. Centre for Business Research, University of Cambridge Working Paper No. 342.

<sup>31</sup> Jason Timmins (2007) Minimum wage workers: Who are they? Department of Labour, PANZ Conference, 3 July 2007.

Wage and Remuneration Amendment Bill would if passed have provided for minimum wages to a further and important group of workers currently outside coverage of minimum wage provisions.

- 9.6. As well as the low paid local workforce, the increasing demand for temporary migrant labour in New Zealand creates another group of workers vulnerable to low pay. Alarming, some industry groups have pointed to the minimum wage as the de facto market rate for migrant workers.
- 9.7. In light of these conditions, the importance of employment in current social security systems and the growing disparity of wealth in New Zealand, the minimum wage is a vital safety net. It is important that it is vigorously enforced and that it is returned to a socially acceptable level of 66 per cent of the average wage.

## **10. Implications for productivity**

- 10.1. Employers may point to higher inflation or slowing economic growth in the current recession to challenge the case for further increases in the minimum wage. But the argument about increasing wages in New Zealand – and, as part of that, the minimum wage – is bigger than the short-term economic climate. Higher wages are a key part of New Zealand's economic transformation. To date employers have failed to address the issue of low wages in this context.
- 10.2. Compared with Australia, the relative price of labour to capital in New Zealand has fallen dramatically. In a 2003 Treasury paper, Hall and Scobie found that from being equivalent with Australia in the 1980s, the relative cost of labour to capital in New Zealand had fallen by 60 per cent.<sup>32</sup> The paper notes that, “with labour relatively cheaper in relation to capital than in Australia, it appears that New Zealand firms have opted for a lower level of capital intensity”.
- 10.3. Other research has shown the same outcome: that the low wage structure led to reliance by business on low wages rather than increases in productivity through investment. For example, Deardorff and Lattimore<sup>33</sup> found in 1999 that

By 1986, the importable sector supported by trade barriers, was both more capital intensive than the exportable sector and more intensive in all categories of higher labour skills than exportables... This group had nearly halved by 1996 as the tradeable sector shed labour during the early phases of the

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<sup>32</sup> Julia Hall and Grant Scobie, “Capital Shallowness: A Problem for New Zealand?” NZ Treasury Working Paper 05/05, June 2005

<sup>33</sup> “Trade and Factor-Market Effects of New Zealand's Reforms”, by Alan Deardorff and Ralph Lattimore, New Zealand Economic Papers, June 1999 v33 i1 p71.

economic reforms. ... The traded goods sector is not intensive in the use of employees, of either sex, with degrees or advanced tertiary training.

- 10.4. By 2002, capital intensity in Australia was more than 50 per cent higher than New Zealand. From this Hall and Scobie find that between 1995 and 2002, 70 per cent of the difference in the growth of labour productivity in New Zealand is explained by a lower growth rate in capital intensity.
- 10.5. The International Monetary Fund<sup>34</sup> has estimated that in 1999 average labour productivity in market sectors in New Zealand was only 73% of the Australian level, down from 82% in 1988. So productivity in relation to Australia was higher when there was the award system for wages in New Zealand.
- 10.6. In terms of productivity, this clearly shows that the problem in New Zealand is not a lack of labour market flexibility or that wages are too high. The problem is that wages are far too low and that firms are investing in more workers rather than more capital.
- 10.7. Indeed, analyses of labour productivity carried out by Statistics New Zealand for the 2025 Taskforce<sup>35</sup> indicates that labour productivity increased in New Zealand and Australia between 1987 to 2009 at very similar rates when comparing equivalent sectors of the two economies for which reliable productivity measurements are available. This does not however mean that absolute levels of labour productivity in the two economies are the same.
- 10.8. The evidence in New Zealand points to low wages having a negative impact on productivity. Low pay discourages investment in capital and skills, and locks many New Zealand firms into low targets for efficiency and harms economic transformation. The Statistics New Zealand data collated for the 2025 taskforce shows a measure of capital intensity, the ratio of capital stock to hours worked, rising much faster than Australia until 1990, and then falling from 1993 until 1996, to begin rising at approximately the same rate as Australia until 2009.
- 10.9. In addition, the growing pressure for increased temporary migration in the New Zealand economy, and the downward pressure this creates on wages, only underlines many employers blinkered view of labour productivity.
- 10.10. In its own right, low pay worsens the performance of labour. Low pay is commonly associated with high levels of labour market churn. For instance, an Auckland University survey undertaken on behalf of a Ministry of Health

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<sup>34</sup> International Monetary Fund (IMF) (2002) "New Zealand: Selected Issues." IMF Country Report No 02/72 Prepared by K Kochhar, M Cerisola, R Cardarelli and K Ueda, Washington.

<sup>35</sup> See [http://www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/productivity/comparing-income-gap-aus-nz-2025-taskforceupdate.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/productivity/comparing-income-gap-aus-nz-2025-taskforceupdate.aspx)

Quality and Safety project showed that average pay of \$10.80 per hour correlated with staff turnover of 30-40 per cent each year.<sup>36</sup>

- 10.11. There is a more general issue about the effect of high labour churn on productivity. In a labour market of some 2.1 million people, there are 700,000 workers each year that start a new job. Some do it more than once a year meaning that someone starts a new job on 1.2 million occasions a year. While a certain level of labour turnover is indicative of a dynamic labour market, this high level of churn must be impacting negatively on firm performance and overall labour productivity.
- 10.12. While the minimum wage is only one policy lever, a significant lift in the minimum wage would chart a clear course in terms of productivity enhancement alongside high labour market participation, rather than continued employer reliance on employment creation through low paid jobs with poor levels of physical capital per worker. The minimum wage can stimulate reform by reducing employers' ability to reduce wage rates to maintain their viability, and focus attention on raising productivity as the instrument of commercial adjustment.
- 10.13. We also note<sup>37</sup> that an increase in the minimum wage can be associated with a small, but statistically significant, increase in average productivity in low-wage industries compared with other industries.
- 10.14. McLaughlin<sup>38</sup> compares Denmark to New Zealand and argues that raising the minimum wage will "shock" firms into raising productivity if there are strong incentives and pressures for them to do so. Using the Danish experience, he suggests a coordinated approach incorporating employers, government supported institutions including funding for training, and an active union movement with legislatively supported industry bargaining mechanisms. These should work together to support investment in skills and training which are an essential contributor to enhancing productivity. "The coordination mechanisms between employers and unions at various levels of the economy play a pivotal role in ensuring that the funding is used effectively through an ongoing process of developing, implementing and reviewing training programmes", he writes

## 11. Social justice

- 11.1. There is a fundamental principle that underpins the idea of a minimum wage. That is, if a job will only be provided at a wage below some particular level,

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<sup>36</sup> Ministry of Health, "Disability Support Services in New Zealand: The Workforce Survey – Final Report", August 2004.

<sup>37</sup> See - <http://www.oecd.org/dataoecd/27/20/38797288.pdf>. "Assessing the Impact of Labour Market Policies on Productivity: a Difference-in-Differences Approach, Andrea Bassanini and Danielle Venn", OECD SOCIAL, EMPLOYMENT AND MIGRATION WORKING PAPERS NO. 54.

<sup>38</sup> "The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark and New Zealand", Colm McLaughlin, *British Journal of Industrial Relations*, 47:2 June 2009, pp. 327–348.

society would rather not have that job. The principle can be compared to principles around product safety. There may be firms able to profit from the sale of a dangerous product, but there are social costs that outweigh any benefit from that profit. Poverty and desperation can push people to work for sub-standard wages, and some profit-driven enterprises will be willing to employ them. But, as a society, we have to question the real value of that opportunity.

- 11.2. The 2009 Social Report states that, “paid work has an important role in social wellbeing. It provides people with incomes to meet their basic needs and to contribute to their material comfort, and gives them options for how they live their lives. Paid work is also important for the social contact and sense of self-worth or satisfaction it can give people”. The key point is that good jobs, not just jobs *per se*, are important.
- 11.3. A report released in 2008 by the World Health Organisation’s Commission on the Social Determinants of Health stated that social justice is a matter of life and death and that employment and working conditions have powerful effects on health equity. The Commission stated that fair and full employment and decent work must be a central goal of social and economic policy-making. The report commented on how conditions of work affect health and health equity and that adverse working conditions expose individuals to a range of physical health hazards and tend to cluster in lower status occupations. Stress at work is associated with a 50 percent excess risk of coronary disease and there is consistent evidence that high job demand, low control and effort- reward imbalance are risk factors for mental and physical health problems<sup>39</sup>.
- 11.4. Many workers in jobs that we consider essential are on minimum wage levels. The New Zealand Nurses Organisation reports that many caregivers have had no wage increases other than minimum wage adjustments for more than 10 years<sup>40</sup>. One submitter to the recent Aged Care Inquiry described it in these words: *“Most of us carers get just over the minimum wage. So how are we supposed to keep up with today’s living? Everything else is going up.... Many carers are talking of leaving because of the low wages which is sad as believe me it is a real art looking after the elderly...I challenge anyone in Parliament to do this type of work for such little money”*.
- 11.5. Poverty and material hardship are understood in terms of the relative disadvantage experienced. The New Zealand Living Standards Report<sup>41</sup> states that a commonly agreed high level conceptualisation is that a person is in poverty or is experiencing material hardship or deprivation when they are ‘excluded from the minimum acceptable way of life in their own society because of inadequate resources’. The 1972 Royal Commission on Social

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<sup>39</sup> World Health Organisation (2008) Closing the Gap in a Generation, Commission on Social Determinants of Health, [www.who.int/social\\_determinants](http://www.who.int/social_determinants)

<sup>40</sup> A Report into Aged Care ( 2010)

<sup>41</sup> New Zealand Living Standards Report 2008 , Ministry of Social Development, 2010

Security stated that it is not just about a level of resource that allows individuals not just to survive but also to participate.

- 11.6. The disparity between the minimum wage and average household expenditure illustrates the gulf between the minimum wage and the expenses of even a modest living. Adjusting the figures from the Household Economic Survey for the year to July 2007 shows the average weekly household net expenditure is likely to be approximately \$1041 in September 2010<sup>42</sup>. This means that two people working full time on the minimum wage would still be \$21 a week short of meeting average household expenditure in New Zealand, even if they paid no income tax.
- 11.7. Affordable housing is critical to people's standard of living. New Zealanders are now less likely to own their own homes than they were in the past. For low wage workers, secure rental accommodation, let alone home ownership, has become increasingly unrealistic. The CTU maintains that the provision of regular wage increases and a greater supply of affordable housing are two vital ingredients in tackling the high cost of home ownership. Despite the price of houses stabilising or even falling slightly in the last year, the significant gap between the rates at which house prices and wages has risen worries many workers – particularly those trying to enter the housing market for the first time.
- 11.8. In the past year Government housing assistance has risen: the numbers of applicants for government housing has grown and the time to house people on the lists has increased. The proportion of people aged 18 years or over receiving an accommodation supplement rose between June 2008 and June 2009, and almost 55,000 more people received an accommodation supplement<sup>43</sup> and 666 more households receiving an income-related rent than in June 2008. The amount of total government housing assistance in the June 2009 quarter was largest annual increase since September 2005.<sup>44</sup>
- 11.9. There continues to be a decline in home ownership and this is most marked among those aged between 35-54 years. Between 2001 and 2006 the proportion of 35-44 year olds who owned or partly owned their own dwellings fell from 65 per cent to 61 per cent over the five years while among 45-54 year olds the figures fell from 76 percent to 61 percent.
- 11.10. The median house price for June 2010 was \$352,500, up 3.7% on 12 months ago and up \$68,000 or 24% on the median house price five years ago.
- 11.11. The internationally accepted standard for housing affordability is that median house prices should not exceed three times median household incomes. The 2010 Demographia Survey reports that housing in New Zealand was

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<sup>42</sup> Adjustment made using CPI.

<sup>43</sup> Ministry of Social Development: "The Statistical Report for the year ending June 2009", p.105, Table AS.1.

<sup>44</sup> Department of Building and Housing : "Building and Housing Trends: April- June 2009 Trends

severely unaffordable. Auckland is the least affordable market while Christchurch and Wellington are also severely unaffordable. Five of the 8 New Zealand housing markets were classified as severely unaffordable, while Palmerston North, Napier/Hastings and Hamilton were seriously unaffordable. New Zealand was reported as having no affordable markets and no moderately affordable markets.

- 11.12. Private rents remain high. In July 2009, the average weekly rent was \$228 for one bedroom flats (including apartments), \$291 for two-bedroom flats, \$267 for two-bedroom houses, \$322 for three-bedroom houses and \$414 for four-bedroom houses.
- 11.13. Food prices continue to rise. Food prices rose 0.7 percent in the September 2010 month. Since September 2007 food prices rose over 15 percent, peaking in July 2009 and have now almost reached that level again. The Otago University Human Nutrition School Annual food cost survey showed an increase in food prices in all five metropolitan centres.
- 11.14. The hardship being experienced by families and workers is caused by inadequate income to cover the cost of living. Community groups and social service agencies report that they are working at full capacity because of demand for their services. The Auckland City Missioner reports that the Mission's own food bank distributed 7,752 emergency food parcels in the year to June 2010 helping to feed over 52,000 Aucklanders and that demand for assistance is high<sup>45</sup>. Women's refuges around the country are reporting significant impacts as a result of the economic down turn and several refuges have reported an increase in first time reporters<sup>46</sup>.
- 11.15. According to the New Zealand Living Standards study the proportion of New Zealanders living in serious hardship grew between 2000 and 2004 by 3 per cent. In 2009 between 460,000 and 780,000 people were in households with incomes below the low income thresholds (i.e. in poverty).<sup>47</sup> At current levels of low pay, employment is not necessarily a way to avoid severe poverty.
- 11.16. The proportion of the population with low incomes also provides information about how equitably resources are distributed and how many people are likely to be on incomes that do not allow them to participate fully in society.
- 11.17. Findings from interviews as part of the New Zealand Living Standards report show that are high levels of hardship for many New Zealand children. While there were some improvements for children between 2004 and 2008, hardship rates for New Zealand children of 18 percent are above the European Median of (15 percent).<sup>48</sup> The report found that just over one in

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<sup>45</sup> New Zealand Council of Christian Social Services, Vulnerability Report, Issue 6, September 2010.

<sup>46</sup> Ibid

<sup>47</sup> Perry, B. (2010) Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2009.

<sup>48</sup> New Zealand Living Standards Survey(2008)

three poor children were from households where at least one adult was in full time employment.

- 11.18. New Zealand has disturbingly high rates of child poverty. The latest figures show that child poverty rates, which fell from 1994 to 2007, have plateaued at around the same rate that prevailed in the early 1980s. In 2009, there were between 170,000 and 270,000 children in households with incomes below the low- income thresholds (i.e. in poverty).<sup>49</sup>
- 11.19. Wage levels are a critical component of the response to eliminating child poverty. Higher minimum wage levels would have an impact, along with the Working for Families package, on reducing the rates of poverty among New Zealand children.
- 11.20. A study by Stephens, Waldegrave and Frater in 2000 found that between 1984 and 1998, the top 10 per cent of households in New Zealand increased their income by 43 per cent, but the bottom 50 per cent of households saw their income decrease by 14 per cent.<sup>50</sup> In this economic climate, increased participation in the labour market is still seeing some workers left behind.
- 11.21. As noted by Statistics NZ<sup>51</sup>, in 2004, the richest 10 per cent of New Zealanders owned more than half the country's total wealth, having increased their "share" from 48 per cent in 2001 to 52 percent. The richer half of New Zealanders own 95 percent of our country's wealth (up from 93 percent in the previous survey) and so the poorer half now own just 5 percent.
- 11.22. The degree of income inequality in a country is an important marker of the fairness of a society. A high level of income inequality is detrimental to social cohesiveness. The Social Report 2009 notes that New Zealand, with a ranking of 34, has higher income inequality than the OECD median (31) and ranks 23<sup>rd</sup> out of 30 countries in its 2004 comparison."<sup>52</sup> New Zealand's Gini score was below that of the United States( 38) and very close to those of the United Kingdom (34) and Ireland( 33)
- 11.23. These figures on income and wealth disparities are relevant to the issue of the level of increase in the minimum wage. There is clear evidence<sup>53</sup> from the US, UK, Australia, New Zealand and several European countries that changes in the level of minimum wages are directly inversely correlated with

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<sup>49</sup> Perry, B. (2010) Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2009.

<sup>50</sup> Robert Stephens, Charles Waldegrave and Paul Frater, "Below the Line: An Analysis of Income Poverty in New Zealand, 1984 - 1998" Victoria University of Wellington Graduate School of Business and Government Management (GSBGM) Working Paper 2/00, 2000.

<sup>51</sup> Statistics NZ, Wealth Disparities in New Zealand, Jit Cheung, Standard of Living Business Unit, Statistics New Zealand, Social Policy, Research and Evaluation Conference 2007.

<sup>52</sup> Ministry of Social Development, "The Social Report 200: Indicators of Social Wellbeing in New Zealand", Wellington, 2009.

<sup>53</sup> See Sue Richardson and Lauren Miller-Lewis, Low Wage Jobs and Pathways to Better Outcomes, New Zealand Treasury Working Paper 02/29, Dec 2002, Pg 7.

the level of wage inequality. Where the real value of minimum wages has been allowed to fall, overall wage inequality has risen: the more minimum wages have fallen, the more inequality has risen.

- 11.24. The CTU supports economic transformation to a high wage, high skill and high quality economy. We have also noted the government's goal of income parity with Australia by 2025. If that growth is going to be truly sustainable, it needs to acknowledge the social dimension and the costs of income inequality and poverty.
- 11.25. There is also an important argument that an increase to the minimum wage supports the important social objective of improving work life balance opportunities for New Zealand workers. New Zealand has a confirmed long-hours work culture driven in part by low wages. Analysis of census data by Dr Lindy Fursman found nearly half of all workers (42 percent) reported that they work 40-49 hours a week, and 23 percent work 50 hours or more a week.<sup>54</sup>
- 11.26. The Employment Relations (Flexible Working Arrangements) Amendment Act came into force in July 2008. The right to ask for flexibility to support caring, voluntary responsibilities and access to leisure activities could be of some assistance to New Zealand workers. An evaluation of this legislation is to take place soon and will determine the effectiveness of the provisions, especially for low paid workers. It is the view of the CTU that low paid New Zealand workers have not had access to flexibility enabling them to achieve work life balance. According to anecdotal reports the ability of workers to balance their work with other needs has decreased due to job losses created by the recession and workers' fears about their job security.

## 12. Gender Pay Gap

- 12.1. The gender pay gap persists and was 12.8 percent of average hourly earnings in June 2010<sup>55</sup>. It has a strong relationship to the level of the minimum wage. An increase in the minimum wage is an intentional measure to reduce the gender pay gap and to increasing the productivity of the New Zealand economy. Women are heavily overrepresented among low paid workers and increases in the minimum wage are effective in increasing the pay of women workers.
- 12.2. The CTU supports consideration in the assessment criteria of the role of the minimum wage in reducing the gender pay gap between men and women in the New Zealand workforce. This would explicitly recognise that minimum wage policy and pay and employment equity policy have a connection. It means assessing options to change the minimum wage in relation to their

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<sup>54</sup> Department of Labour, "Working long hours in New Zealand: a profile of long hours workers using data from the 2006 census", March 2008.

<sup>55</sup> Quarterly Employment Survey, Statistics New Zealand, June 2010.

- contribution to closing the gender pay gap. It should be part of a more concerted effort to close the gender pay gap including improved collective bargaining and other initiatives.
- 12.3. The closing of the gender pay gap through minimum wage increases, and the setting of a fair minimum wage, is a necessary measure to respond to the societal changes and the continued growth in the labour force participation of women.
  - 12.4. The CTU strongly opposed the closing of the Pay and Employment Equity (P&EE) Unit. Improving the gender pay gap in sectors where women are in low paid work, and on minimum wage levels, was one of the next stages in the P&EE Unit work plan. The pay and employment equity programme in the Ministry of Women's Affairs will have no effect on the overall gender pay gap because of its highly selective and extremely limited focus.
  - 12.5. The New Zealand Income Survey (NZIS) in the year to June 2010, showed a reduction in the gender pay gap. This must not be used as an argument that Government action is closing the gender pay gap or to refute the need for an increase in the minimum wage to close the gender pay gap.
  - 12.6. Statistics New Zealand report that movements in income statistics are influenced by many factors - changes in income but also in the composition of the population from survey to survey, changes between males and females, different ethnic groups and different labour force statistics. The narrowing of the gender pay gap is not confirmed in the data from the Quarterly Employment Survey already quoted.
  - 12.7. The CTU believe that changes in the labour force appearing in the latest NZIS are related to households and the workforce becoming more dependent on lower paid women's work during the recession. Median weekly wage and salary income for those receiving it increased by just 1.2 percent between the June 2009 and June 2010 quarters. However when looking at men and women separately, there are significantly larger movements. For those receiving it, wage and salary income increased 3.9 percent for men and 4.3 percent for women. At the same time, the number of men receiving this income fell by 0.2 percent while the number of women rose by 1.1 percent.<sup>56</sup>
  - 12.8. What appears to have happened is that households and the workforce have become more dependent on lower paid women's work during the recession, so that both household income and the median wage and salary increase for all wage and salary earners have not risen nearly as fast. The effect of the pay gap in reducing the income that would otherwise be available to households has increased.

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<sup>56</sup> NZIS June 2009 and 2010, Table 12 - Median weekly income by income source.

- 12.9. This explanation may contribute to the slight closing of the gender pay gap in the NZIS in the year to June 2010: men have lost jobs in the recession while women's work hours have increased.
- 12.10. It is particularly noteworthy that only three occupational groups actually improved their gender pay gap measured by the median hourly income in the NZIS: managers, clerical and administration workers and "residual occupations"<sup>57</sup>. These groups constitute only 290,100 women workers out of 904,600, and are three of the four highest paid groups. The survey showed that for two thirds of women, including all the lowest paid occupations, there has been no change in their gender pay gap. The relationship of the pay gap to income is further evidence for the minimum wage being useful in reducing the pay gap.
- 12.11. The NZIS<sup>58</sup>, continues to demonstrate the importance of the minimum wage with regard to both ethnic disparities and the gender disparities within and between ethnic groups..

#### Median Hourly Earnings – June 2010 Income Survey

	Male	Female	Both
<b>Pakeha</b>	\$22.06	\$19.33	\$20.65
<b>Maori</b>	\$18.00	\$17.00	\$17.78
<b>Pacific peoples</b>	\$17.88	\$16.68	\$16.98
<b>Total population</b>	\$21.25	\$19.00	\$20.00

	Average	Per \$1 earned by Pakeha men	Per \$1 earned by all men <sup>59</sup>
<b>Pakeha male</b>	\$22.06		104c
<b>Pakeha female</b>	\$19.33	88c	91c
<b>Maori male</b>	\$18.00	82c	85c
<b>Pacific male</b>	\$17.88	81c	84c
<b>Maori female</b>	\$17.00	77c	80c
<b>Pacific female</b>	\$16.68	76c	78c

- 12.12. Low pay and the gender pay gap result in lower lifetime earnings and reduced economic security for women on average compared with men.<sup>60</sup> Low pay flows into retirement savings as lower paid women are less able to afford savings, have contributions at a lower rate than their male

<sup>57</sup> "Residual occupations" consist of "Response Unidentifiable", and "Response Outside Scope/Not Stated.

<sup>58</sup> New Zealand Income Survey, Statistics New Zealand, June quarter 2010

<sup>59</sup> As a proportion of men's median hourly earnings.

<sup>60</sup> Prue Hyman, "Significant increases in the minimum wage: a strategy for gender pay equity", Women's Studies Association (NZ) Conference, Wellington, November 2004.

counterparts, and therefore are less likely to attract member tax credits and employer contributions to retirement savings.

- 12.13. Low pay is an enduring feature for many women workers. Older women workers are more likely than men to be low paid and are heavily clustered in the service and care sectors. These occupations are linked to lower skill recognition, fewer opportunities for advancement and low pay<sup>61</sup>. Caregivers, which was a new occupational category in the 2001 census, is the sixth most common occupation for women.<sup>62</sup>
- 12.14. In the March 2008 quarter of The Survey of Working Life<sup>63</sup>, an estimated 234,100 people between the ages of 25-54, just over one in five (20.5%) of all employees in this group were low paid with the definition of low pay being earning less than 2/3<sup>rd</sup> of the mean hourly wage. Women were twice as likely as men to be low paid: 27.5 percent of women (154,000) and 13.8 (80,100) of men.
- 12.15. The Survey of Working Life data is now over two years old, and as discussed earlier, the recession has had an effect on working hours. But the recessionary impacts are only a further reason to refocus measures to address low pay and reduce the gender pay gap.
- 12.16. The minimum wage has a particularly important role in protecting low-income women workers. For those aged 25-64 years, 49.5 per cent of the labour force is female, but 72.6 per cent of those on the minimum wage are female.
- 12.17. Dixon reinforced that an increase in the minimum wage can make a small but important contribution to reducing the gender pay gap and that increases in the real value of the adult minimum wage may have a positive impact in helping to reduce the gender pay gap (even if) circumstantial evidence suggests that the impact, if accurately estimated, is probably quite small.<sup>64</sup>
- 12.18. The 2006 Census showed that 31.9 percent of all those working full-time (30 hours or more per week), earned less than \$30,000. For part time workers, incomes are obviously lower on average. In addition, part-time work tends to be on markedly lower pay rates. The NZIS for the year to June 2010 shows that median hourly earnings for men in part-time work was 66 percent of that in full-time work; for women, part-time work paid 74 percent of full-time work. As well as being predominately female and lower paid, it often offers little by way of training opportunities.<sup>65</sup>

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<sup>61</sup> Anne Else and Barbara Bishop, "Occupational Patterns for Employed New Zealand Women An analysis of the 2001 Census Data", Ministry of Women's Affairs, 2003

<sup>62</sup> Ibid

<sup>63</sup> Survey of Working Life: March 2008 quarter, Department of Statistics.

<sup>64</sup> Sylvia Dixon, Ibid "Understanding Reduction in the Gender Wage Differential 1997-2003", paper presented at NZ conference on pay and employment equity for women, June 2004.

<sup>65</sup> Prue Hyman, "Significant increases in the minimum wage: a strategy for gender pay equity", Women's Studies Association (NZ) Conference, Wellington, November 2004.

- 12.19. Paying women less than men reinforces the pattern of mothers rather than fathers taking on the major caring roles and opting to work part time. This predominance of women in part time work limits access to better paying jobs and positions as part time work is more readily available in lower paid occupation and positions. Nevertheless, an increase in the minimum wage significantly benefits women given that women are more likely than men to work in part time employment.
- 12.20. Increases in the minimum wage therefore support economic and social objectives as they increase economic independence, impact positively on retirement incomes and strengthen incentives to work.
- 12.21. The high part time employment rates, high levels of casualised workers and high turnover make for difficulties in increasing collective bargaining rates in some low paid sectors. Therefore the minimum wage offers essential protection. While it remains a major concern to the CTU that in low paid sectors the minimum wage has become a primary wage-fixing instrument, it is a fact that workers in low paid work continue to depend on increases in the minimum wage for a wage increase.
- 12.22. Studies have drawn attention to the fact that the greater the wage dispersion is, the higher the pay gap is likely to be, due to the concentration of women amongst low earners. This point is captured by the "swimming upstream" metaphor used to explain how a widening dispersion of wages reduced the expected contraction of the gender pay gap in the US at a time when women's earnings rose rapidly<sup>66</sup>. A corollary is that mechanisms that reduce wage dispersion, such as increases in the minimum wage, tend to narrow the pay gap as disproportionately more women than men are paid at or near the minimum wage.
- 12.23. The clustering of women in low paid jobs, with few opportunities for advancement, is a serious issue for the economy as it underutilises women's educational achievement skills and talents. An absence of gender equity is a loss of productive potential. Kingsmill,<sup>67</sup> in a major UK investigation into women's employment and pay, argued that ignoring the potential role and contribution of women will not be in the interest of the economy nor employers or employees.
- 12.24. The CTU supports more research on the nature of low paid employment, and in particular recommends that the Government should commission additional research on the nature of low paid employment, those performing this work, and the economic impacts of this. In our submission on the Minimum Wage Review last year we stated our support for a Low Pay Unit.

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<sup>66</sup> Blau, F, Kahn L. (2005) Changes in the Labour Supply of Married Women 1980-2000, National Bureau of Economic Research, Working paper 11230.

<sup>67</sup> Kingsmill, Denise (2001) Report on Women's Employment and Pay, Department for Education and Skills, United Kingdom.

- 12.25. New Zealand has very clear obligations to reduce the gender pay gap under international conventions. The Convention for the Elimination of Discrimination against Women, (CEDAW) to which New Zealand is a party, states that the right to equal opportunities in employment and equal remuneration is a key element of equality between men and women. ILO Convention 100, which New Zealand has ratified, also enshrines the principle of equal pay for work of equal value.
- 12.26. The observations of the ILO Committee of Experts on the Application of Conventions and Recommendations 2008 was unequivocal about the need to take action with its recommendation that: “The Committee urges the Government to consider amending its equal pay legislation at the earliest opportunity, so as to provide not only for equal remuneration for equal, the same or similar work, but also to prohibit pay discrimination that occurs in situations where men and women perform different work that is nevertheless of equal value”<sup>68</sup>.

### **13. International commitments – UN & ILO**

- 13.1. New Zealand is a signatory to a number of international instruments that support the need to significantly increase the minimum wage.
- 13.2. As a member of the United Nations, New Zealand has an obligation to ensure "the right to just and favourable remuneration" found in article 23(2) of the Universal Declaration of Human Rights and article 7 of the International Covenant on Economic Social and Cultural Rights.
- 13.3. As noted above, New Zealand has also ratified the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). Article 11 (1) (d) of CEDAW obliges all governments who are parties to the convention to “take all appropriate measures” to ensure “...the right to equal remuneration”. Since women are disproportionately concentrated in low paid and minimum wage jobs, any increase in the minimum wage would constitute an appropriate measure towards meeting this obligation.
- 13.4. New Zealand is also a member of the International Labour Organisation. The ILO’s Declaration of Philadelphia (1944) identifies the guarantee of adequate wages as a task of governments.
- 13.5. New Zealand has also ratified ILO Convention 26 that obliges the government to create minimum wage fixing machinery where “no arrangements exist for the effective regulation of wages ... and wages are exceptionally low”. Recommendation 30, (an accompanying guide to

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<sup>68</sup> Observations of the ILO Committee of Experts on the Application of Conventions and Recommendations 2008.

Convention 26) states that minimum wages should be set according to the “general level of wages prevailing in the country”.

- 13.6. Taken together these international commitments underline the need for continued rises in the minimum wage.

#### **14. An increase in relation to the objective, assessment criteria and factors**

- 14.1. In light of the Review’s objective, “to set a wage floor that balances the protection of the lowest paid with employment impacts”, and an assessment of “the extent to which any change to the minimum wage would produce gains that are more significant than any losses,” this Submission will consider each of the six factors identified for consideration in turn.

- 14.2. It will then make a separate “consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment related interventions, and would meet the broader objectives of government.”

#### **15. Consistency with the principles of fairness**

- 15.1. The review asks that an increase in the minimum wage be considered in relation to its, “consistency with the principles of fairness, protection, income distribution and work incentives”.

- 15.2. Measures of living standards in New Zealand indicate a significant proportion of the population continue to experience hardship and disparity of income distribution. The CTU believes an increase in the minimum wage to \$17.22 would best meet the principle of fairness by improving the relativity of the minimum wage to the average wage and providing a more equitable distribution of income. It would protect a significant number of workers from, sustained downward pressure on wages that is causing “market” wages to converge with the minimum wage. These sectors of the economy often employ a disproportionate number of women, Maori, Pacific and temporary migrant workers.

- 15.3. The minimum wage is currently 50.1 per cent of the average ordinary time wage. Using the Gini coefficient of income inequality, New Zealand has the eighth-highest level of income inequality in the OECD and is well above the OECD average.<sup>69</sup> We know that 60 per cent of New Zealanders have an income of \$35,000 a year or less.<sup>70</sup> A lift in the minimum wage to \$17.22 an hour would be a very significant step in addressing income disparity through raising the income of those most vulnerable to low pay. Finally, in terms of

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<sup>69</sup> OECD, “Growing Unequal? Income Distribution and Poverty in OCED Countries”, 2008

<sup>70</sup> Statistics New Zealand, New Zealand Income Survey, June 2010

the principle of providing work incentives; significant increases in the minimum wage have occurred alongside significant and steady increases in labour force participation. A lift in the minimum wage to \$17.22 would increase the incentive to work. We do not believe it would have an adverse effect on school leaving rates. In fact, Timmins has shown that one of the characteristics of those on the minimum wage is that they are studying.<sup>71</sup> He found that 39.9 per cent of those aged 16-24 years are studying. But for young people earning on or near the minimum wage, the proportion studying was 58.7 per cent. Higher wages may in fact enable students to replace work time with study time.

## **16. Comparison against international benchmarks**

- 16.1. The review also asks that an increase in the minimum wage be considered in “comparison against international/OECD benchmarks”.
- 16.2. The most important benchmark for New Zealand in this context is Australia, given the flow of workers between the two countries. The details are discussed in detail in section 3 above. New Zealand’s minimum wage is considerably behind Australia’s set of minimum wage levels. With record numbers of New Zealanders leaving for Australia in pursuit of higher wages. It is time for a significant step to be taken and a lift in the minimum wage to \$17.22 would provide such an important signal.

## **17. Comparison against other benchmarks.**

- 17.1. The review further asks that an increase in the minimum wage be considered in “comparison of the level of the minimum wage, and any proposals to change that level, against other benchmarks (benefit rates, the minimum rate of wage averaged across collective agreements, the producers price index, median wages, and average wages)”.
- 17.2. According to the annual survey of collective agreements by Victoria University’s Industrial Relations Centre, for the year to June 2010 the average lowest weekly rate printed in collective agreements was \$576. This is \$66 higher than the current weekly minimum wage. In 2009 the average was \$550 and the weekly minimum wage was \$500 – a gap of \$50.

## **18. Social and economic impacts on those most like to be low paid**

- 18.1. The review also asks for a “consideration of forecast social and economic impacts relevant to changing the level of the minimum wage including the

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<sup>71</sup> Jason Timmins (2007) Minimum wage workers: Who are they? Department of Labour, PANZ Conference, 3 July 2007.

positive and negative impacts on those most likely to be low paid<sup>72</sup>, the net effects after corresponding withdrawal of social assistance and impacts on the gender pay gap”.

- 18.2. Many of the lower paid will be in receipt of Working for Families income supplements and others may qualify for the Independent Earner Rebate. We do not however regard either as a substitute for decent pay. This is very welcome assistance, however it does operate as a subsidy for employers paying low wages and it is targeted at the needs of families rather than the value contributed to enterprises by individual work. The minimum wage provides both a safety net for workers who may previously have benefited from collectively bargained rates and for society as the accepted minima below which society would rather not have the job. Improving the minimum wage also improves incentives for firm investment in skills and capital, rather than focusing on more workers. In this respect low wages can, alongside other economic factors pose a barrier to growth. Women are over-represented amongst the lowest paid and so can disproportionately benefit from improvements to the minimum wage. As such, improving the relativity of the minimum wage to the average wage will contribute to reducing the gender pay gap.
- 18.3. Consideration has also been given to any perceived impact on education enrolments. Studies by Hyslop and Stillman (2004) and Pacheco and Cruickshank<sup>73</sup> have found that there have been some small and varying effects on education enrolment. However it is unlikely that increasing the youth minimum wage will lead to a mass exodus from school. If a small increase in the minimum wage is modelled as having such an effect, why have we not seen a major impact from the 186% increase in the youth minimum wage since 1999? Many people on the minimum wage are studying – therefore a higher minimum wage could mean they could work fewer hours and have more time for studying.

## 19. Labour market and other economic impacts

- 19.1. The review also asks for a “consideration of the forecast labour market/economic conditions and impacts (together with a range of possible economic conditions) relevant to changing the minimum wage<sup>74</sup>”.
- 19.2. Unemployment has fallen marginally from its peak of 7.1 percent in December 2009, but the Reserve Bank forecasts that it will still be at 5.3

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<sup>72</sup> This includes women, new migrants, Maori, Pacific people, part-time workers, temporary workers, those with a disability, and young people, including any (dis)incentive effects for young people to choose low paid employment or additional education and training.

<sup>73</sup> Pacheco, G.A. and Cruickshank, A.A. Minimum Wage Effects on Educational Enrolments in New Zealand.

<sup>74</sup> Including earnings and wage bill, employment and unemployment, labour productivity, the number of employees and the hours they work, industry sectors and Gross Domestic Product and inflation.

percent in March 2013<sup>75</sup>. Despite this, skill and labour shortages are still present in some sectors and increases to wages are necessary to ensure that does not become a problem as activity in the economy grows. Equally if high levels of labour market participation are to be maintained, particularly in the face of significant cost increases such as childcare following government cuts, steady growth in the minimum wage is required.

- 19.3. In recessionary conditions where lack of demand is an important factor, such as the present one, it is important to maintain aggregate demand, and wage increases are a part of that picture. An increase in the minimum wage will provide part of that demand. Equally, the message that a small or nil increase in minimum wages sends for other wage setting may have a significant stifling effect on other pay increases and thus demand at a time when the economy is still fragile.
- 19.4. There is limited evidence of macro-level costs from an increase in the minimum wage in terms of unemployment. At the same time there are important positive spin-offs for the economy from incentivising investment in skill development and new technology. It is of course recognised that an increase to \$17.22 an hour is a significant increase and that employers will strongly object. But in fact a pay jolt is exactly what this country needs to encourage productivity and a change of focus from low cost labour to investment as the economy comes out of recession. We have discussed above the environment in which this will succeed.
- 19.5. There are now many studies that show that increasing the minimum wage has little, no or even a positive impact on employment levels. These include: Card and Krueger (1995), Chapple (1997), Pacheco and Maloney (1999) and Hyslop and Stillman (2004).<sup>76</sup> For a more comprehensive consideration see Appendix 1.
- 19.6. While the current economic circumstances affect the cost of capital for firms and the trading conditions they face, it also impacts on workers. At the same time the minimum wage is not just economically relevant in the short-run. It is about the longer-term wage track for New Zealand as we promote high skill, high value production of goods and services.

## 20. Non-compliance

- 20.1. Finally the review asks that an increase in the minimum wage be considered in relation to its “potential impacts on the rate of non-compliance”.

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<sup>75</sup> Reserve Bank of New Zealand, September 2010 Monetary Policy Statement.

<sup>76</sup> David Card and Alan Krueger, “Myth and Measurement, The New Economics of the Minimum Wage”, Princeton University Press, 1995; Simon Chapple, ‘Do minimum wages have an adverse impact on employment? Evidence from New Zealand’, Labour Market Bulletin, Department of Labour, 1997; Gail A Pacheco and Tim Maloney, ‘Does the minimum wage reduce the employment prospects of unqualified New Zealand women?’ Labour Market Bulletin, No, Department of Labour 1999; Dean Hyslop and Steven Stillman, “Youth Minimum Wage Reform and the Labour Market”, NZ Treasury Working Paper 04/03, March 2004.

- 20.2. Adjustments to the minimum wage always pose some enforcement challenges as organisations adjust to the new rate. Removing the new entrant and trainee rates as proposed by the CTU would simplify the minimum wage provisions. The CTU see no additional barriers or concerns for enforcement in its proposals.

## **21. Is the Minimum Wage the best way to protect the lowest paid?**

- 21.1. As well as considering “the extent to which any change to the minimum wage would produce gains that are more significant than any losses”, this Review seeks consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment related interventions, and would meet the broader objectives of government.
- 21.2. The CTU has noted in our introduction that a significant increase in the minimum wage is an important component of a strategy to lift low pay, but not the only one. We have also stressed the importance of amendments to the Employment Relations Act to address the issue of extremely low collective bargaining coverage and specifically to promote multi-employer and industry collective bargaining. We also recognise that lifting the value of jobs so that pay increases become a vital aspect of investment in skills, promotion of firm best-practice and efforts to lift labour productivity. However, the fact that there is a mix of ways to address low pay should not overshadow the fact that a significant increase in the minimum wage is a direct way to lift the wages of those on the lowest paid rates in this country.
- 21.3. The CTU believes that the minimum wage plays an important role in broader government policy in a number of ways. It increases social justice and is an important tool in encouraging participation in the labour market. For young people in particular, removal of penalties associated with youth would enhance human rights. As the government attempts to promote economic transformation in New Zealand, the minimum wage has an increasingly important role in providing an employer incentive to increase labour productivity, improve skills in the workforce and improve the ratio of capital to labour to increase overall productivity.
- 21.4. There are a number of ways that low pay can be addressed. These include responsible contractor policy, pay equity, investment in skills, improvements in labour productivity, and a decent work programme of action. But the minimum wage remains an effective way to lift pay rates to build a solid base for a high wage, high skill, and high value economy. The annual review provides a clear opportunity for the government to send a strong signal about pay levels as well as genuinely assist those struggling to afford food, housing and other costs.

**22. Observed impacts from changes to the minimum wage**

- 22.1. In this and the following sections we respond directly to the questions in the consultation documents. However, the sections above answer these questions in considerably more detail.
- 22.2. The first question asks about observable impacts from minimum wage adjustments. During the period from 2000, New Zealand has seen significant growth in labour market participation, record low unemployment rates and an increasing number of workers seeing improvements to their take home pay from minimum wage adjustments. Just 20,500 workers were expected to benefit from changes in 2000 while 96,400 were predicted to experienced gains from the 2009 increase<sup>77</sup>. While improvements in take-home pay are important, the reality that such a significant number of workers in New Zealand receive minimum wages is of concern.
- 22.3. Average ordinary time hourly wages were up 2.2 percent for the year to March 2010<sup>78</sup> (the period over which the minimum wage is set) compared to a 2.0 percent rise in the minimum wage. The reality for low wage workers is that last year's rise in the minimum wage rate fell behind relativity with average wage growth.
- 22.4. The minimum wage must be set at a level to promote investment to increase the value of our goods and services through greater investment by firms in skill development and better use of technology. For New Zealand to lift to a high wage, high skill economy we must avoid locking workers into low wages.

**23. What are the gains from a moderate increase in the minimum wage rates for our members/workers/business?**

- 23.1. The CTU considers increases are necessary to ensure an adequate 'floor' is maintained for low paid workers. This not only ensures an adequate earned income from workers' labour but ensures that poor business practices are not supported. Moderate increases to the minimum wage are important to improve the wage relativity with Australia in particular and to improve incentives for business investment. This is also good for workers. Enhanced opportunity for skill development, the potential for more satisfying work and reduced pressure to work long hours and improve work life balance all contribute to higher productivity and improved quality of life.
- 23.2. There are also costs to workers who would be affected should the minimum wage increase be small or remain unchanged. Aside from losing relativity with current wages, we know that the price of labour relative to capital in

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<sup>77</sup> Regulatory Impact Statement – Minimum Wage Order 2009

<sup>78</sup> Statistics New Zealand, Quarterly Employment Survey, June 2010.

New Zealand is low and that this is not due to the high cost of labour or lack of labour market flexibility.

- 23.3. Allowing the minimum wage to increase only slightly will continue to encourage 'churn' amongst those at the lowest end of the labour market.

**24. Costs or negative impacts for our members/workers of such an increase?**

- 24.1. The most significant negative impact that is often quoted is in respect of employment. We have addressed that issue in Appendix 1.

**25. Impact of the new entrants minimum wage**

- 25.1. While the CTU recognised the reasons behind the new entrants minimum wage, the CTU would still advocate the complete removal of any minimum wage discrimination on the basis of age. As a matter of principle, the lowest socially acceptable level of remuneration for an hour's work should not change on the basis of an arbitrary characteristic such as age.

- 25.2. It is our understanding that the new entrants rate has had no measurable impact on employment opportunities for young people (though current high levels of unemployment would create a number of measurement difficulties).

- 25.3. Equally it is our understanding that there are a number of employers who employ a larger proportion of young people in their workforce who have weighed up the administrative burden of recording 200 hours of service versus paying the full adult minimum wage for that 200 hours and opted for the latter.

**26. Interaction of the minimum wage with other employment and income-related government interventions**

- 26.1. While income assistance is welcome and necessary, it cannot be a substitute for decent pay. In fact the worst scenario, in terms of both workers skill development and personal esteem and the broader development of the workforce in general, is if income support acts as a subsidy for employers paying low wages. As such it must be targeted at the needs of families rather than the value contributed to enterprises by individual work. The minimum wage provides both a safety net for workers who may previously have benefited from collectively bargained rates and for society as the accepted minimum below which society would rather not have the job. Improving the minimum wage also improves incentives for firm investment in skills and capital, rather than focusing on more workers.

**27. Additional issues relevant to specific groups, such as Maori and Pacific Island groups?**

- 27.1. The minimum wage is an essential mechanism in improving the pay gap for Maori and Pacific Island workers.
- 27.2. The 2009 Departmental Report on the Minimum Wage Review found that 16.1 percent and 8.0 percent of employees earning \$12.50 and \$12.74 identified themselves as Māori and Pacific respectively. According to the Household Labour Force Survey, overall 6.9 percent of the total labour force identify as Māori and 3.5 percent as Pacific.<sup>79</sup>
- 27.3. Like women, Maori and Pacific Island workers are over-represented in low pay sectors of the economy such as agriculture, retail and related trades, accommodation, catering sector, aged care, cleaning services. Maori and Pacific peoples are also over-represented amongst part-time workers. They feel the negative impact of employers attempting to circumvent government legislation, such as reduced hours of work and layoffs. Low pay results in lower life time earnings and reduced economic security. This is unacceptable and discriminatory and intentional measures must be taken to reduce the impact of this effect.
- 27.4. The NZ Incomes Survey 2010 shows that whereas a Pākeha female earns 88 cents for every dollar earned by a Pākeha male, a Māori female only earns 77 cents and Pacific females only earn 76 cents for every dollar earned by a Pākeha male. This is clear evidence of the multiple effects that impact on Māori and Pacific Island women. Lifting the minimum wage is an effective way of addressing these major disparities.

**28. Other issues**

- 28.1. There are a number of other issues aside from the rate of the minimum wage the CTU has commented on in this submission. The CTU is concerned at the lack of research on both the extent to which trainees are paid less than the adult minimum wage and more generally on the nature of low pay in New Zealand. We have for some time identified the need for such research and the establishment of a Low Pay Unit which can over time ensure adequate information is routinely available to assist with the annual review of the minimum wage, and consideration of other policy interventions.
- 28.2. It is important to ensure that no one should earn less than a socially acceptable minimum for their labour. To this end we wish to continue to have dialogue in respect of the minimum wage for those aged under 16 years of age.

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<sup>79</sup> Statistics New Zealand, Household Labour Force Survey, June 2010

- 28.3. The CTU supported the Minimum Wage and Remuneration Amendment Bill and its underlying principle that no one should earn less than a socially-acceptable minimum for their labour. It addresses a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. According to the ILO, “The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period in time and its ability to meet the different needs of all parties concerned”.<sup>80</sup> On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective at extending protection to non-standard working arrangements like contracting.
- 28.4. Finally, the CTU considers that an explicit factor in the review of the minimum wage is the reduction of the gender pay gap. Consideration of the impact on the gender pay gap of any change to the minimum wage has been insufficient in our view.

## **29. Summary of Recommendations**

- 29.1. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2011 we estimate this to be \$17.22) to set a clear base. However a possible alternative is, as an interim step on the way to this level, to increase the minimum wage to \$15.00 from 1 April 2011 and move to the 66 percent benchmark in April 2012.
- 29.2. The CTU is seeking the removal of the new entrant rate so that the minimum wage applies fully to those aged 16 years and over.
- 29.3. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support the review of the employment of children and support the ratification of ILO Convention 138. We propose that the review of the employment of children should recommend sectors and occupational categories where the minimum wage should apply regardless of age.
- 29.4. The CTU is seeking either the removal of the trainee rate or a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the minimum wage.
- 29.5. Specific policies are required to address a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working

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<sup>80</sup> International Labour Organisation, “Minimum Wage Fixing: A Summary of Selected Issues”, Briefing Note No. 14, 1998.

arrangements and the propensity of non-standard employment to be precarious and low paid.

- 29.6. There should be a government agency charged with gathering more information about low pay in New Zealand. This should also collect and publish information on ethnic, migrant and gender aspects of low pay.
- 29.7. That, as well as the minimum wage, responsible contractor policies represent an important tool in addressing low wages.
- 29.8. More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

### **30. Conclusion**

- 30.1. The CTU has put forward a comprehensive submission making a clear case for a significant increase in the minimum wage for the review in 2010.
- 30.2. The CTU looks forward to the opportunity for further dialogue on the contents of this submission.

## 31. Appendix 1

- 31.1. The overall effects of a minimum wage on total employment depends on a number of factors, including the elasticity of labour supply to wages and to demand for labour, the reservation wages of those who do not find work in the sector covered by the minimum wage, and the relative size of this covered sector.<sup>81</sup>
- 31.2. The main empirical difficulty is to isolate the wage effects from other exogenous influences. For example, if the demand curve for labour is itself shifting, this is an additional influence on employment which has to be separated out.
- 31.3. Traditional economic theory would say that an increase in the minimum wage that leads to an increase in wages which does not correspond to an increase in productivity would reduce employment.
- 31.4. The purported negative effects of the minimum wage on employment result from the combination of two elements: a substitution effect and a scale effect.
- 31.5. The substitution effect means that firms could decide to use more capital than labour as the latter becomes more expensive and, secondly, they could substitute skilled-labour for unskilled-labour.
- 31.6. The scale effect is the result of a fall in sales due to cost increases, leading to a reduction in the use of both factors, capital and labour, including low-skilled labour.
- 31.7. A basic market model treats wages like any price and labour like any other commodity. It ignores the social or human dimension of selling and buying labour. Apart from common market problems such as asymmetric information about the “market” and the cost of negative externalities, there are other ways in which the labour market operates not related to wages (prices) e.g. quantity adjustments. The literature on why the labour market is different from other markets include explanations such as quantity-constrained models, Human Capital Theory, Search Theory, Bargaining Theory, insider/outsider models, segmented labour markets, internal labour markets, and efficiency wages.
- 31.8. Efficiency Wage Theory is based on the supposition that higher real wages can, through various mechanisms, result in higher labour productivity. Wages above the average would increase incentives to work and lead to better economic performance, through lower absenteeism and better

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<sup>81</sup> Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998.

adaptation of workers. It suggests that, in the absence of any wages regulation, and if unemployment is high and supply of labour abundant, wages can fall dramatically, leading to poverty among workers. It suggests that such a decline in real wages will produce a drop in both labour productivity and the firms' profits.

- 31.9. Turnover has been one of the most important principles of efficiency wage theory. In general, low-wages are associated with high turnover, and the latter is itself associated with the loss of firm-specific skills and hence a decline in labour productivity. Alternatively, Akerlof has discussed how labour productivity may rise as a result of additional efforts made by workers if they regard their wage as a "fair wage" and also how higher wages with which the firm may attract the most skilled workers.<sup>82</sup>
- 31.10. One study found that the lower the firm's wage is relative to the average wage in the economy, the higher the quit rate.<sup>83</sup> This is relevant in a New Zealand context where the Linked Employer-Employee Data recently released by Statistics New Zealand showed 17% worker turnover per quarter over the last five years in NZ.
- 31.11. As the ILO has noted the conventional view that the introduction of a minimum wage that raises the wages of a fraction of workers above what they would, otherwise, have received, would automatically reduce the employment prospects of that particular category of workers, is far from being a dominant view.<sup>84</sup>
- 31.12. The standard view was reinforced in the United States in a number of studies conducted in the 1970's which found that there was a significant negative link between the minimum wage and youth employment, such that a 10 per cent increase in the Federal Minimum Wage would lead to a decline in the employment rate ranging from 1 to 3 per cent.
- 31.13. Brown, Gilroy and Kohen<sup>85</sup> estimated that from 1954 to 1979, a 10% increase in adult minimum wages (using US data) reduced teenage employment by between 1 per cent and 3 per cent. But subsequent analysis, which carried the data forward into the 1980s, found that the estimated elasticity weakened and by 1990 the reduction in employment was close to zero.
- 31.14. The evidence for nine countries presented in the OECD's Employment Outlook 1998 suggests that higher minima adversely affect teenage employment: a 10 per cent increase in the minimum wage is associated with

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<sup>82</sup> George A. Akerlof, "Gift Exchange and efficiency – Wage Theory: four views", *The American Economic Review*, Vol. 74 – No. 2, 1984, p.81.

<sup>83</sup> Luis A. Riveros and Lawrence Bouton, "Common elements of efficiency wage theories: what relevance for developing countries?", *The Journal of Development Studies*, Vol. 30 – No. 3, April 1994, p696-716

<sup>84</sup> Youcef Ghellab, "Minimum Wages and Youth Unemployment", ILO, 1998, p. 8.

<sup>85</sup> Charles Brown, Curtis Gilroy and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment", *Journal of Economic Literature* V20, 1982, p 487-528.

a 1.5–3 per cent decline in teenage employment, the effects being essentially the same across countries regardless of whether they have high or low minimum wages.

- 31.15. But when in 1992, New Jersey increased the state minimum wage to \$5.05 an hour (applicable to both the public and private sectors), Card and Krueger used this opportunity to study the comparative effects of that raise on fast-food restaurants and low-wage employment in New Jersey and Pennsylvania, where the minimum wage remained at the federal level of \$4.25 an hour. Their data demonstrated that a modest increase in wages did not appear to cause any significant harm to employment. In some cases, a rise in the minimum wage even resulted in a slight increase in employment.
- 31.16. Card and Krueger found that after a raise in the minimum wage in New Jersey employment actually increased by about 13 per cent relative to stores in nearby eastern Pennsylvania that continued to pay a lower rate. It was suggested that stores paying low wages often were plagued by high turnover and job vacancy rates and that the higher minimum wage may have ameliorated such problems and led to an increase in employment.
- 31.17. The studies conducted by Card and Krueger and Katz and Krueger have not gone unchallenged. Neumark and Wascher (1992) questioned whether the “natural experiment” approach failed to consider lagged effect of minimum wages, and also suggested it did not control for the school enrolment rate, knowing that such a variable may have an endogenous impact on teenage employment.
- 31.18. Other work by David Neumark finds small but significant negative effects of living wages on the employment of low-wage workers, and positive effects on the wages of workers who remain in the labor force.<sup>86</sup> Overall, Neumark found that passing a living wage law does tend to reduce the amount of poverty in a city, but this benefit comes at the cost of some jobs.
- 31.19. Alison Wellington<sup>87</sup> found that the disemployment effects of the minimum wage were rather insignificant, since a 10 per cent increase in the minimum wage was estimated to reduce teenage (16-20 year olds) employment by less than 1 per cent.
- 31.20. In the United Kingdom, the Low Pay Commission in its fourth report stated that between 1999 and 2003 the impact of the national minimum wage on employment levels - which overall had continued to increase in the UK - was negligible.<sup>88</sup> Indeed, employment growth had been “stronger than average”

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<sup>86</sup> David Neumark, “Living Wages: Protection For or Protection from Low-Wage Workers?” *Industrial and Labor Relations Review*, October 2004, p 27-51.

<sup>87</sup> Alison J. Wellington, “Effects of the minimum wage on the employment status of youths”, *The Journal of Human Resources*, Vol. XXVI, No. 1, 1991, p27-46.

<sup>88</sup> Dan Finn, “The National Minimum Wage in the United Kingdom”, *Institut Arbeit und Technik*, Gelsenkirchen 2005, p36.

among those groups and sectors most affected by the national minimum wage.

- 31.21. Previously consideration had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric analysis for the third report concluded that “even after controlling for this and other factors the impact of the minimum wage was broadly neutral.” The report found that the only exception was amongst young people where employment rates had fallen. After analysing the trends and related research evidence the Commission concluded that these changes in the youth labour market had been “primarily driven by the economic cycle, and that the minimum wage has had at most a minor impact on young people’s employment.”
- 31.22. Dan Finn from University of Portsmouth has noted that the introduction of the national minimum wage also has not had the dire consequences for employment levels predicted by the Conservative Government.<sup>89</sup>
- 31.23. Professor Mark Stewart in a study entitled “The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low Wage Workers” found that the evidence suggests zero, or if anything small positive employment effects for adult men, young men and young women’.
- 31.24. The latest meta-analysis was published by Doucouliagos and Stanley in 2009<sup>90</sup>. One of its motivations was to test criticisms of Card and Krueger. It re-analysed 64 US minimum-wage studies including 39 relating to teenagers. These studies included 1,474 empirical estimates of the minimum-wage elasticity of employment (a measure of the effect of an increase in the minimum wage on employment). They found not only bias in selection of published studies towards ones which show an adverse effect for employment, but that once such effects were corrected for, a small positive effect between an increase in the minimum wage and employment. Even without correcting for selection effects, adverse effects were so minimal (a doubling of the minimum wage would lead to only a 1 percent decrease in teenage employment) that they had no policy implications.
- 31.25. They specifically rebutted Neumark and Wascher. In explanation of the positive effect, they conjectured that it could be explained by monopsonistic or oligopolistic competition (less than perfect labour market competition such as the effect of employer dominance and unions), efficiency wage theory, or other non-neoclassical theories of labour. They also found evidence that there is a structural effect of firms adapting to real increases in the minimum wage over time.
- 31.26. Youcef Ghellab of the ILO has concluded that there is no consensus among economists, at least in three countries, namely Netherlands, the United

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<sup>89</sup> Ibid, p48.

<sup>90</sup> Hristos Doucouliagos and T.D. Stanley, “Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis”, *British Journal of Industrial Relations*, 47:2, June 2009, pp. 406-428.

States and the United Kingdom as regards the minimum wage effects employment. The studies concluding that the minimum wage has caused job-losses have been challenged by other studies suggesting that: (a) the minimum wage had no negative impact on youth employment (Netherlands); (b) there is no evidence that the activities of the minimum wage councils acted as a restraint on employment in Britain in the 1980s (United Kingdom); (c) the Federal Minimum Wage increase, at least following its 1990 and 1991 uprating, did not lead to employment contraction (United States).

31.27. Ghellab states:

*“All in all, it seems fair to conclude that the existing evidence supports both positions in the debate. Whether a minimum wage has a negative or a positive effect depends on many factors such as, its relative level, the structure of the labour market and the country concerned”.*<sup>91</sup>

31.28. This is a significant point in relation to New Zealand. We can learn a lot from overseas studies. However, while there will be some factors which will be relatively common to labour markets across many different countries, there will be vital country-specific elements.

31.29. It is therefore important to look at New Zealand studies about the impact of the minimum wage.

31.30. A study by Tim Maloney of the period 1985 to 1993 showed that a 10 percent increase in the adult minimum wage produced a decline of 3.8 percent in the employment of young adults.<sup>92</sup> This is broadly consistent with evidence from the United States. Maloney found that employers started to reduce the employment of young adults and then started hiring teenagers not then covered by a minimum wage. So it was a substitution.

31.31. Simon Chapple found some evidence that was consistent with Maloney's estimates, but his overall assessment was that increases in the real minimum wage showed minimal impact on employment rates. Chapple suggests that “conclusions regarding significant negative employment effects from real minimum wages increases are strikingly non-robust”.<sup>93</sup>

31.32. Gail Pacheco and Tim Maloney compared the employment trends of two groups, females with no school or post-school qualifications, and females with school and post-school qualifications.<sup>94</sup> The study tested the hypothesis of disemployment effects associated with changes in the real minimum wage

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<sup>91</sup> Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998, p.58.

<sup>92</sup> Tim Maloney, “Does the adult minimum wage affect employment and unemployment in New Zealand?” New Zealand Economic Papers, Vol. 29, No. 1, June 1995, p1-19.

<sup>93</sup> Simon Chapple, ‘Do minimum wages have an adverse impact on employment? Evidence from New Zealand’, Labour Market Bulletin, Department of Labour, 1997.

<sup>94</sup> Gail A and Tim Maloney, ‘Does the minimum wage reduce the employment prospects of unqualified New Zealand women?’ Labour Market Bulletin, No, Department of Labour 1999. See also Gail Pacheco (2008) “Changing role of Minimum Wage in New Zealand”, New Zealand Journal of Employment Relations, Vol 32 (3), pp.2-17.

between 1985 and 2000. The only significant finding appeared to be that, on average, a 1 per cent rise in the adult minimum wage causes a 14 per cent fall, two quarters later, in the employment ratio of females with no qualifications. However, most importantly, the long run employment impact of the minimum wage on this particular labour market group was found to be effectively zero.

- 31.33. Dean Hyslop and Steve Stillman found that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.<sup>95</sup> In fact hours of work increased for 16-17 year olds relative to other age groups. In 2005, Stillman said that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged less than 16 years would “have very little effect on youth employment opportunities”.<sup>96</sup> (He did however qualify that comment by saying this may rely somewhat on weak compliance and also advocated exemptions for family-owned businesses, farms, and child minding).
- 31.34. Given that many of the studies quoted overseas and the often used Maloney study in New Zealand have argued that a 10% increase in the minimum wage would result in up to a 3 per cent increase in unemployment, how can it be that a 41 per cent increase in the minimum wage coincided with a 10-15 per cent increase in hours worked?
- 31.35. As Manning has noted:

*“The impact of the minimum wages on employment should primarily be an empirical study and the results of these empirical studies should be used to inform policy”.*<sup>97</sup>

- 23.34 It is therefore the case that any analysis in a New Zealand context needs to draw on the more recent analysis of the behaviour of the labour market. What this has shown is that it is unlikely that an increase in the minimum wage would have an impact on employment.

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<sup>95</sup> Dean Hyslop and Steven Stillman, “Youth Minimum Wage Reform and the Labour Market”, NZ Treasury Working Paper 04/03, March 2004.

<sup>96</sup> Steve Stillman (2005) “The Impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform”, Motu Forum Thursday 21st July 2005, Wellington.

<sup>97</sup> Alan Manning, “Monopsony in Motion: Imperfect Competition in Labour Markets”, Princeton University Press, 2003, p19.