



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI



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# Regulatory Impact Statement

## Minimum Wage Review 2016

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# Agency Disclosure Statement

1. This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of options for increasing New Zealand's minimum wage rates for 2017/2018.
2. This RIS results from the statutory requirement for an annual minimum wage review conducted by MBIE on behalf of the Minister for Workplace Relations and Safety. In 2012 Cabinet agreed (CAB Min (12) 41/5B) to adopt a cyclical approach to the annual minimum wage review to provide a streamlined process for three years, with a comprehensive process every four years. The 2016 review followed the streamlined process as a comprehensive review was undertaken in 2015.
3. In line with the Government's objective for the minimum wage review and its economic growth goal, MBIE has considered both the Consumer Price Index (CPI) and median wage increases. MBIE's analysis has therefore focused on increasing the minimum wage to a level that does not create significant unemployment or inflationary impacts, and does not have other negative impacts such as significantly increasing costs for business or fiscal costs.
4. As in previous years, this review recognises that there are both direct and indirect impacts of minimum wage changes. Estimates have been provided through the MBIE minimum wage model, and direct costs and impacts were provided by government agencies and calculated from publically available information.
5. MBIE is only able to estimate the direct impacts of minimum wage changes. We do not have adequate data to assess any flow-on effects of an increase in the minimum wage rate. While MBIE's model provides estimates based on publically available figures from Statistics New Zealand, the direct impacts or the degree of those impacts of changes to the minimum wage are difficult, if not impossible, to assess.
6. The estimated change in earnings for minimum wage workers under each considered option is assessed after tax (and ACC levies) and the inclusion of Working for Families assistance. Given the wide range of variables related to government interventions and transfers it is not possible to consider the impacts of all government interventions in relation to the minimum wage. This was not possible owing to the numerous scenarios and variances it would create. For example, the amount a person receives for an accommodation supplement varies from region to region.
7. The Minimum Wage Review Report 2016 is intended to be read as part of this RIS and is attached in Annex One.

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\_\_\_\_\_/11/2016

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## Problem Definition

8. The Minimum Wage Act 1983 (the Act) requires that the Minister for Workplace Relations and Safety review the minimum wage rates annually by 31 December each year. Following a review, the Minister may make a recommendation to the Governor-General regarding the adjustments that should be made to the minimum wage rates.
9. The Act does not specify how the review should be undertaken. However, Cabinet has agreed on an objective and process for the review. The Government's objective for the minimum wage review is 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses' (CAB Min (12) 41/5B). The change to the objective of the minimum wage review in 2012 and the subsequent Cabinet directive requires that both changes to CPI and the median wage are to be considered in any minimum wage review.
10. While some employers and employees primarily use the CPI to negotiate wage increases, some employees do not have the power to do this. If the minimum wage rate is not increased or it is increased less than the CPI increase, it would result in a loss of real value of the minimum wage. Although increasing the minimum wage in line with the CPI change will preserve the real value for the time being, it may result in a larger wage gap between minimum wage workers and other wage workers over time if increases in the median wage rate are larger than general price inflation.
11. For the purposes of this review, MBIE has taken the view that the real income for minimum wage workers is the income earned after tax (and Accident Compensation Corporation (ACC) levies), and the addition or reduction as a result of factors such as tax credits in the form of Working for Families.
12. The Minimum Wage Review Report 2016 (the Report) which is attached in Annex One is intended to be read as part of this RIS. The report contains detailed background and analysis and forms the substance of this RIS.

## Status Quo

13. The current minimum wage rates are as follows:
  - the minimum adult rate is \$15.25 per hour
  - the minimum starting-out rate is \$12.20 per hour, and
  - the minimum training rate is \$12.20 per hour.
14. Minimum wages are being paid to approximately 73,300 New Zealand workers representing approximately 2.9 per cent of all employees. They are more likely to be young people, women, people without formal qualification and disproportionately Māori, Pacific peoples. These workers are also more likely to work in the hospitality and retail industries.

## Objective of the Minimum Wage Review

15. As previously noted, the Government's objective for the minimum wage review is 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses' (CAB Min (12) 41/5B refers).
16. MBIE has interpreted this objective as requiring an increase to the minimum wage that is not out of step with CPI and median wage changes, while ensuring that it does not create net 'disemployment'.
17. The process established by Government to review the minimum wage also requires assessment and balancing of the following factors:
  - 1) inflation, using CPI as the indicator
  - 2) wage growth, using median wage as the indicator
  - 3) restraint on employment, and
  - 4) other relevant factors.
18. The Minister invited BusinessNZ and the New Zealand Council of Trade Unions to make a submission on the review.
19. The review process agreed by Cabinet does not apply a single factor, such as CPI change or median wage change, to determine the minimum wage rate. Rather it requires an assessment of the real incomes of low paid workers, which are affected by factors such as assistance received in the form of Working for Families tax credits, and considers how these align with inflation, wage growth and the other relevant factors. It then requires an assessment of the various options to increase the minimum wage rate that are broadly consistent with these factors, against the potential effects on employment.

## Options and Impact Analysis

20. The Report provides a detailed background and analysis of the minimum wage rates and options for the minimum wage rates for 2017. This Report is attached in Annex One to of this RIS and will be referred to throughout this RIS to provide the details of the analysis.

## Economic context for the 2016 review

21. This year's review takes place in a strong economic climate, marked by solid economic growth and labour market performance. Economic growth was higher for the June quarter of 2016 than was expected in Budget 2016 with Gross Domestic Product (GDP) increasing 0.9 per cent in both the March and June quarters of 2016. NZIER September 2016 Consensus Forecasts expect economic growth to increase to 3.2 per cent over the next year before easing slightly to 3.0 per cent over the following year. Inflation has remained low at 0.4 per cent for the year to September 2016. Of particular interest in the current economic climate is the increase in the cost of housing, which is one of the factors that influence CPI. The cost of purchasing new housing rose 6.3 percent nationally, while housing in Auckland rose 7.9 percent on the year to September 2016. Rental prices increased 2.1 percent nationally, and 3.4 percent in Auckland in the year to September

2016. As headline CPI is based on national averages, CPI may have a greater impact on incomes in some regions such as Auckland.

22. In the September quarter of 2016 unemployment fell to 4.9 per cent. NZIER September 2016 Consensus Forecasts predict that unemployment will fall to 4.7 per cent by March 2018 and remain under 5.0 per cent through to March 2019. The number of employed people increased by 127,000 (6.1 per cent). This compares to a 1.5 per cent increase in the year to September 2015. Employment increased by 35,000 (1.4 per cent) in the September 2016 quarter. The employment rate increased to 66.7 per cent (2.1 per cent annual change) and labour force participation rose to 70.1 per cent (1.7 per cent annual change).
23. It is worth noting that the minimum wage has increased at a higher rate than other income measures, such as median wages and the Labour Cost Index, for a number of years (see Figure 7 of the Report). A more detailed description of the current economic and labour market conditions can be found on page 7 of the Report.

### **Analysis of the impacts of increases to the minimum wage**

24. For the purpose of analysis and modelling of the impacts of any minimum wage increase, MBIE continues its practice of developing a range of options. The options are developed with reference to economic indicators such as inflation and wage growth, and proposals from submissions to previous reviews.
25. The options modelled for the 2017/2018 adult minimum wage are:
  - Option 1: \$15.25 per hour (status quo)
  - Option 2: \$15.50 per hour
  - Option 3: \$15.75 per hour
  - Option 4: \$16.00 per hour
  - Option 5: \$16.50 per hour
  - Option 6: \$19.80 per hour (proposed by Living Wage Aotearoa as a 'living wage')
26. These options are developed for modelling purposes only and there is no requirement that any option be used to set the adult minimum wage for 2017. Table 1 provides a summary of the impacts of each option.

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

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Adult minimum wage (hourly rate)	\$15.25 (status quo)	\$15.50	\$15.75	\$16.00	\$16.50	\$19.80 <sup>1</sup>
Adult minimum wage (gross weekly income) <sup>2</sup>	\$610	\$620	\$630	\$640	\$660	\$792.00
Percentage increase	N/C	1.6%	3.3%	4.9%	8.2%	29.8%
Relativity to median wage <sup>3</sup>	64.9%	66.0%	67.0%	68.1%	70.2%	84.3%
Number of people impacted (rounded up to nearest 100)	73,300	89,900	119,500	142,700	212,000	528,700
Estimated restraint on employment	N/C	N/C	-1,500	-3,500	-7,000	-28,000
Estimated economy-wide increase in wages (annual)	N/C	\$26m	\$65m	\$113m	\$257m	\$2,331m
Estimated inflationary impact/GDP (percentage points)	N/C	N/C	N/C	N/C	0.1%	0.7%
Additional annual costs to the government <sup>4</sup>	N/C	\$15.33m	\$29.38m	\$40.44m	\$87.10m	\$543.55m <sup>5</sup>

<sup>1</sup> This option is proposed as a 'living wage' by various groups including Living Wage Aotearoa. It is also comparable to the rate suggested by the NZCTU of \$19.88.

<sup>2</sup> This is calculated on a 40 hour week basis.

<sup>3</sup> The median hourly earnings are \$23.49 per hour (Labour Market Statistics (Income), June 2016).

<sup>4</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, and ACC from higher wage costs for their employees and service providers.

<sup>5</sup> This figure in particular is likely to be underestimated because employees and contractors working for state agencies other than the four surveyed here would be affected by a minimum wage rate increase to \$19.80. This figure should also be considered alongside the increase to ACC's Outstanding Claims Liability which could result in higher ACC levies.

## Impact on wages and inflation

27. Minimum wage increases cause an increase to the cost of labour, and therefore costs for businesses. Businesses are likely to respond to this increase in different ways which could include increasing the price of goods that are produced using minimum wage labour. Whether this leads to general price inflation will depend largely on the drivers of inflation, which are generally an increase in the price of goods, or increases in demand.
28. Table 1 details the increased wage costs across the economy of each option and also indicates the estimated direct inflationary impact each option could have. Inflation levels are currently low, and options 1 to 4 are not estimated to have any measurable direct impact on inflation. Economy wide wages for options 1 to 4 are relatively low when spread across the economy. Option 5 and 6 are estimated to cause low to moderate inflationary increases and the increase in economy wide wages becomes more significant.
29. There are some concerns that minimum wage increases will lead to compression of wages at the lower end of the wage distribution. If this was occurring, it would be expected that the number of people being paid the minimum wage would increase with each minimum wage review. However, there has been no evidence of this. Table 2 below shows the number of people being paid the minimum wage at the time of the minimum wage review each year.

*Table 2: Number of people paid the minimum wage*

Review year	Number of people paid minimum wage	% of total workers
2011	64,000	2.7%
2012	84,800	3.8%
2013	54,600	2.4%
2014	62,700	2.7%
2015	74,900	3.2%
2016	73,300	2.9%

## Impact on employment

30. An increase to the minimum wage may have negative employment impacts which include lower job growth and reduced work hours. The extent of these effects will depend on the size of the increase of the minimum wage rate and the economic and labour market conditions in which the rate increase occurs. As detailed in Chapter Two of the Report, the current economic and labour market conditions in New Zealand are strong and is forecast to continue to be solid over the coming few years. This suggests the economic and labour market conditions are currently in a position which can absorb some of the estimated restraint on employment growth associated with MBIE's recommended increase to the minimum wage rate.
31. MBIE has developed a model, in conjunction with the NZIER, which estimates the effects an increase to the minimum wage rate may have on employment growth. The model has estimated that an increase of up to 30 cents (\$15.55) would not cause any restraint on employment. MBIE's recommended increase of 50 cents (\$15.75) is estimated to have a restraint on employment growth of around 1,500 jobs. This estimate is the mid-point of a



range of estimates the model predicts. The model has estimated the restraint on employment growth between 0 and 2,500 jobs. Increases above 50 cents are estimated to have increasingly significant restraint on employment growth.

32. Table 1 of the Report details the estimated employment impacts of each modelled option.

### **Impact on minimum wage workers**

33. Approximately 73,300 people are currently paid a minimum wage rate which is around 2.9 percent of the total number of employed people in New Zealand. Data from the Labour Market Statistics (Income) from 1999 to 2016 indicates that minimum wages are more likely to be paid to workers who are young people, women, people without formal qualification and disproportionately Māori, Pacific peoples. These workers are more likely to be working in the retail or hospitality sectors. Therefore, these groups are more likely to benefit from an increase to the minimum wage rate. However, these groups are also more likely to experience any negative impacts that could result from an increase to the minimum wage rate. A significant increase in the level of the minimum wage rate may have the effect of employment losses and subsequently increased hardship for lower skilled workers.
34. Tables 6, 7 and 8, on pages 22 and 23 of the Report, indicate the number of people that could be affected by an increase in the minimum wage and the demographics of groups that are more likely to be impacted. Further detail on potentially affected groups is outlined on pages 21 to 24 of the Report.
35. There a risk that increasing the minimum wage will provide a disincentive for workers to invest in skills as they consider the minimum wage a high enough reward for their work. However, a higher minimum wage rate may also result in employers seeking to employ those with higher levels of skill. While this means there may be some impact on employment of low skilled workers, it does provide an incentive to individuals to invest in training in order to enter the workforce.

### **Impact on sectors**

36. The impact of a minimum wage increase on sectors depends on the number of minimum wage workers in those sectors. A survey conducted by the former Department of Labour in 2012 indicates that employers in the accommodation/food services, manufacturing, and wholesale and retail trade groups are more likely to have staff that are paid, or paid close to, the minimum wage.
37. Any increase in the minimum wage rate will increase the costs for businesses. Some employers may increase wages to those who are paid above the minimum wage in order to maintain relativity with the minimum wage. This flow-on effect is also considered to be a consequence of employers benchmarking their wages to the minimum wage. Table 9 of the Report details how different sectors would be affected by MBIE's recommended increase of 50 cents to \$15.75 per hour.

## **Interface with other government interventions**

38. While there will be an increased cost to business, there is likely to be a corresponding saving to government through a reduction in overall benefit costs. Wages are often only part of the incomes of low income workers. There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the social assistance system, the taxation system, and education and training policies.
39. While increases to the minimum wage rate will generally provide increased incomes for those paid the minimum wage, the net income for a family is affected by taxation and abatement of other income support, such as Working for Families. Tables 14 to 25 of the Report set out scenarios that provide a clear illustration of the combined effect of wage increase and the abatement of government assistance on household incomes.
40. As indicated in these tables, the real increase in income for those receiving Working for Families is less than the actual increase in the minimum wage rate. This means that although MBIE's recommended increase of 50 cents is 3.28 percent, the real income increase received for a couple working a combined 60 hours on the minimum wage is 1.83 percent. The difference is a result of the abatement of Working for Families income as gross income increases as a result of increases to the minimum wage.

## **Affordability to government**

41. Increases to the minimum wage are likely to have a direct effect, and possibly an indirect or 'flow-on' fiscal impact on some government employers. The Ministries of Health, Social Development, Education and ACC have been identified as the agencies most likely to be impacted by any change to the minimum wage rate. Details of the costs to each of these agencies is outlined on pages 25 to 28 of the Report. The health sector will have the greatest impact from an increase to the minimum wage because of the increase in wages for disability support workers and aged care workers. MBIE's recommended increase of 50 cents to \$15.75 is estimated to cost government approximately \$29.4 million. This cost does not factor in any off-setting that could occur as a result of decrease in some government transfers being paid.
42. The Government is currently in negotiations over pay for approximately 50,000 workers in aged and disability residential care, and aged and disability home and community services. If a settlement is reached, the associated wage increases will reduce the impact attributable to changes to the minimum wage. Any impact of this has not been factored into the cost estimates.

## Criteria for Analysis of the Options

43. In 2012 Cabinet prescribed the criteria for the minimum wage review (CAB Min (12) 41/5B). These are:

### *Inflation, using CPI as the indicator*

44. MBIE uses CPI as a reference point to ensure that the real income of minimum wage workers is protected. We have considered both the most recently reported CPI rate and Treasury forecast rates for 2017. However, MBIE does not rely solely on CPI to determine the increase of real incomes. MBIE has interpreted real incomes to mean the actual income received after tax and other government interventions, such as Working for Families assistance.

### *Wage growth, using median wages as the indicator*

45. MBIE has interpreted this to mean that minimum wages should not be out of step with that of median wages.

### *Restraint on employment growth*

46. MBIE uses restraint on employment to measure the effects on employment growth. MBIE views this in line with the objective of the minimum wage that any increase to the minimum wage rate should minimise restraint on employment growth.

### *Other relevant factors*

47. This year other relevant factors MBIE has considered include:

- impact on wages and inflation
- impact on employment
- impact on minimum wage workers
- impact on sectors
- interface with other government interventions, and
- affordability to government.

Table 3: Minimum wage options analysis

Options	Criteria for assessment of options				Comment
	Inflation (CPI) <i>0.4% (at September 2016 quarter)</i>	Wage growth (median wage) <i>2.9% (at June 2016 quarter)</i>	Restraint on employment growth	Other relevant factors	
<b>\$15.25</b> <i>(status quo)</i>	xxx This option would erode the real value of the minimum wage.	xxx Relativity of minimum wage to median wage would fall to 64.9% (from 66.7% when the current minimum wage came into effect in April 2016).	✓✓✓ No estimated restraint on employment growth.	N/A	This option does not meet the objective of the minimum wage as set by Cabinet as it would fail to maintain the real value of low paid incomes in terms of CPI or wage growth.
<b>\$15.50</b> 1.64% or 25 cent increase <i>Net increase if on WFF: 0.91% / 1.09%<sup>6</sup></i>	✓ Increase is larger than CPI. However, CPI is forecast to increase to 1.5% in 2017 which would reduce much of the value of this increase.	xx Increase is less than the median wage growth across the economy and will decrease relativity with the median wage to 66%.	✓✓✓ No restraint on employment growth.	This option would increase the income of those on Working for Families (WFF) by 1.09 per cent. <sup>7</sup> It would increase economy wide wages by \$26 million and increase cost to government by \$15.33 million.	This option would marginally protect the real incomes of low paid people. However, it is at risk of losing value depending on the increase to CPI in 2017. The increase in real value is particularly low when considering the actual increase in income of those receiving WFF. It would not maintain relativity with the median wage, although it is not estimated to have any restraint on employment.
<b>\$15.75</b> <i>(recommended option)</i> 3.28% or 50 cent increase <i>Net increase if on WFF: 1.83% / 2.18%</i>	✓✓ Increase is much larger than CPI but this would be closer to the forecast increases to CPI in 2017.	✓✓✓ This option is most in line with the increase in median wages across the economy. This option would maintain relativity to the median wage at 67%	x It is estimated this option could restrain employment growth by 1,500 jobs. This figure is a mid-point of a range between 0 and 2,500.	This option would increase the actual income of those on WFF by 2.18 per cent. It would increase economy wide wages by \$65 million and increase the cost to government by \$29.38 million.	This option would increase the real incomes of people earning minimum wage relative to the median wage. For those on WFF however, the increase would be below that of the median wage but closer to forecast increase of inflation in 2017. It is estimated that this option could constrain employment growth by 1,500 jobs, however, employment growth over the past year will assist in absorbing this effect.
<b>\$16.00</b> 4.92% or 75 cent increase <i>Net increase if on WFF: 2.74% / 3.28%</i>	✓ Increase is significantly higher than CPI. Will also exceed forecast increases to CPI in 2017.	✓✓ This increase is much higher than the median wage increase and would mean the relativity to minimum wage was 68.1% of the median wage.	xx It is estimated this option could restrain employment growth by 3,500 jobs. This figure is a mid-point of a range between 500 and 6,000.	This option would increase the income of those on WFF by 3.28 per cent. It would increase economy wide wages by \$113 million and increase the cost to government by \$40.44 million.	This option meets the government objective to protect real incomes, however, this increase is significantly higher than CPI. This would increase the relativity of the minimum wage to the median wage above the historic average. There is an estimated employment growth constraint of 3,500 jobs which MBIE does not consider to comply with the objective to minimise job losses. This option also increases the cost to government over \$40 million and is generally not an option forecasted by government agencies.
<b>\$16.50</b> 8.2% or \$1.25 increase <i>Net increase if on WFF: 4.57% / 5.46</i>	x Increase is significantly higher than CPI. Also likely to exceed the forecast increases to CPI in 2017. This option is also estimated to increase inflation by 0.1%.	x This increase is significantly higher than the increase to the median wage and could place greater pressure on wage distribution leading to a larger pool of employees being paid the minimum wage.	xxx It is estimated this option could restrain employment growth by 7,000 jobs. This figure is a mid-point of a range between 1,000 and 20,000.	This option would increase the income of those on WFF by 5.46 per cent. It would significantly increase economy wide wages by \$257 million and cost to government by \$87.10 million.	Employment growth is estimated to be significantly restrained. This does not comply with the government objective to minimise job losses. There is also an increased risk of pooling at the minimum wage level because of the significant increase and the number of people that it would affect (212,000). Economy wide wages and cost to government increases would also be significant.
<b>\$19.80</b> <i>(proposed 'living wage')</i> 29.84% or \$4.55 increase <i>Net increase if on WFF: 16.65% / 17.05%</i>	xx Increase is drastically higher than CPI. Also protects against forecast increases to CPI in 2017. This option is estimated to increase inflation by 0.8%.	xxx This increase is significantly higher than the increase to the median wage and is likely to place greater pressure on wage distribution leading to a larger pool of employees being paid the minimum wage.	xxx It is estimated this option could restrain employment growth by 28,000 jobs. This figure is a mid-point of a range between 3,500 and 60,500.	This option would increase the income of those on WFF by 13.98 per cent. It would significantly increase economy wide wages by \$2,331 million and cost to government by \$543.55 million.	This option does not align with any government objectives. There would likely be significant compression at the bottom of the wage distribution and employment restraint is estimated to be 28,000 jobs. This is likely to have a major impact on the labour market. Increases to the cost for wages across the economy and for government would also increase significantly.

<sup>6</sup> Indicates the percentage increase of take home income for those receiving Working for Families. Key: WFF – Dual income household working combined 60 hours on minimum wage / single income household working 40 hours on minimum wage. Both scenarios are based on having two dependants.

<sup>7</sup> This is based on a single earner household with two dependants – see page 30 of the Report

## Consultation

48. Under the streamlined process for this year's minimum wage review, only Business New Zealand and the New Zealand Council of Trade Unions (NZCTU) were invited to make submissions. MBIE also received submissions from the New Zealand Nurses Organisation and StandUp Youth Movement who are affiliates of the NZCTU. MBIE also met with NZCTU at their request to discuss their submission.
49. A summary of the submissions and MBIE's response is contained in Chapter three of the Report.

## Agency Submissions

50. MBIE has also consulted with the following ministries and agencies on the Minimum Wage Review 2016: the Treasury, Ministries of Education, Health, Pacific Peoples, Social Development, Women, and Te Puni Kokiri, Accident Compensation Corporation and Inland Revenue. The Department of the Prime Minister and Cabinet has been informed of the Review.
51. The Ministry for Women has indicated support for MBIE's recommended option of an increase of 50 cents to \$15.75 per hour.
52. Treasury has reiterated their comments on last year's review regarding MBIE's interpretation of the government's objective for the minimum wage. Treasury's comments on this are as follows:

MBIE's analysis and preferred option reflects their interpretation of the review's objective, Cabinet's decisions on the process for the review, and factors to be considered. In particular MBIE gives significant weighting to changes in the gap between the minimum and median wage rates, as well as CPI change. Treasury considers this shifts the objective of the minimum wage review towards limiting the increase in income inequality. On the other hand, Treasury's preferred option reflects a greater weighting on the objective of real income protection from the perspective of real purchasing power.

From MBIE's perspective, increasing the minimum wage rates is a 'positive' means of achieving Cabinet's objective (CAB Min (12) 41/5B refers) of 'protect[ing] the real incomes of low-paid workers while minimising job losses'. However, Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review. On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the household income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

Finally, while the impact on job losses may be minimal, international evidence has shown that raising the wage will likely result in businesses substituting youth workers for low to semi-skilled older workers. This has implications for youth labour market connectedness and associated benefit rates for this group who already have a high unemployment rate.

53. Treasury has raised concerns regarding MBIE's minimum wage model, specifically, whether the elasticities contained within the model have been reviewed. Treasury has also raised concerns with the level of estimated restraint on employment growth and whether this will have a larger impact on minimum wage workers. The figure of restraint on employment growth is the mid-point of a range between 0 and 2,500 jobs. The Labour Market Statistics data is unable to provide the detail necessary to accurately determine where jobs are being created or restrained.
54. Te Puni Kōkiri supports an increase to the minimum wage consistent with the objective of protecting the real incomes of low paid workers. Te Puni Kōkiri therefore supports an increase in the minimum wage of \$1.25 to \$16.50 (option 5).
55. Te Puni Kōkiri highlighted that the minimum wage provides an important regulatory framework and nominal wage-setting instrument for Māori. They note this is particularly important because:
- Māori population has a youthful age structure, which combined with a higher fertility rate, will increase Māori as a proportion of the future workforce population;
  - Māori in the low skilled and low paid sector face greater challenges as individuals in achieving wage increases as they have limited bargaining power;
  - there is a broad consensus in the research and empirical evidence from a large number of countries that raising minimum wages changes income distribution in favour of low-paid workers;<sup>8</sup>
  - a minimum wage set at an adequate level will provide an incentive for Māori beneficiaries to seek sustainable employment, and will strengthen Māori workers attachment to the labour force; and
  - given the limited bargaining capacity of low paid workers in the current environment, the annual Minimum Wage Review is becoming the predominant instrument driving pay increases and closing pay gaps.
56. Te Puni Kōkiri has raised concerns about the review, in particular; the range and rationale for the options; the approach used in evaluating the options against the assessment criteria; and the omission of options to pursue a long-term strategy to move New Zealand to a high skill, high productivity and high wage economy.
57. Te Puni Kōkiri notes that the proposed increase of 50 cents does not adequately protect the real value of wages for low-wage workers, particularly when factoring in abatement of Working for Families and substantial increases in housing CPI. Te Puni Kōkiri state that the housing CPI has increased 47.2 per cent since 2007. Given this significant increase Te Puni Kōkiri encourages an increase to the minimum wage of \$1.25 per hour to \$16.50 per hour which would reflect a 47 percent increase in the minimum wage since 2007.

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<sup>8</sup> Herr, Kazandziska and Mahnkopf-Praprotnik (2009); McDonald I (2008); UK Low Pay Commission Report 2011; Department of Labour (2011).

## Conclusion and Recommendation

58. The Report indicates that the optimum balance to best meet the criteria provided for this review likely sits between options 2 and 3 (i.e. between 25 and 50 cents).

*Table 4: Employment impacts of an increase of 25 cents and 50 cents*

Minimum wage rate impact measures	Impacts of option 2	Impacts of option 3
Adult minimum wage (hourly rate)	\$15.50	\$15.75
Adult minimum wage (gross weekly income) <sup>9</sup>	\$620	\$630
Percentage increase	1.6%	3.3%
Relativity to median wage <sup>10</sup>	66.0%	67.0%
Number of people impacted (rounded up to nearest 100)	89,900	119,500
Estimated restraint on employment	N/C	-1,500
Estimated economy-wide increase in wages	\$26m	\$65m
Estimated inflationary impact/GDP (percentage points)	N/C	N/C
Additional annual costs to the government <sup>11</sup>	\$15.33	\$29.38m

59. While MBIE recognises the fine balance between these two options, we recommend an increase in the minimum wage of 50 cents to \$15.75 because:

- while inflation is low to September 2016, Treasury has forecast inflation will increase to 1.5 percent in 2017
- an increase of 50 cents will maintain the relativity with the median wage, which was placed at 66.8% of the median wage in the 2015 review, and would drop to 66.0% if the increase was 25 cents
- low income workers are more likely to have a reliance on government assistance, such as Working for Families, and therefore will receive less of a percentage increase of take home income, owing to abatement rates of such assistance programmes (see Table 5 below). For the two family scenarios provided below, option 3 would provide an increase to take home pay of 1.83% or 2.18%, which both sit between the forecast inflation and actual median wage increase, and
- while this rate does not eliminate the possibility of constraint on employment (as the 25 cent option does) it does minimise the constraint on employment growth to 1,500 jobs (a forecast range between 0 and 2,500).

<sup>9</sup> This is calculated on a 40 hour week basis.

<sup>10</sup> The median hourly earnings are \$23.49 per hour (Labour Market Statistics (Income), June 2016).

<sup>11</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, and the Accident Compensation Corporation from higher wage costs for their employees and service providers.

Table 5: Percentage increase of take home income for various scenarios with two dependants

Option	% increase of minimum wage	% increase for single income household (40 hours)	% increase for dual income household (60 hours)
Option 1: \$15.25	N/C	N/C	N/C
Option 2: \$15.50	1.64%	0.91%	1.09%
Option 3: \$15.75	3.28%	1.83%	2.18%
Option 4: \$16.00	4.92%	2.74%	3.28%
Option 5: \$16.50	8.2%	4.57%	5.46%
Option 6: \$19.80	29.84%	16.65%	17.05%

60. This option could directly affect up to 119,500 workers but would not in itself affect inflation. It could increase annual economy wide wages by \$65 million, and would have an annual fiscal cost of \$29.38 million to government.
61. The Report provides a full assessment of the options for change to the minimum wage from April 2017, taking into account inflation, wage growth and restraint on employment. MBIE's full recommendation is contained in Chapter seven of the Report.

## Implementation

62. Changes to the minimum wage rate will be implemented through an Order in Council. Historically, changes in the minimum wage rates occur on or before 1 April of each year.
63. MBIE will provide information through its website, call centre and other customer services to inform employers and employees of any change to the minimum wage before this takes effect. No additional budget is required for the purpose of implementation.
64. Some employers may choose not to comply with the minimum wage legislation or delay their compliance with an increase to the minimum wage rate. MBIE will continue to support sustainable compliance through education, engagement and enforcement. The Labour Inspectorate has a range of enforcement tools for responding to non-compliance.
65. Table 6 below shows the number of Breaches of the Act that have required enforcement action, and the total number of breaches that were investigated.

Table 6: Number of breaches of the Minimum Wage Act

Investigation Outcome	2013-14	2014-15	2015-16	2016-17	Total
Breaches, for enforcement action	51	68	83	31	233
<b>Total investigations with breach</b>	<b>111</b>	<b>97</b>	<b>105</b>	<b>35</b>	<b>348</b>

## Monitoring, Evaluation and Review

66. It is a statutory obligation under section 5 of the Minimum Wage Act 1983 for the responsible Minister to review the minimum wage rates by 31 December each year.



67. MBIE will monitor compliance and uptake of the minimum wage through the National Survey of Employers and the New Zealand Income Survey. MBIE will continue to collect relevant data to evaluate the impacts of the minimum wage change and provide advice on whether the objectives of the minimum wage are met and whether further mechanism changes are needed for the responsible Minister to fulfil their obligation.
68. When the starting-out wage was introduced, Cabinet directed MBIE to undertake a post-implementation review to be completed by November 2016. A report has been presented to the Minister of Finance and the Minister for Workplace Relations and Safety for their consideration.
69. MBIE has received submissions from stakeholders and government agencies regarding MBIE's minimum wage model and whether it is up to date in terms of the elasticities it used to estimate impacts from an increase to the minimum wage. The current model was developed in conjunction with NZIER in 2012. The previous review of the model occurred 1997. In light of the comments and concerns received regarding the minimum wage model, during 2017 MBIE will consider the model and whether a more robust process for reviewing the model is necessary.

# **Annex one: Minimum Wage Review 2016 Report**



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI



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# Minimum Wage Review 2016

**November 2016**

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## Executive Summary

1. This Minimum Wage Review report fulfils a statutory obligation under the *Minimum Wage Act 1983* (the Act) for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year.
2. The Government's objective for the minimum wage review is 'to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses' (CAB Min (12) 41/5B refers).
3. This year's review takes place in a strong economic climate, marked by solid economic growth and labour market performance. Economic growth was higher for the June quarter of 2016 than was forecast in Budget 2016. In the September quarter of 2016 unemployment fell to 4.9 percent, its lowest rate since 2008. The employment rate increased to 66.7 percent and the labour force participation rate increased 1.7 percent to 70.1 percent in the year to September 2016. This is a positive sign for the labour market as the number of new jobs coming into the market is higher than the number of people entering the labour market, despite high levels of migration.
4. In general, minimum wage increases can be expected to have the following impacts:
  - **Increased earnings for workers paid the minimum wage** and potentially flow-on impacts for other workers earnings close to the minimum wage, although net household income is also affected by other government interventions, such as taxation abatement for those receiving income support and tax credits.
  - **Increased labour costs for employers**, especially for those industries that employ a large number of minimum wage workers such as retail and hospitality.
  - This could result in **greater inflation pressure**. An increase in the minimum wage will also have a fiscal impact on the state sector, mainly the Ministries of Health, Social Development and Education, and the Accident Compensation Corporation.
  - **Negative employment effects**, including lower job growth and reduced hours, particularly from a significant rise in the level of the minimum wage.
5. The extent of these effects will depend on the size of the wage increase and the economic and labour market context in which it occurs, and are most likely to impact on demographic groups such as young people, Māori and Pacific workers, and low-skilled workers.
6. This year's consultation process invited the New Zealand Council of Trade Unions (NZCTU) and Business New Zealand (BusinessNZ) to make submissions on the annual minimum wage rate review. Both NZCTU and BusinessNZ responded and NZCTU met with the Ministry of Business Innovation & Employment (MBIE) to discuss their submissions. MBIE also received submissions from the New Zealand Nurses Organisation and Stand Up Youth Union Movement. NZCTU and its affiliates recommended an increase to \$19.88. BusinessNZ recommended that a review of the role and effect of the minimum wage be undertaken, and pending the outcome of that review, the minimum wage be indexed to increases in the Consumer Price Index (CPI).

7. To fulfil the objective of the minimum wage review, MBIE has developed a range of options for increases to the minimum wage rate and assessed the impacts of each option. This report analyses the impacts of the options on wages and inflation, employment, minimum wage workers, industries, the state sector and the interface with other government interventions. Some specific impacts of the minimum wage increase options are summarised in Table 1.
8. The minimum wage rate options developed for this review are as follows:
  - Option 1: \$15.25 per hour (the current adult minimum wage rate)
  - Option 2: \$15.50 per hour
  - Option 3: \$15.75 per hour
  - Option 4: \$16.00 per hour
  - Option 5: \$16.50 per hour
  - Option 6: \$19.80 per hour
9. MBIE recommends option 3, that the adult minimum wage is raised to \$15.75 and that the starting out and training minimum wage rates are correspondingly increased so that they remain at 80% of the adult minimum wage rate. We make this recommendation because:
  - \$15.75 is an increase of 50 cents, or 3.28 percent. It is expected that this option will increase the real income of minimum wage workers receiving Working for Families by 1.83 percent.
  - This increase is estimated to have a relatively small impact on job growth. The MBIE minimum wage model (the model) estimates that employment growth could be constrained by around 1,500 jobs. Although a 30 cent increase to \$15.55 is not estimated to constrain job growth, this rate would mean the minimum wage would lose relativity with the median wage.
  - The unemployment rate has fallen significantly since the height of the global financial crisis (GFC) in 2010 to 4.9 percent in the September 2016 quarter. The New Zealand Institute of Economic Research (NZIER) September Consensus Forecast predicts that unemployment will fall to 4.7 percent by March 2018 then increase again slightly but remain under 5.0 percent through to March 2019.
  - This will increase the real incomes of minimum wage workers, while also maintaining relativity with median wages across the economy. A 50 cent (3.28 percent) increase is significantly higher than inflation (0.4 percent) and slightly higher than the annual increases in median wages (2.9 percent). The real incomes of minimum wage workers are determined by a number of factors, such as tax credits. This increase would mean a single full-time income household receiving Working for Families will receive a real increase of 2.18 percent owing to abatement rates of Working for Families. This also takes into account the Treasury forecast that inflation will increase to 1.5 percent in 2017. An increase of 25 cents (1.64 percent) would be significantly lower than the annual increase in median wages and its value could be eroded by higher inflation in 2017 particularly once abatement of Working for Families is considered.



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

Minimum wage rate impact measures	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Adult minimum wage (hourly rate)	\$15.25	\$15.50	\$15.75	\$16.00	\$16.50	\$19.80
Adult minimum wage (gross weekly income) <sup>1</sup>	\$610	\$620	\$630	\$640	\$660	\$792
Percentage increase	N/C	1.6%	3.3%	4.9%	8.2%	29.8%
Relativity to median wage <sup>2</sup>	64.9%	66.0%	67.0%	68.1%	70.2%	84.3%
Number of people impacted (rounded up to nearest 100)	73,300	89,900	119,500	142,700	212,000	528,700
Estimated restraint on employment	N/C	N/C	-1,500	-3,500	-7,000	-28,000
Estimated economy-wide increase in wages (\$m, annual)	N/C	26	65	113	257	2,331
Estimated inflationary impact/GDP (percentage points)	N/C	N/C	N/C	N/C	0.1%	0.7%
Additional annual costs to the government (\$m) <sup>3</sup>	N/C	\$15.33	\$29.38	\$40.44	\$87.10	\$543.55 <sup>4</sup>

<sup>1</sup> This is calculated on a 40 hour week basis.

<sup>2</sup> The median hourly earnings are \$23.49 per hour (Labour Market Statistics (Income), June 2016).

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

<sup>4</sup> This figure in particular is likely to be underestimated because employees and contractors working for state agencies other than the four surveyed here would be affected by a minimum wage rate increase to \$19.80. This figure should also be considered alongside the increase to ACC's Outstanding Claims Liability which could result in higher ACC levies.

# Chapter one – Our approach to the 2016 minimum wage review

## Obligation under legislation and international conventions

10. The Act sets minimum hourly wage rates which provide a floor for wages paid to employees. Minimum Wage rates are set through an Order in Council made under section 4 of the Act. It is a breach of the Act to pay an employee less than the minimum wage and an employer may be liable for a penalty imposed by the Employment Relations Authority.
11. The Act requires the responsible Minister to review the minimum wage rates by 31 December each year. Any change to the minimum wage rates is made through an Order in Council.
12. The government's objective for the minimum wage review is 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses' (CAB Min (12) 41/5B refers).
13. The International Labour Organisation (ILO) also recommends that the minimum wage rate be reviewed regularly to preserve its purchasing power.<sup>5</sup> New Zealand is a signatory to the ILO's Minimum Wage-Fixing Machinery Convention (1928), which includes a requirement to ensure an adequate minimum wage rate.<sup>6</sup> The ultimate test of any system for setting a minimum wage is its acceptability and effectiveness at a given period of time and its ability to meet the different needs of all parties concerned.<sup>7</sup>

## Process for the Minimum Wage Review 2016

14. In 2012 Cabinet agreed to change the minimum wage review process to provide a streamlined process for three years, with the fourth year being a comprehensive review. This year's review will follow the streamlined process as a comprehensive review was completed in 2015.
15. As specified for the streamlined process, MBIE has focused on the following factors in assessing the options for the minimum wage rates for 2017:
  - inflation, using CPI as the indicator
  - wage growth, using median wage as the indicator
  - restraint on employment
  - other relevant factors, which are:
    - impact on minimum wage workers
    - impact on sectors
    - affordability to government
    - interface with other government interventions

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<sup>5</sup> International Labour Organisation, Global Wage Report 2008/2009

<sup>6</sup> Article 4, Convention Concerning the Creation of Minimum Wage-Fixing Machinery, CO26 (1928) (opened for signature 16 June 1928, entered into force 14 June 1930)

<sup>7</sup> International Labour Organisation (1998), Minimum Wage Fixing: A Summary of Selected Issues, Briefing Note No. 14.

16. Consultation has been undertaken with BusinessNZ and NZCTU. Their views and submissions have been analysed and reflected in the relevant sections of this report.
17. Conventionally, the responsible minister makes a decision on the minimum wage rates based on MBIE's advice and notifies Cabinet about any changes to the minimum wage rates. Where there is a change, this is given effect through an Order in Council. Any change to the minimum wage rate would be made and take effect at the same time in 2017. A change to the minimum wage rate traditionally comes into effect on 1 April.

## Chapter two – The economic context for the 2016 review

18. This year's review takes place in a strong economic climate, marked by solid economic growth and labour market performance. Economic growth was higher for the June quarter of 2016 than was expected in Budget 2016. In the September 2016 quarter Labour Market Statistics, unemployment fell to 4.9 percent and the number of employed people increased 6.1 percent to 2,494,000.<sup>8</sup> This is a positive sign for the labour market as the number of new jobs coming into the market is higher than the number of people entering the labour market, despite high levels of migration.

### Economic situation and outlook

19. Economic growth has been strong during 2016 with Gross Domestic Product (GDP) increasing by 0.9 percent in both the March and June quarters of 2016. The latest New Zealand Institute of Economic Research (NZIER) Quarterly Predictions (September 2016) reported that the New Zealand economy remains strong due to strong population growth, construction and tourism.<sup>9</sup> The effects of strong population growth are flowing through to many sectors of the economy, and high tourism numbers are assisting increased activity in the regions. While there are early indicators that migration inflows are beginning to level, the strong growth already seen will underpin strong construction activity over the coming years.<sup>10</sup>
20. The solid New Zealand economic outlook is in contrast to the fragile global growth outlook, as geopolitical uncertainty and a shift towards protectionism could pose a risk to the demand for New Zealand exports.<sup>11</sup>
21. On 14 November 2016, during the final stages of the review process, a significant earthquake event occurred in Kaikoura and has impacted on a wide area of the upper South Island and lower North Island. As a result of this, economic and labour market conditions may have changed. However, there was insufficient information immediately available about the scale of ongoing impacts to consider these potential impacts in this report.
22. Economic growth was lower in 2016 than in 2015. According to the September NZIER Consensus Forecasts, economic growth is expected to increase to 3.2 percent over the next year before easing slightly to 3.0 percent by early 2018.<sup>12</sup> Figure 1 shows the trend in real GDP growth from 1998 to 2019.

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<sup>8</sup> Note: The September 2016 quarter Labour Market Statistics includes results of the redeveloped Household Labour Force Survey which was first released in June 2016 quarter. Statistics New Zealand recommends caution when comparing some results to previous years.

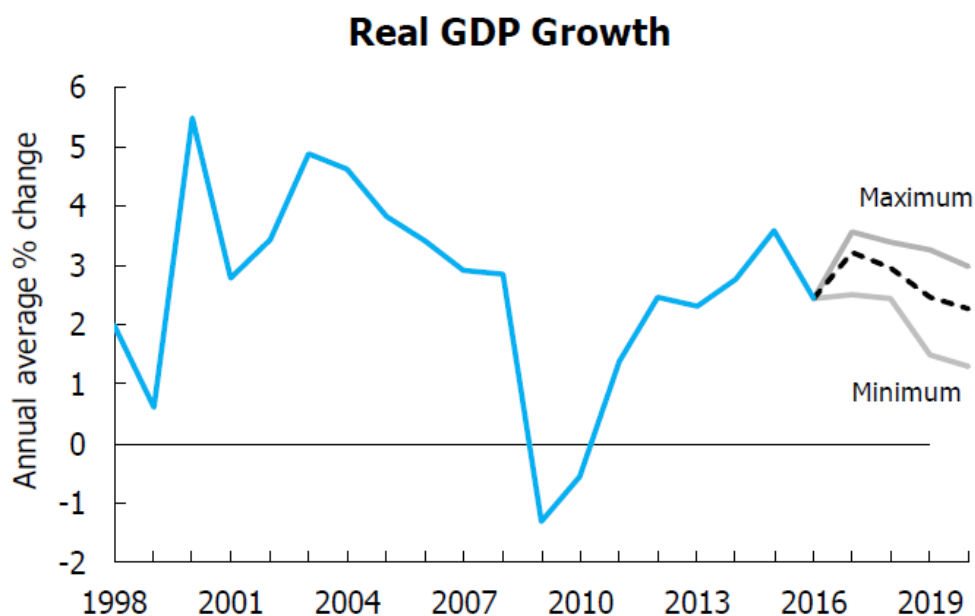
<sup>9</sup> NZIER's Quarterly Predictions: September quarter 2016 (30 August 2016).

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> NZIER Consensus Forecast, September 2016.

Figure 1: History and forecasts of real GDP growth



Source: NZIER

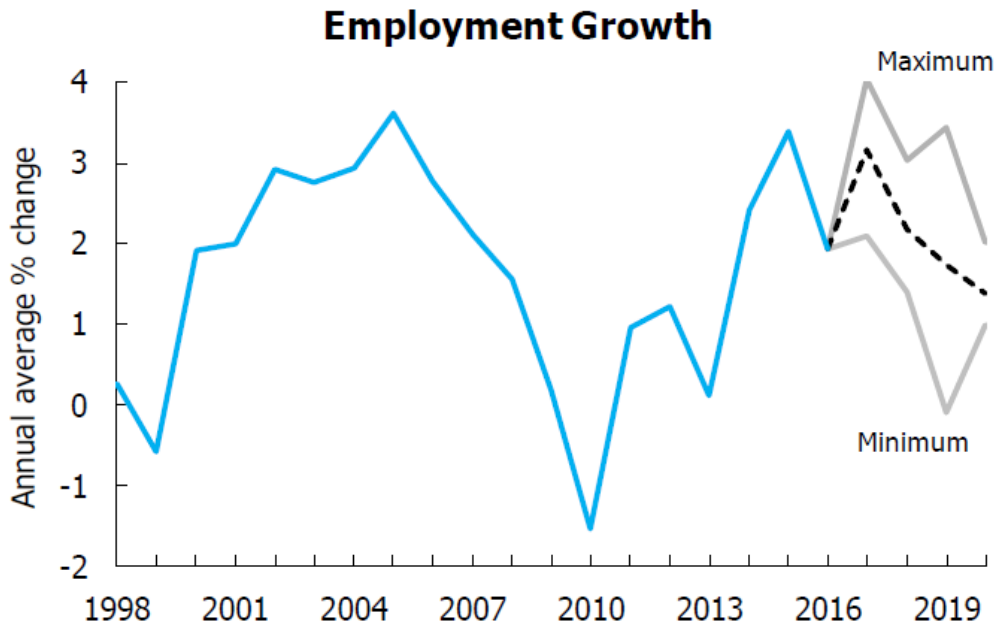
23. Inflation has also remained low at 0.4 percent for the year to September 2016. The New Zealand Reserve Bank target inflation of between one and three percent. Inflation has averaged 2.4 percent since 2000 meaning the current inflation rate is well below both targets and recent averages.

### Labour market and employment outlook

24. Data from the September quarter 2016 Labour Market Statistics indicated that a strengthening economy has translated into a stronger labour market.
- total employment increased by 127,000 between September 2015 and September 2016. This equates to a 6.1 percent rise in the year to September 2016 compared to a 1.5 percent rise in the year to September 2015
  - employment increased by 35,000 over the most recent quarter, a 1.4 percent increase
  - the employment rate increased for the year to 66.7 percent (2.1 percent annual change)
  - labour force participation rose to 70.1 percent (1.7 percent annual change)
  - the unemployment rate decreased from 5.4 percent to 4.9 percent in the year to September 2016
  - over the year, the total number of unemployed people decreased by 7.0 percent to 128,000
25. Figure 2 shows employment growth since 1998 and the NZIER Consensus Forecasts to 2019. The NZIER forecasts employment growth of 3.2 percent for the year to March 2017 and 2.2 percent for the year to March 2018. It should be noted NZIER indicates a large

degree of uncertainty which partly reflects survey methodology changes by Statistics New Zealand which saw a sharp lift in employment growth for the June 2016 quarter.<sup>13</sup>

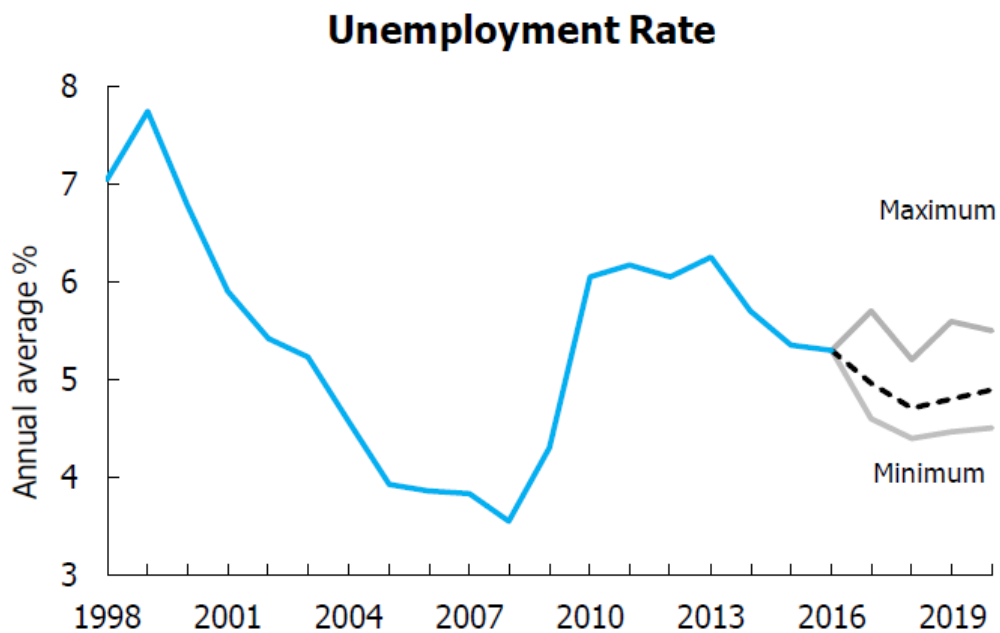
Figure 2: History and forecasts of employment growth



Source: NZIER

26. The unemployment rate has fallen significantly since the height of the global financial crisis (GFC) in 2010. The NZIER September Consensus Forecast predicts that unemployment will fall to 4.7 percent by March 2018 but increase again slightly remaining under 5.0 percent through to March 2019.<sup>14</sup> Figure 3 shows the unemployment rate since 1998 and the NZIER forecast for the next three years.

Figure 3: History and forecasts of unemployment rate



Source: NZIER

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

## Youth employment

27. Youth employment dropped from 2008 to 2012, but has recovered slightly. The proportion of 15-19 year olds in employment fell from about 46 percent at the start of the GFC to about 31 percent in 2013, but has recovered to about 36 percent in 2016 (green line in Figure 4 below).
28. More than nine out of ten 15-19 year olds are in education and training (blue line in Figure 7). The Not in Employment, Education or Training (NEET) rate for 15-19 year olds is now 7.1 percent, a lower level than in 2008 at the beginning of the GFC, and its peak at about 10 percent in 2010.
29. Of those 15-19 year olds in education, 29 percent are also employed. The labour force participation of 15-19 year olds in education dropped during the GFC, but has been relatively stable in recent years (Figure 5).

Figure 4: Labour force and education outcomes of 15-19 year olds (seasonally adjusted)

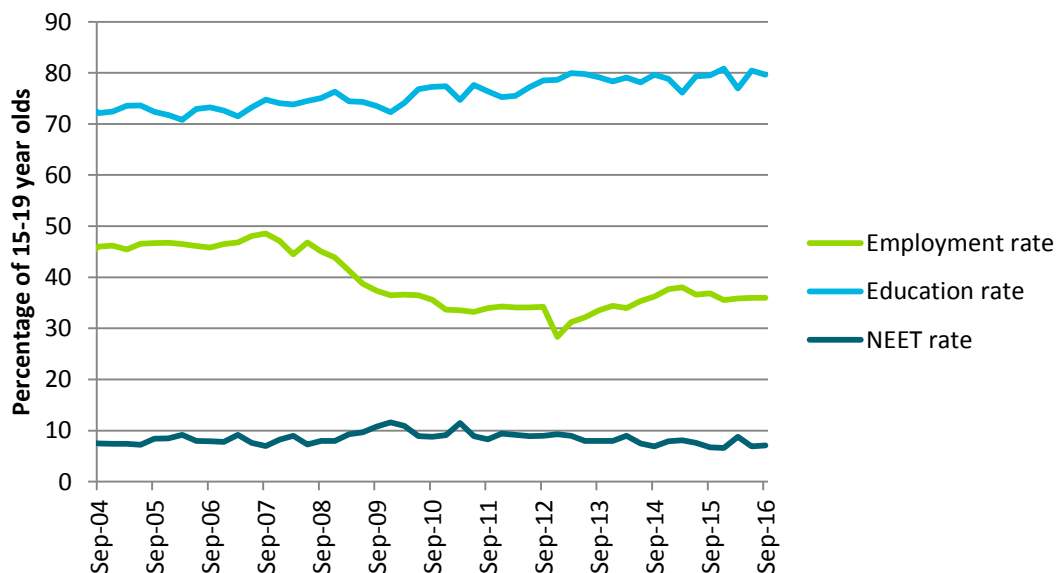
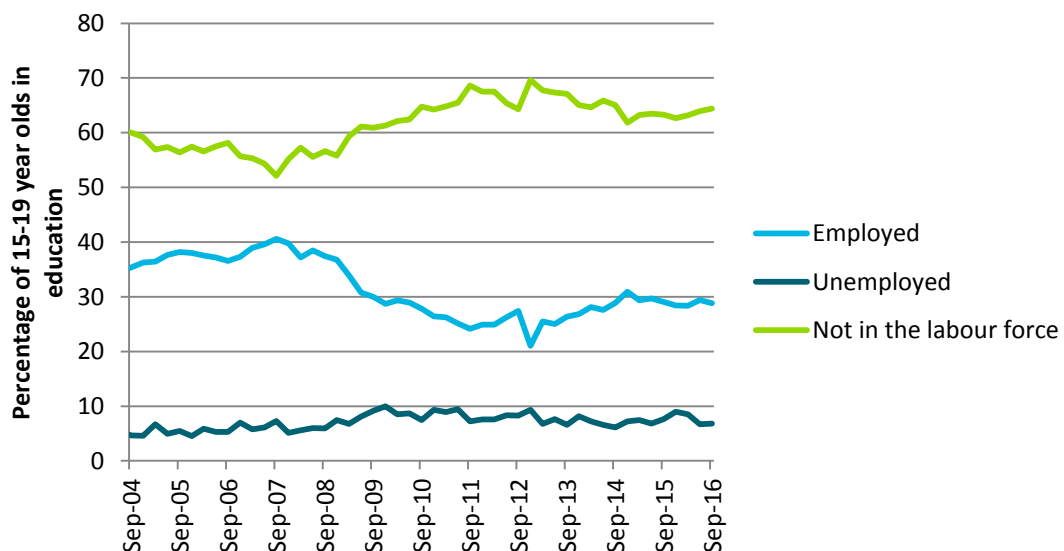


Figure 5: Labour force outcomes of 15-19 year olds



## **Wage growth and inflation**

30. The annual median hourly earnings from wages and salaries increased by 2.9 percent to \$23.49 per hour in the year to June 2016.<sup>15</sup> In terms of the Labour Cost Index (LCI), wage rates rose 2.6 percent over the same period.<sup>16</sup>
31. According to the Labour Market Statistics (previously the Quarterly Employment Survey), the unadjusted, average ordinary time hourly earnings increased 1.7 percent to \$29.78 per hour in the year to September 2016. Treasury forecasts that average ordinary time hourly earnings will increase 1.4 percent in 2017.<sup>17</sup>
32. The CPI increased by 0.4 percent in the year to September 2016. However, the Treasury forecasts that the CPI will increase to 1.5 percent in 2017 and 2.0 percent in 2018.

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<sup>15</sup> Labour Market Statistics (Income) June 2016.

<sup>16</sup> Labour Market Statistics, September 2016.

<sup>17</sup> New Zealand Treasury (2016), Budget Economic & Fiscal Update 2016, Wellington.



## Chapter three – Current and historical minimum wage rates

### The current prescribed minimum wage rates and their coverage

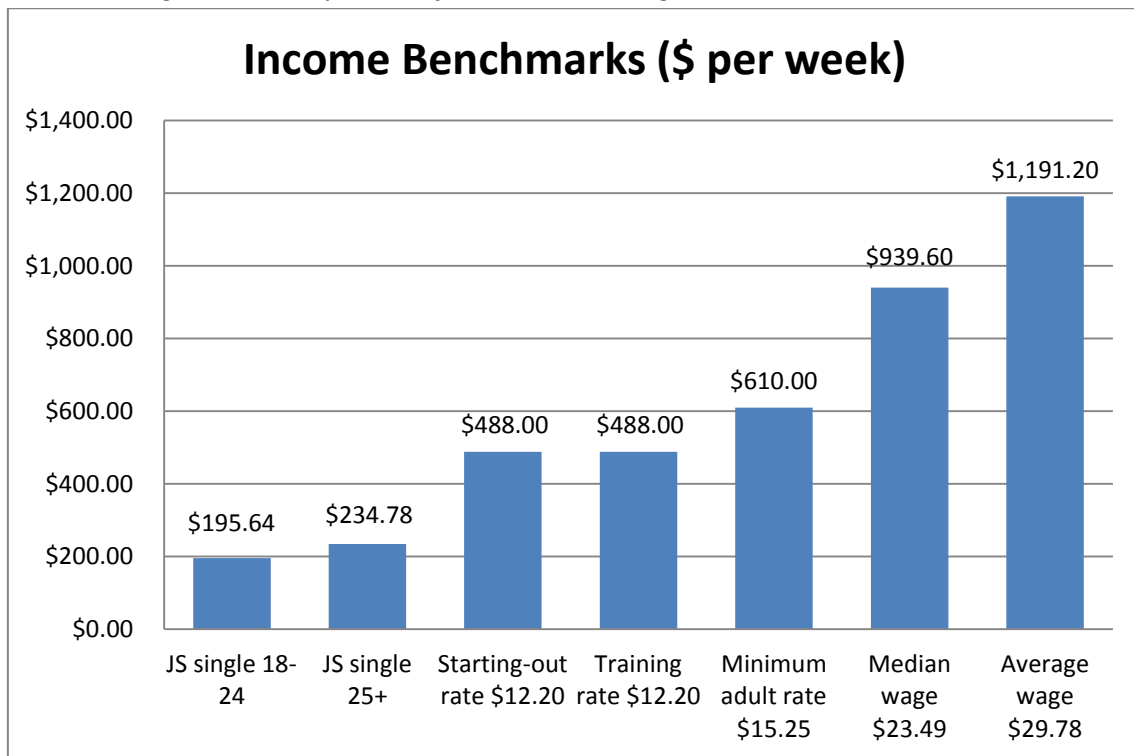
33. The current minimum wage rates prescribed in the Minimum Wage Order 2015 are set out below:
- the adult minimum wage rate is \$15.25 per hour
  - the starting-out minimum wage rate is \$12.20 per hour
  - the training minimum wage rate is \$12.20 per hour
34. The adult minimum wage rate applies to all employees aged 16 years and over, unless they are eligible for the starting-out wage or training wage.
35. The starting-out wage was introduced in May 2013. Its purpose is to support more young people entering the workforce and gaining the education and training they need for work. The Act provides that the starting-out wage rate must be set at no less than 80 percent of the adult minimum wage rate and is currently set at 80 percent of the adult minimum wage. The rate applies to an eligible starting-out worker:
- aged 16 or 17 years who has not completed 6 months continuous employment with his or her current employer, and is not involved in supervising or training other workers; or
  - aged 18 or 19 years who has been continuously paid one or more specified social security benefits for not less than 6 months, and has not completed 6 months continuous employment with any employer, and is not involved in supervising or training other workers; or
  - aged 16, 17, 18, or 19 years who is required by his or her contract of service to undertake at least 40 credits a year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates, and is not involved in supervising or training other workers.
36. The training minimum wage rate applies to a trainee who is:
- aged 20 years or over; and
  - required by his or her contract of service undertake at least 60 credits each year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates; and
  - is not involved in supervising or training other workers.
37. Minimum wages are paid to approximately 73,300 workers, making up approximately 2.9 percent of all employees. Workers paid the minimum wage are disproportionately young people (12.5 percent) and those working part-time (61.5 percent). Women (59.7 percent), Māori (15.4 percent) and Pacific (8.7 percent) workers, people without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid

the minimum wage than other groups of workers. These workers are more likely to work in retail and hospitality industries. For more detailed information on the demographic and job characteristics of workers paid the minimum wage, refer to Chapter five of this report.

### The current minimum wage rate compared with other income benchmarks

38. The current adult minimum wage rate of \$15.25 per hour is approximately 51 percent of average ordinary time hourly earnings (\$29.78 per hour in the September 2016 Labour Market Statistics) and 65 percent of median total hourly earnings (\$23.49 per hour in the New Zealand Income Survey, June 2016).
39. Compared with other income benchmarks, the minimum wage is significantly higher than the rate for a single adult on Jobseeker Support.<sup>18</sup> The following figure compares the minimum wage rates with other income benchmarks, all calculated as gross weekly income for a 40 hour week.

Figure 6: Weekly income from minimum wages and other income benchmarks



### Changes to the minimum wage over the past 10 years

40. Historically, the minimum wage rate has increased every year after the completion of the annual review. Table 2 shows the changes in the hourly minimum wage rates since 2007.

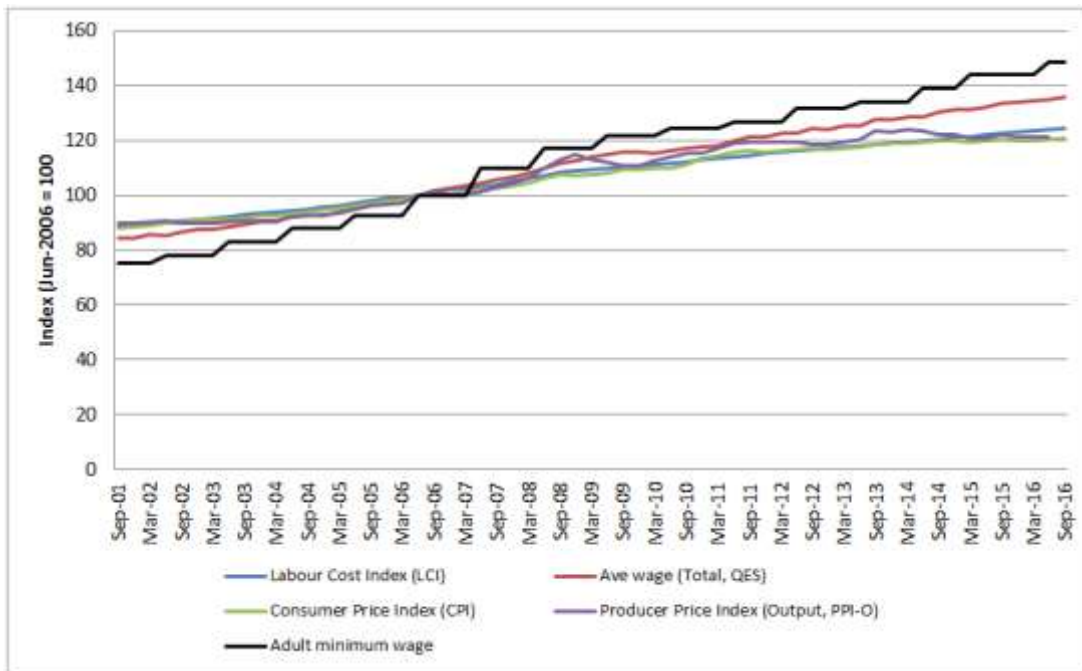
<sup>18</sup> The Jobseeker Support category of social security benefit replaced unemployment benefits and some other benefits on 15 July 2013. It does not include certain targeted benefits, such as the accommodation supplement.

Table 2: Recent changes to the minimum wage rates

Time Period	Adult Minimum Wage	Other Minimum Wage <sup>19</sup>	% Change (adult minimum wage)
April 2007	\$11.25	\$9.00	9.8%
April 2008	\$12.00	\$9.60	6.7%
April 2009	\$12.50	\$10.00	4.2%
April 2010	\$12.75	\$10.20	2%
April 2011	\$13.00	\$10.40	2.0%
April 2012	\$13.50	\$10.80	3.8%
April 2013	\$13.75	\$11.00	1.9%
April 2014	\$14.25	\$11.40	3.6%
April 2015	\$14.75	\$11.80	3.5%
April 2016	\$15.25	\$12.20	3.4%

41. Between 2000 and 2008, the minimum wage rate increased at a faster rate than general wages (as measured by the Labour Cost Index or Quarterly Employment Survey) and inflation (as measured by the CPI). From 2009 to 2011 increases were more in line with price inflation. Increases from 2012 have been at a faster rate than price inflation, owing to a very low price inflation rate. Figure 7 shows increases in the past minimum wage rates compared with various measurements of inflation over the past 14 years.

Figure 7: Increase in the minimum wage rate compared with various measures of inflation



Source: Statistics New Zealand

<sup>19</sup> This includes the new entrants wage and the starting-out and training wage from 2013.

## Chapter four – The minimum wage in an international context

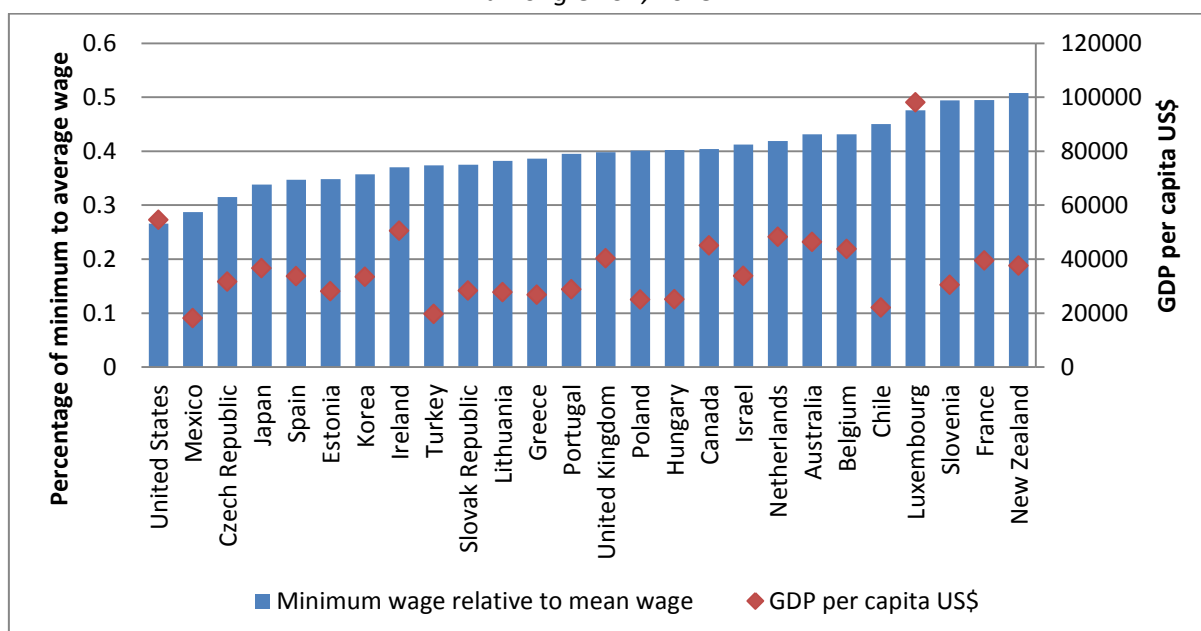
42. New Zealand has a moderately high minimum wage compared with similar countries. Among the OECD countries, five other countries (Luxembourg, Australia, Germany, France and the Netherlands) have a higher hourly minimum wage rate in 2015 in terms of absolute wage levels. If transferred to annual income, four other countries have a higher minimum annual income based on a standard working week for each country.

Table 3: Ranking of the Minimum Wage rate in OECD Countries<sup>20</sup>

As Annual Income			As Hourly Rate		
1	Luxembourg	US\$25,593	1	Australia	US\$13.30
2	Australia	US\$25,350	2	Germany	US\$12.57
3	Germany	US\$22,877	3	Luxembourg	US\$12.30
4	Netherlands	US\$21,587	4	France	US\$10.66
5	<b>New Zealand</b>	<b>US\$21,395</b>	5	Netherlands	US\$10.38
6	United Kingdom	US\$20,814	6	<b>New Zealand</b>	<b>US\$10.29</b>
7	Belgium	US\$20,754	7	United Kingdom	US\$10.24
8	Ireland	US\$19,954	8	Belgium	US\$10.23

43. New Zealand has the highest ratio of the minimum wage to the average wage amongst OECD countries, as is shown in Figure 8.

Figure 8: Comparison of minimum wage relative to mean wages and GDP per capita among OECD, 2015.



44. New Zealand's ratio of 51 percent of the minimum/mean wages compares with 43 percent for Australia, 40 percent for both Canada and the United Kingdom, and 27

<sup>20</sup> Note: These figures are 2015 minimum wage rates (New Zealand - \$14.75) converted to US\$ based on the average 2015 exchange rate published by the World Bank. Annual and hourly rates are published by the OECD.

percent for the United States.<sup>21</sup> New Zealand's high ratio of minimum wages is a result of both a comparatively high minimum wage and comparatively low average wage.

45. Figure 8 also indicates the GDP per capita of the OECD countries. Current data shows that New Zealand ranks 19<sup>th</sup> out of 36 OECD countries for GDP per capita, and about 10 percent below the OECD average.<sup>22</sup>

### Summary of international literature on the minimum wage

46. International research on the minimum wage is becoming more aligned with the view that small to moderate increases to the minimum wage rate will not result in dramatic negative effects on levels of employment. However, it remains difficult to make broad statements on the effects any increase to a minimum wage rate will have on employment and businesses as:<sup>23</sup>

- changes in minimum wage rates are often only one of many changes to the labour market
- income and other data is often noisy
- changes in the minimum wage are often small and only affect a small proportion of the workforce meaning increases can be anticipated or effects lagged
- cumulative effects and longer term changes will be entangled with a number of other economic factors and effects will differ depending on economic circumstances.

47. While it is generally accepted that small to moderate increases to the minimum wage rate will have no or little effects on employment, minimum wage increases appear to have a disproportionate effect on youth and low skilled workers.<sup>24</sup>

48. Research of United States data from 1954 to 2015 shows small but statistically significant negative effects on youth employment as a result of minimum wage increases.<sup>25</sup> Evidence from the United Kingdom suggests positive youth employment owing to the higher minimum wage rate that applies to adults over 25 years old.<sup>26</sup>

49. With increases to the minimum wage rate businesses may seek to reduce labour costs by replacing labour with production capital.<sup>27</sup> However, the timing of this impact may vary as some businesses may choose to pre-empt the increase of the minimum wage while others wait to see what effects it has on their operating costs.<sup>28</sup>

50. International consensus appears to support the argument that minimum wage rate increases have little or no impact on employment levels. However, this predicted

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<sup>21</sup> This comparison is from the 2014 OECD data. Data for 2015 and 2016 is not yet available.

<sup>22</sup> This is measured by 2015 data in US dollars (PPP) per head with New Zealand US\$36,780 and the OECD average US\$40,090

<sup>23</sup> Bertil Holmlund "What do Labour Market Institutions do?" (2014) 30 Labour Economics 62.

<sup>24</sup> London Economics (2015) "The Impact of the Minimum Wage on Young People" Final Report to the Low Pay Commission.

<sup>25</sup> Bazen and Marimoutou "Federal Minimum Wage Hikes do Reduce Teenage Employment: The Time Service Effects of Minimum Wages in the US Revisited" (the Institute for the Study of Labour, Discussion Paper No. 9864, April 2016).

<sup>26</sup> United Kingdom Low Pay Commission "National Minimum Wage: Low Pay Commission Report" Spring 2016.

<sup>27</sup> Australian Productivity Commission (2015 "Workplace Relations Framework, (Draft Report).

<sup>28</sup> Ibid.

outcome is reliant on minimum wage increases being small but frequent. This allows businesses to adapt to changes in labour costs while protecting the real value of the minimum wage for workers. The disproportionate impact increases in the minimum wage have on young people and low skilled workers must also be considered. However, with small but frequent increases in the minimum wage cited in the international literature, impacts on young people and low-skilled workers will likely be limited.

51. In general businesses in low paying sectors were the most affected by increased labour costs.<sup>29</sup> Similarly, businesses that are reliant on consumers sensitive to price increases are more likely to be affected by minimum wage increases.<sup>30</sup> However, businesses that pay employees higher than the minimum wage will be comparatively better off as they will become more competitive than lower paying firms.<sup>31</sup>
52. Evidence suggests that when faced with increases to the minimum wage businesses may increase prices, reduce hours, and seek improvement to productivity.<sup>32</sup> Evidence from the United Kingdom has found a positive association between minimum wage and productivity, however, the reasons for this remain unknown.<sup>33</sup>
53. There remains little evidence that the minimum wage has a direct effect on decreasing poverty as it is a relatively blunt tool for combatting poverty.<sup>34</sup> People below the poverty line often living in non-working households. Many minimum wage workers who are paid the minimum wage live in houses that collectively earn above the poverty line and the minimum wage. It is widely accepted in the literature that tax credits and other income related policies are far more effective at reducing poverty than increases to the minimum wage.<sup>35</sup>

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<sup>29</sup> Reily and Bondibene (2015) “the Impact of the National Minimum Wage on UK Businesses” National Institute of Economic and Social Research and Centre for Macroeconomics, Report to the Low Pay Commission.

<sup>30</sup> Congressional Budget Office (2014) “Effects of Minimum Wage on Employment and Family Income”.

<sup>31</sup> Ibid.

<sup>32</sup> Australian Productivity Commission (2015) “Workplace Relations Framework, (Draft Report).

<sup>33</sup> United Kingdom Low Pay Commission “National Minimum Wage: Low Pay Commission Report” (Spring 2016).

<sup>34</sup> Organisation for Economic Co-operation and Development (2015) “Working Party on Enforcement”.

<sup>35</sup> Burkhouer (2014) “Why Minimum Wage Increases are a poor way to help the Working Poor” Institute for the Study of Labour Policy Paper 86.

## Chapter five – Assessment of the impacts of increases to the minimum wage

54. A range of options were developed to analyse and model the impacts of increasing the minimum wage. The options are developed with reference to economic indicators such as inflation and wage growth, and proposals from the NZCTU in its submission from the previous review.
55. The options selected for consideration in this report for the adult minimum wage rate for 2017/2018 are:
- option 1: \$15.25 (status quo)
  - option 2: \$15.50 (for comparison purposes)
  - option 3: \$15.75 (consistent with the last minimum wage rate increase)
  - option 4: \$16.00 (for comparison purposes)
  - option 5: \$16.50 (proposed by NZCTU in 2015 review)
  - option 6: \$19.80 (proposed by Living Wage Aotearoa as a 'living wage').<sup>36</sup>
56. These options are developed for assessment and modelling purposes. There is no requirement that the adult minimum wage rate for 2016 should be set at any of these rates.
57. This section outlines the assessment of the impacts of the six options for the minimum wage on:
- wages and inflation
  - employment
  - minimum wage workers
  - sectors
  - affordability to government
  - interface with other government interventions.
58. MBIE uses its own model, developed in conjunction with the NZIER in 2012, to estimate the impact of a minimum wage increase on wage costs, inflation and employment compared with the counterfactual of no change to the minimum wage rate. The employment impacts are estimated using coefficients derived from econometric analysis of historical New Zealand data. Historical analysis indicates that different groups (for example youth, females, and Pacific peoples) have different coefficients and these are incorporated in the model.

### Impact on wages and inflation

59. When the minimum wage increases, labour costs for businesses increase. Businesses may respond to their increased costs by increasing the cost of the price of goods produced using minimum wage labour. Whether this leads to general inflation depends on the

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<sup>36</sup> This figure is proposed by the Living Wage Aotearoa New Zealand campaign. The wage rate is intended to provide the income necessary to meet a set of specified needs for a family of two adults and two children where one adult works 40 hours per week and the other 20 hours per week.

broader drivers of inflation, which typically are an increase in the price of goods or an increase in demand, and businesses will likely respond differently to any increase in the minimum wage.

60. Table 4 shows the number of workers that would be captured in the wage band of each option, the estimated impacts on the economy-wide wage expenditure and the inflationary impacts. Options 1-4 (\$15.25 to \$16.00) are estimated to have zero impact on inflation. Options 5 (\$16.50) and 6 (\$19.80) would significantly increase wages across the economy, which MBIE estimates will lead to low to moderate increases in inflation.

*Table 4: Economy-wide impacts of minimum wage options*

<b>Option</b>	<b>Current number of workers earning between current and new option of minimum wage</b>	<b>Economy-wide increase in wages (\$m, annual)</b>	<b>Expected increase in inflation (%)</b>
\$15.25	73,300	0	0.0
\$15.50	88,900	26	0.0
\$15.75	119,500	65	0.0
\$16.00	142,700	113	0.0
\$16.50	212,000	257	0.1
\$19.80	528,700	2,331	0.7

### **Impacts on employment**

61. Minimum wage increases may have negative employment effects, including lower job growth and reduced hours of work. The extent of these effects will depend on the size of the minimum wage rate increase and the economic and labour market context in which the rate increase occurs.
62. MBIE’s modelling, both this year and in previous reviews, indicates that it is only when changes to the minimum wage rate are significant compared to increases in the average wage that a significant constraint on employment growth would occur. This is consistent with the domestic and international literature.
63. MBIE’s model predicts employment impacts from changes in the relativity between the minimum wage and the average wage by using a range of employment elasticities derived from econometric analysis of historical data. This analysis has focused on groups that are most sensitive to changes in the minimum wage (for example young people, women, and Pacific peoples) and the employment impacts presented are the sum of the impacts on these groups.
64. MBIE’s employment forecasts are used as a benchmark to estimate the impacts on employment growth of the various minimum wage rate options. The baseline projected job growth is 2.1 percent in 2017.
65. MBIE’s modelling is able to assess the employment impact of any proposed level of minimum wage. The modelling suggests that an increase to the minimum wage rate of up to 1.9 percent, approximately \$15.55 (not listed as an option) will not inhibit overall



employment growth. Out of the options being considered, only \$16.50 and \$19.80 are predicted to significantly restrain employment growth.

*Table 5: Summary of employment impacts*

Option	Potential constraint on employment growth
\$15.25	N/C
\$15.50	N/C
\$15.75	1,500
\$16.00	3,500
\$16.50	7,000
\$19.80	32,000

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

### Impacts on minimum wage workers

#### *The number and demographics of people affected*

67. Currently, of the 2,494,000 people employed in New Zealand, 73,300 (2.9 percent) are paid a minimum wage rate. The following tables estimate the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options.
68. Table 6 shows that a large proportion of workers in the 18 to 24 age group will be affected by even a modest increase in the minimum wage, while an increase to \$15.75 per hour or above will affect an increased proportion of adult workers.

*Table 6: Estimated affected adult workers (aged 18 to 64 years)*

Option	18-64		18-19		20-24		25-64	
	%	Number	%	Number	%	Number	%	Number
\$15.25	3.4	63,300	22.4	13,600	7.7	17,600	2.1	32,100
\$15.50	4.2	77,400	26.0	15,800	9.0	20,800	2.6	40,800
\$15.75	5.7	105,400	31.0	18,900	12.0	27,500	3.8	58,900
\$16.00	6.9	127,400	35.0	21,300	14.8	33,800	4.6	72,100
\$16.50	10.5	193,500	45.0	27,400	23.7	54,400	7.2	111,700
\$19.80	27.3	504,600	70.2	42,800	52.0	119,600	22.0	342,200

Source: Labour Market Statistics (Income) June 2016.

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

69. Table 7 shows that generally, larger numbers of 16 to 17 year olds will be affected by increases in the adult minimum wage than the starting-out wage, because few young people are paid the starting-out wage.

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

Option	Paid at starting-out wage		Option	Paid adult minimum wage	
	%	Number		%	Number
\$12.20	S <sup>37</sup>	S	\$15.25	26.3	10,000
\$12.40	S	S	\$15.50	30.3	11,500
\$12.60	S	S	\$15.75	37.1	14,100
\$12.80	S	S	\$16.00	40.4	15,300
\$13.20	3.8	1,400	\$16.50	48.7	18,500
\$15.84	59.9	22,700	\$19.80	63.3	24,100

Source: Labour Market Statistics (Income) June 2016

70. Changes to the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. Some employers increase the wages of staff paid above the minimum wage when the minimum wage increases, so the associated ripple effect can have a significant impact on their businesses. Currently there are about 127,400 workers aged between 18 and 64, earning between \$15.25 and \$16.00 per hour. Approximately 43 percent of these workers are between 18 and 25 years old.
71. Data from the Labour Market Statistics (Income) (previously New Zealand Income Survey) from 1999 to 2016 show that workers who are female, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are more likely to be paid at the minimum wage rate. These people are generally more likely to benefit from any increase to the minimum wage rate. However, they may also be the first to experience any negative impacts that could result from a change to the minimum wage (for example, reduced hours offered or substitution of some groups of workers for others). A significant rise in the level of the minimum wage may have the effect of employment losses and subsequently increased hardship for lower skilled workers.
72. Table 8 shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics. The table shows, for example, that 36.4 percent of minimum wage earners aged 16 to 24 years are studying compared with 12.4 percent of all wage earners.

Table 8: Demographics of wage earners

Demographic	% of minimum wage earners			% of total wage earners
	16-24	25-64	16-64	16-64
Aged 16-24 years	100%	0.0%	56.2%	17.4%
Female	54.1%	66.9%	59.7%	49.2%
European/Pakeha	55.1%	39.1%	48.1%	66.2%
Māori	17.8%	12.3%	15.4%	13.0%
Pacific	6.6%	11.5%	8.7%	5.9%
Part-time	71.7%	48.5%	61.5%	18.6%
Studying	36.4%	8.7%	24.3%	12.4%
<b>Total</b>	<b>41,200</b>	<b>32,100</b>	<b>73,300</b>	<b>1,886,700</b>

<sup>37</sup> S indicates that results are statistically insignificant (>1000)

### *Young people*

73. Minimum wage increases can be expected to have an impact on young people. Those who remain in work may see an increase in their wages. However, some people might lose their jobs or not gain employment due to the dis-employment effects increases to the minimum wage rate can have. Young people who do not successfully transition into employment from education, particularly those with low skills and prolonged periods of inactivity, are at risk of low employability over the long-term. Therefore, there is a risk that increasing the minimum wage significantly could reduce young peoples' long-term employability.
74. Young people tend to earn less than older employees due to their lack of work experience and being in the beginning stages of their career. For example, almost all teenagers and the majority of people in their twenties earn less than \$19.80 per hour. Table 8 shows that around 56 percent of those earning the minimum wage are between 16 and 24 years old, while the same age group account approximately for 17 percent of total wage workers. However, many young people do not remain in minimum wage jobs long-term as they move on to higher paying jobs as they gain skills and work experience.
75. The former Department of Labour examined the impact of the 2008 youth minimum wage reform, which extended the adult minimum wage rate to the majority of young people aged from 16 years.<sup>38</sup> The study found that the new entrants' minimum wage was largely not used by businesses and that firms generally pay the majority of 16 and 17 year old workers the adult minimum wage.
76. The policy change coincided with an increase in the adult minimum wage rate of 75 cents and therefore resulted in an overall 8.5 percent minimum wage increase for 16 and 17 year olds in 2008. However, this minimum wage increase reduced the proportion of 16 and 17 year olds in employment by between 3 and 6 percent (4,500-9,000 jobs), which accounted for between 20 and 40 percent of the fall in the proportion of 16 and 17 year olds in work between 2008 and 2010. However, the jobs that were lost by 16 and 17 year olds, who were largely students, were generally taken up by people aged 18 to 19 years.

### *Women*

77. Women are more likely than men to be affected by any changes to the minimum wage rate as they tend to be over represented in low paid employment (for example, part-time and service sector jobs). Table 8 shows that just over half of all minimum wage workers are women, and 67 percent of minimum wage workers between 25 and 64 years are women. In comparison, just under half of the total workforce are women.

### *Māori and Pacific peoples*

78. Māori and Pacific peoples are overrepresented among those in low paid jobs and are more likely to benefit from an increase to the minimum wage rate, compared to those of European descent. Māori account for approximately 13 percent of the total wage earners,

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<sup>38</sup> Hyslop and Stillman, "Impact of the 2008 Youth Minimum Wage Reform" (2011).

and 15.4 percent of total minimum wage earners. Pacific peoples account for around 5.9 percent of total wage earners, and 8.7 percent of total minimum wage earners.

79. Māori people may be more likely to be adversely affected compared to other ethnic groups by a higher minimum wage. Research in 2011 found that Māori who were earning the minimum wage experienced significant falls in their employment propensity and total weekly hours when the minimum wage is increased significantly.<sup>39</sup>

#### *Part-time workers*

80. Table 8 shows that 71.7 percent of workers earning the minimum wage aged 16 to 24 years work part-time, while 48.5 percent of the workers earning the minimum wage over 25 years of age work part-time. Therefore, any increase to the minimum wage will directly benefit a large proportion of low paid, part-time workers in terms of income level. They might also experience negative impacts from the response to a minimum wage increase of employers, such as reducing hours and recruiting fewer people. A survey by the former Department of Labour in 2012 found that some employers change their hiring practices in reaction to the changes to the minimum wage in line with the impacts above.<sup>40</sup>

#### *Students*

81. Table 8 shows that 36.4 percent of minimum wage workers aged 16 to 24 are in education compared to 12.4 percent of the total wage workers. The high proportion of young people in part-time minimum wage jobs while in studying suggests that they are likely to move into higher paying, full-time jobs in the future.
82. On the one hand, higher minimum wages could encourage young people out of education into work but on the other hand higher wages are likely to be a barrier for young people gaining employment and encourage them to remain in education. The impact depends on the level of the minimum wage, the costs of education and the job opportunities available. The Hyslop and Stillman study also found that the removal of the youth minimum wage in 2008 increased the proportion of 16 and 17 year olds participating in education, but the proportion looking for work did not increase, and the rate of those not in employment or education decreased following the same increase in the minimum wage.<sup>41</sup>

#### **Impact on sectors**

83. The impact of a minimum wage increase on sectors depends on the number of employees that are earning the minimum wage in those industries. Changes impact on employees earning the minimum wage and may also have flow on effects on other employees' wages.
84. A survey conducted by the former Department of Labour in 2012 shows that employers in the accommodation/food services, manufacturing, and wholesale and retail trade sectors

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<sup>39</sup> Pacheco, G. (2011), Estimating Employment Impacts with Binding Minimum Wage Constraints, *The Economic Record* VOL. 87, No. 279, December, 2011, 587-602.

<sup>40</sup> Department of Labour (2012), *Employers' attitudes and practice around the change to the minimum wage*, Wellington.

<sup>41</sup> Hyslop and Stillman, (2011), above n 38.

are more likely to have staff that are paid at, or close to the minimum wage than employers in the professional/technical services, and health and social services industries.<sup>42</sup>

85. Some employers increase wages to employees who are paid above the minimum wage to maintain those employees' wage relativity to the minimum wage. The flow-on effect is also considered to be a consequence of employers benchmarking their wages to the minimum wage as some employers stated that the regular increases to the minimum wage rate were useful for their initial wage-setting. Table 9 provides an indication of how different sectors would be affected by an increase of the minimum wage rate of 50 cents to \$15.75 per hour. For example, in the hospitality industry 29 percent of workers are paid below \$15.75 and would therefore be affected by such an increase to the minimum wage rate. Those 29 percent of workers affected account for 21.6 percent of the total hours worked, and 17.8 percent of total earnings in the hospitality industry.

*Table 9: Sectors affected by \$15.75 option (by estimated workers aged 16 to 64 years)*

Sector	Workers		Working Hours	Their Earnings
	% of total workers	Number	% of total hours	% of total earnings
Agriculture	9.7	7,900	9.1	6.2
Mining	S	S	S	S
Manufacturing	5.3	11,000	4.7	2.6
Utilities	S <sup>43</sup>	S	S	S
Construction	2.8	3,900	2.6	1.5
Wholesale	4.1	3,800	3.4	1.7
Retail	18.5	34,400	13.7	9.6
Hospitality	29.0	32,900	21.6	17.8
Transport and Storage	3.5	2,600	2.8	1.6
Information and Telecommunications	4.0	1,300	1.5	0.6
Finance	S	S	S	S
Real Estate	S	S	S	S
Professional Services	1.2	1,700	0.6	0.3
Administrative Services	17.1	10,200	16.9	10.5
Public Administration	2.1	2,800	2.2	1.0
Education	2.8	5,200	2.3	1.3
Health	7.4	15,900	5.9	3.2
Arts and Recreation	7.6	2,300	4.9	2.8
Other Services	5.9	3,700	4.7	3.0
<b>Total</b>	<b>7.6</b>	<b>142,700</b>	<b>5.6</b>	<b>3.0</b>

<sup>42</sup> Department of Labour (2012), Employers' perspectives – Part Two: The Minimum Wage System, Wellington.

<sup>43</sup> S indicates a statistically insignificant result (<1000).

## Affordability to government

86. Increases to the minimum wage are likely to have a direct effect, and possibly an indirect or 'flow-on' fiscal impact on some government employers. The Ministries of Health, Social Development, Education, and the Accident Compensation Corporation have been identified as the agencies that are most likely to be impacted by any change to the minimum wage rate. For these four government agencies, total annual costs directly related to a minimum wage increase are estimated to be:

- Option 1: \$0
- Option 2: \$15,333,320
- Option 3: \$29,379,581
- Option 4: \$40,435,803
- Option 5: \$87,098,649
- Option 6: \$543,554,868

87. A consideration of the cost of any minimum wage increase for each of the four agencies follows.

### *Ministry of Health*

88. The health sector accounts for approximately 75 percent of costs to government with respect to the minimum wage. In previous reviews, the Ministry of Health has identified two workforce areas within the health sector in which a minimum wage increase is likely to have a substantial fiscal impact: disability support workers and aged care workers. This year it is estimated that option 6 (\$19.80 per hour) will also have a significant direct cost implications for District Health Boards (DHBs) and other health sector employers.

89. A number of private sector organisations provide aged care services or disability support services and are funded through either DHB or Ministry of Health provider contracts. Support workers make up the majority of the workforce within these organisations and are often paid at rates only slightly higher than the minimum wage. Any increase to the minimum wage is likely to result in increased costs to these organisations and indirect funding implications through any resultant increase in the contract rates.

90. The Government is currently in negotiations over pay for approximately 50,000 workers in aged and disability residential care, and aged and disability home and community services. If a settlement is reached, the associated wage increases will reduce the impact attributable to changes to the minimum wage. Any impact of this has not been factored into the cost estimates below.

91. The Ministry of Health advises that most of the options being considered would have a very minor effect on personnel costs for DHBs. This is a result of the majority of staff being covered by collective agreements which set high remuneration rate comparative to the rest of the health sector. The only option that would have significant direct wage implications is \$19.80 per hour.

92. The Ministry of Health also advises that the overall implications for the public health sector for increases to the minimum wage up to \$16.00 would be moderate. An increase

in the minimum wage beyond \$16.00 per hour would incur significant financial pressure on the health budget to deal with the increase to personnel costs, particularly in the aged care and disability support services sectors. Such an increase could not be met within the current Vote Health appropriations.

93. Providers of home based care, which is associated with both aged care and disability support services reached a settlement in 2014 with the Government, unions and DHBs which provides that workers in that sector will be paid for travel between clients at the minimum wage. Legislation enacted in 2016 reflects this settlement and while funding has been appropriated, this was at a level to absorb a 50 cent increase to the minimum wage. Any further increase will have an immediate cost impact.
94. The total cost implications for each option are summarised in Table 10.

*Table 10: Indicative increased costs for the Ministry of Health under each option*

Option	Aged Residential Care	Home Based Aged Care	Disability Support Services	DHB direct wage costs	In between travel costs	Estimated total increase costs for health sector
\$15.25	-	-	-	-	-	-
\$15.50	\$2,275,000	\$5,549,440	\$3,105,484	-	\$690,521	<b>\$11,620,445</b>
\$15.75	\$3,042,000	\$8,716,448	\$9,124,845	\$371	\$1,381,043	<b>\$22,264,707</b>
\$16.00	\$9,633,000	\$11,945,648	\$14,364,966	\$113,781	\$2,071,564	<b>\$29,678,959</b>
\$16.50	\$19,539,400	\$20,138,248	\$24,504,665	\$385,271	\$3,452,607	<b>\$68,019,791</b>
\$19.80	\$103,620,400	\$92,747,408	\$215,567,707	\$13,621,664	\$12,567,490	<b>\$438,124,669</b>

*Ministry of Social Development*

95. The Ministry of Social Development (MSD) advises that the change to the minimum wage would have a direct effect on their wage costs as well as the Ministry's Home Help programme, which provides financial assistance to eligible people who require temporary part-time help to complete domestic tasks (normally performed in their homes). MSD increases the home help hourly rate by the same percentage as any increase in the minimum wage. This ensures that the amount paid for home help workers does not fall below the minimum wage.
96. The expected cost increase for MSD from different wage options are outlined in the following table.

*Table 11: Indicative increased costs for MSD under each option*

Option	Home Help Programme (2017/18)	Direct Wage Costs	Estimated total increase cost for MSD
\$15.25	-	-	-
\$15.50	\$32,000	\$36,430	<b>\$68,430</b>
\$15.75	\$64,000	\$79,308	<b>\$143,308</b>
\$16.00	\$95,000	\$124,222	<b>\$219,222</b>
\$16.50	\$157,000	\$231,600	<b>\$388,600</b>
\$19.80	\$570,000	\$2,672,241	<b>\$3,242,241</b>

### Ministry of Education

97. In the Ministry of Education, a large number of the sector support staff (ground staff, caretakers, cleaners, support staff and untrained teachers) are low paid. Any change to the minimum wage rate will have a greater impact on the sector as costs of support staff wages are paid from individual schools' operating grants.

*Table 12: Indicative increased costs for Ministry of Education under each option*

Option	Sector Staff	Ministry Staff	Estimated total increased cost for education sector
\$15.25	-	-	-
\$15.50	\$273,283.62	\$71,161.17	<b>\$344,445</b>
\$15.75	\$597,253.89	\$194,311.99	<b>\$971,566</b>
\$16.00	\$1,517,956.88	\$319,664.71	<b>\$1,837,622</b>
\$16.50	\$3,890,087.50	\$600,170.87	<b>\$4,490,258</b>
\$19.80	\$49,525,136.40	\$2,762,821.19	<b>\$52,287,958</b>

### Accident Compensation Corporation (ACC)

98. ACC funds Home and Community Support Services (HCSS), home help, and childcare services. Clients can choose to have their HCSS provided by an ACC contracted agency, or they can employ their own carers directly. In the 2015/16 financial year, approximately 26,000 clients received HCSS at an annual cost of \$208 million. Any increase to the minimum wage will erode ACC's contribution to clients' HCSS costs. If ACC were to increase its HCSS rates to align with the minimum wage and mitigate the risks to clients' continuity of care. There are annual cash cost and outstanding claims liability implications for the scheme.
99. Table 13 shows the corresponding impact of increases to the minimum wage on HCSS. These are cash costs only. The \$19.80 option includes costs associated with both non-contracted and contracted providers as this level of increase would require an immediate increase to contracted rates.
100. Small year on year increases in the outstanding claims liability (OCL) are factored into ACC's calculations. However, an increase in the minimum wage to \$16.50 or \$19.80 is greater than the increases already factored into ACC's OCL. The OCL changes are a non-cash impact to ACC which is normally recovered over a ten year period through the levy setting process.

*Table 13: Indicative increased costs for ACC under each option<sup>44</sup>*

Option	Estimated total increased cost for ACC
\$15.25	-
\$15.50	<b>\$3,300,000</b>
\$15.75	<b>\$6,000,000</b>
\$16.00	<b>\$8,700,000</b>
\$16.50	<b>\$14,200,000</b>
\$19.80	<b>\$49,900,000</b>

<sup>44</sup> These are the average annual cash costs increases associated with increases in the HCSS rates to reflect an increase in the minimum wage for both contracted and non-contracted providers.



## Interface with other government interventions

101. Wages are often only part of the income of low income workers. There are a range of government interventions and initiatives aimed at protecting employment and increasing incomes. These interventions encompass labour market policies, the social assistance system, the taxation system, and education and training policies.

102. While increases to the minimum wage rate will generally provide increased incomes for those paid the minimum wage, the net income for a family is affected by taxation and other income support. Within the current policy context, families with dependent children on low to middle incomes will receive tax credits through Working for Families to boost their net family income to help meet the costs of raising a family.

103. The following tables (14 to 25) set out scenarios that provide a clear illustration of the combined effect of a wage increase and the abatement of government assistance on household incomes. The net gain for a family with two children could be relatively small.

104. Benefit rates are adjusted annually through the Annual General Adjustment process which uses CPI among other factors, and usually results in a small increase in benefit rates. If the minimum wage rate is not increased, then over time the financial incentives for some of those receiving social assistance to seek employment will diminish.

105. The following tables set out the scenarios for a family of four people (a couple working a combined 60 hours per week, and two dependent children – where the parents do not belong to KiwiSaver and have no student loans) at each of the minimum wage options.

*Table 14: Scenario 1 – A couple working a combined 60 hours per week at \$15.25 per hour with two dependent children*

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$610	\$31,720	\$4,571.00	\$440.91	\$26,708.09
Parent B	20	\$305	\$15,860	\$1,795.50	\$220.45	\$13,844.05
<b>Combined net earnings without other income support</b>						<b>\$40,552.14</b>
Maximum In Work Tax Credit <sup>45</sup>						+\$3,770
Maximum Family Tax Credit <sup>46</sup>						+\$8,173
Total abatement on family support due to income						-\$2,526.75
Total Working for Families assistance after abatement <sup>47</sup>						\$9,416.25
<b>Effective annual earnings for the household</b>						<b>\$49,968.39</b>

<sup>45</sup> Calculation of the In Work Tax Credit is set out in section MD 10 of the *Income Tax Act 2007*. MBIE has assumed a maximum amount available for the purposes of this calculation.

<sup>46</sup> Calculation of the Family Tax Credit is set out in section MD 3 of the *Income Tax Act 2007*. The credit available is dependent on the age of the child and whether the child is the eldest or other. The prescribed annual amounts are:

- Eldest child between the ages of 16 and 18 - \$5,303
- Eldest child under the age of 16 - \$4,822
- Subsequent child between ages of 16 and 18 - \$4,745
- Subsequent child between ages of 13 and 15 - \$3,822
- Subsequent child under the age of 13 - \$3,351

<sup>47</sup> Income support payments under the Working for Families scheme are subject to a 22.5 percent abatement for every dollar earned by the household over \$36,350 annually.

Table 15: Scenario 2 – A couple working a combined 60 hours per week at \$15.50 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$620	\$32,240	\$4,662.00	\$448.14	\$27,129.86
Parent B	20	\$310	\$16,120	\$1,841.00	\$224.07	\$14,054.93
<b>Combined net earnings without other income support</b>						<b>\$41,184.79</b>
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,702.25
Total Working for Families assistance after abatement						\$9,240.75
<b>Effective annual earnings for the household</b>						<b>\$50,425.54</b>
<b>Percentage increase in minimum wage</b>						<b>1.64%</b>
<b>Percentage increase in annual earnings</b>						<b>0.91%</b>

Table 16: Scenario 3 – A couple working a combined 60 hours per week at \$15.75 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$630	\$32,760	\$4,753.00	\$455.36	\$27,551.64
Parent B	20	\$315	\$16,380	\$1,886.50	\$227.68	\$14,265.82
<b>Combined net earnings without other income support</b>						<b>\$41,817.46</b>
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,877.75
Total Working for Families assistance after abatement						\$9,065.25
<b>Effective annual earnings for the household</b>						<b>\$50,882.71</b>
<b>Percentage increase in minimum wage</b>						<b>3.28%</b>
<b>Percentage increase in annual earnings</b>						<b>1.83%</b>

Table 17: Scenario 4 – A couple working a combined 60 hours per week at \$16.00 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$640	\$33,280	\$4,844.00	\$462.59	\$27,973.41
Parent B	20	\$320	\$16,640	\$1,932.00	\$231.30	\$14,476.70
<b>Combined net earnings without other income support</b>						<b>\$42,450.11</b>
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$3,053.25
Total Working for Families assistance after abatement						\$8,889.75
<b>Effective annual earnings for the household</b>						<b>\$51,339.86</b>
<b>Percentage increase in minimum wage</b>						<b>4.92%</b>
<b>Percentage increase in annual earnings</b>						<b>2.74%</b>

Table 18: Scenario 5 – A couple working a combined 60 hours per week at \$16.50 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$660	\$34,320	\$5,026.00	\$477.05	\$28,816.95
Parent B	20	\$330	\$17,160	\$2,023.00	\$238.52	\$14,898.48
<b>Combined net earnings without other income support</b>						<b>\$43,715.43</b>
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$3,404.25
Total Working for Families assistance after abatement						\$8,538.75
<b>Effective annual earnings for the household</b>						<b>\$52,254.18</b>
<b>Percentage increase in minimum wage</b>						<b>8.20%</b>
<b>Percentage increase in annual earnings</b>						<b>4.57%</b>

Table 19: Scenario 6 – A couple working a combined 60 hours per week at \$19.80 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$792	\$41,184	\$6,227.20	\$572.46	\$34,384.34
Parent B	20	\$396	\$20,592	\$2,623.60	\$286.23	\$17,682.17
<b>Combined net earnings without other income support</b>						<b>\$52,066.51</b>
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$5,720.85
Total Working for Families assistance after abatement						\$6,222.15
<b>Effective annual earnings for the household</b>						<b>\$58,288.66</b>
<b>Percentage increase in minimum wage</b>						<b>29.84%</b>
<b>Percentage increase in annual earnings</b>						<b>16.65%</b>

106. The following tables set out the scenarios for a family with a single earner working 40 hours per week and two children (where the earner does not belong to Kiwisaver and has not student loans) at each of the minimum wage options.

Table 20: Scenario 1 – One parent working 40 hours per week at \$15.25 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$610	\$31,720	\$4,571.00	\$440.91	\$26,708.09
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,943
<b>Effective annual earnings for the household</b>						<b>\$38,651.09</b>

Table 21: Scenario 2 – One parent working 40 hours per week at \$15.50 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$620	\$32,240	\$4,662.00	\$448.14	\$27,129.86
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,943
<b>Effective annual earnings for the household</b>						<b>\$39,072.86</b>
<b>Percentage increase in minimum wage</b>						<b>1.64%</b>
<b>Percentage increase in annual earnings</b>						<b>1.09%</b>

Table 22: Scenario 3 – One parent working 40 hours per week at \$15.75 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$630	\$32,760	\$4,753.00	\$455.36	\$27,551.64
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,943
<b>Effective annual earnings for the household</b>						<b>\$39,494.64</b>
<b>Percentage increase in minimum wage</b>						<b>3.28%</b>
<b>Percentage increase in annual earnings</b>						<b>2.18%</b>

Table 23: Scenario 4 – One parent working 40 hours per week at \$16.00 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$640	\$33,280	\$4,844.00	\$462.59	\$27,973.41
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,943
<b>Effective annual earnings for the household</b>						<b>\$39,916.41</b>
<b>Percentage increase in minimum wage</b>						<b>4.92%</b>
<b>Percentage increase in annual earnings</b>						<b>3.28%</b>

Table 24: Scenario 5 – One parent working 40 hours per week at \$16.50 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$660	\$34,320	\$5,026.00	\$477.05	\$28,816.95
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,943
<b>Effective annual earnings for the household</b>						<b>\$40,759.95</b>
<b>Percentage increase in minimum wage</b>						<b>8.20%</b>
<b>Percentage increase in annual earnings</b>						<b>5.46%</b>

Table 25: Scenario 6 – One parent working 40 hours per week at \$19.80 per hour with two dependent children

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$792	\$41,184	\$6,227.20	\$572.46	\$34,384.34
Maximum In Work Tax Credit						+\$3,770
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$1,087.65
Total Working for Families assistance after abatement						\$10,855.35
<b>Effective annual earnings for the household</b>						<b>\$45,239.69</b>
<b>Percentage increase in minimum wage</b>						<b>29.84%</b>
<b>Percentage increase in annual earnings</b>						<b>17.05%</b>

## Chapter six – Consultation

107. The Minister for Workplace Relations and Safety invited the NZCTU and BusinessNZ to make submissions on the Minimum Wage Review 2016. MBIE also received a submission from Stand Up Youth Union Movement as an annex to the NZCTU submission and a submission from the New Zealand Nurses Organisation. This chapter summarises those submissions.

### New Zealand Council of Trade Unions

108. NZCTU recommends that the minimum wage rate be set at 66 percent of the average ordinary time wage (\$29.47 for the March 2016 quarter). The NZCTU submit that this would require the minimum wage to be increased to \$19.88. NZCTU proposes that this should occur over a three year period. They suggest the minimum wage increase to \$16.95 in 2017; \$18.84 in 2018; and \$20.95 in 2019 (note: the rate is higher in 2019 to account for a forecasted increase in the average wage to \$31.74).

109. The NZCTU submits that an increase to the minimum wage is needed as a contribution towards:

- addressing the needs of many low income workers
- compensating for rising living costs
- narrowing the wage gap with Australia
- providing a safety net for many vulnerable workers
- encouraging employers to invest in raising productivity
- raising New Zealand's low general wage levels
- maintaining domestic demand and employment level
- reducing poverty, especially child poverty
- reducing the imbalance in wages between genders
- improving the position of Māori and Pacific workers
- increasing labour participation rates, particularly of disadvantaged groups.

110. The NZCTU expressed disappointment that the 2015 'comprehensive' review was, in their view, little more than wider consultation. Further, they felt their recommendations in their 2015 submission which addressed wider aspects of the minimum wage were ignored. The NZCTU continues to advocate a return to the previous system of an annual comprehensive review, as they consider the current system provides inadequate opportunity for consultation, and prevents other unions and community groups from submitting.

111. The NZCTU considers that low wages in New Zealand have become an intrinsic barrier to economic development limiting New Zealand's ability to attract high skilled workers from overseas. As a result the NZCTU submit that the public is compensating New Zealand businesses paying employees low wages through wage subsidies such as Working for Families, increasing the burden on the welfare system and other costs related to poverty. The NZCTU submits that the Reserve Bank of New Zealand has consistently noted that high net immigration is suppressing wage growth. This is exacerbated by a low level of collective bargaining (the current average collective minimum wage is \$17.88). The NZCTU

also consider the New Zealand economy can afford higher wages because productivity is increasing at a higher rate than CPI and the GDP deflator. It is important to note the ability wage increases have on encouraging productivity growth.

112. NZCTU's submission states that New Zealand's wage system has not ensured a fair share of the growth in productivity has flowed onto workers. The minimum wage is the only direct means the government has to address this misallocation of resources. Therefore, the NZCTU encourage the government utilise the minimum wage for this. While the minimum wage cannot address this issue entirely, the NZCTU's considers strong increases in the minimum wage would be an important and useful step.

113. The NZCTU reiterated their concerns that MBIE's minimum wage model, used to estimate the employment effects of increases to the minimum wage, does not take recent research sufficiently into account. The NZCTU believes the MBIE model overstates the impact on employment.

114. The NZCTU states that higher minimum wages have an important role to play in reducing New Zealand's high level of inequality. Higher minimum wages raise the wage floor and, indirectly, wage expectations. While increased minimum wages tend to compress the wage distribution, particularly in the lower half of the distribution, research suggests that higher wages reduce wage inequality in that lower half of wage distribution including some 'spill over' into higher deciles of the wage distribution. New Zealand research suggests that the strong rises in the minimum wage over the 2000s highly beneficial to low income households.

115. In their oral submission the NZCTU reiterated their concerns highlighted in their written submission. Specifically:

- there is a high number of working poor living in New Zealand
- general low wages across the economy – workers having to work more hours to compensate for low wages
- poor enforcement of minimum standards because of a lack of resources for the Labour Inspectorate
- undermining of collective bargaining brought about by the 2013 reforms to the Employment Relations Act 2000
- continuing issues with payroll in relation to the Holidays Act
- the high cost of living for low income workers
- concerns with the MBIE's minimum wage model and its accuracy in estimating the effect of minimum wage rate increases.

116. The NZCTU also extended an offer to work with MBIE on issues such as the minimum wage in the future.

### **Stand Up Youth Union Movement**

117. Stand Up endorses the submission of the NZCTU. It has also made its own submission because the level of the minimum wage disproportionately affects young workers. Their submission supports an immediate increase in the minimum wage to \$19.80 (the proposed 'Living Wage'). Stand Up note the minimum wage is often a default wage for

young people and the current minimum wage of \$15.25 per hour is insufficient to meet living costs for young workers, many of whom are enrolled in full or part-time study.

118. Stand Up also supports the abolition of the starting-out minimum wage, which operates as a youth rate and therefore discriminates against young workers. Stand Up also submits significant research needs to be undertaken into the interaction between low wages and insecure working arrangements.

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

119. The NZNO supports the submission of the NZCTU. The NZNO recommends that the minimum wage is indexed to 66 percent of the average wage (\$19.88). They further recommend that the Government consider the health, environmental and economic burden of New Zealand’s low wage economy and develop strategies for ensuring fair wage structures that address the inequitable distribution of income and wealth in New Zealand.

120. The NZNO support pay and employment equity and the abolition of the starting-out and training minimum wages.

### **MBIE comment on union submissions**

121. The NZCTU, and their affiliates provided MBIE with a well detailed and thorough submission including a wide range of evidence to support their view. MBIE has considered their submission as part of this review.

122. MBIE has assessed the NZCTU’s proposals of \$16.95 per hour (the suggested alternative step for 1 April 2017) and \$19.88 per hour (preferred step for 1 April 2017). The impacts of these proposals are outlined in Table 26. This table also reflects the recommendations from the NZNO and Stand Up whose submissions were broadly aligned with the submission of the NZCTU.

*Table 26: Assessment of NZCTU’s proposals for the minimum wage*

<b>Option</b>	<b>Workers affected</b>	<b>Inflationary impact (%)</b>	<b>Annual increase in wage (\$m)</b>	<b>Constraint on employment growth</b>
\$16.95	254,200	0.1	418	10,500
\$19.88	532,000	0.8	2,404	32,500

123. While both of these options proposed by the NZCTU would significantly increase the real incomes of low-paid workers, neither option aligns with the government policy of minimising job losses and both are estimated to lead to significant constraint on employment growth. Both options would significantly increase wages across the economy and the \$19.88 option is estimated to have a larger inflationary impact.

124. NZCTU have raised concerns over the MBIE minimum wage model, in particular its ability accurately estimate the degree of constraint on employment growth. MBIE developed the model in 2012 in conjunction with the NZIER. The model predicts employment impacts by using a range of employment elasticities derived from analysis of historical data and are



therefore set at a point which best fits likely outcomes. The impacts on employment are estimated from these elasticities and is also takes into account forecasts of future employment and economic data.

125. The scope of this streamlined review is relatively narrow and the factors that are considered are outlined in Chapter one. Some parts of the NZCTU submission are therefore out of scope of this review. However, as NZCTU highlighted in their oral submission they would like the opportunity to engage further with MBIE on issues such as the minimum wage and MBIE has agreed to identify opportunities for such engagement.

### **Business New Zealand**

126. BusinessNZ recommends that a review be undertaken of the role and effect of the minimum wage (not just its level). They consider such a review is required in light of the very significant movements in, and events affecting the minimum wage over the past 10 years. They propose that a review should take particular account of the effects of the 'Sleepover' and 'Woodford House' cases because they highlight the significant differences in the environment pertaining in 1945 when the Act was created, and the diverse and dynamic working conditions prevalent today.

127. BusinessNZ also submit that the minimum wage should be set by statute, not regulation, as a percentage of the median wage. The Minimum Wage Act be amended to require that a worker's average wage not fall below the minimum wage, rather than requiring each hour be paid at the minimum wage. Pending the outcome of the above mentioned review, they also recommend future increases to the minimum wage are no greater than any increase in CPI.

128. BusinessNZ also submitted that the government continue to emphasise the need for increased access to training and employment, particularly for young people. They also consider that tax cuts should be used as a means to increase take home wages for workers instead of increases to the minimum wage.

129. BusinessNZ submits that as the minimum wage rate increases so too does the number of people paid the minimum wage, this is more marked in sectors with relatively higher proportions of the lowest paid workers. To prevent this trend continuing, they suggest there should be a focus on increasing productivity through access to training and employment to increase real earnings over time. Relying on increasing the minimum wage is likely to have the opposite effect.

130. BusinessNZ consider that minimum wage increases have a particularly detrimental effect on youth and unskilled workers. They cite evidence from the UK suggests that increases to the minimum wage correlates with increases in unemployment, particularly young people and minority groups.

131. Their submission reiterated past submissions on the minimum wage, particularly the view that most youth on minimum wage are not in vulnerable positions and do not rely on the minimum wage as a long-term income source. This provides youth with pocket-money and essential work experience. Increases in the minimum wage reduces job and training opportunities for youth and it is likely that continued increases in the minimum wage signal to youth that continued education and training are not necessary.

132. BusinessNZ also consider that the minimum wage creates unnecessary and artificial inflationary pressure. This note this is based primarily on the relativity of the minimum wage with wages paid to those supervising minimum wages workers or workers who have earned a margin over the minimum wage due to their performance. It is BusinessNZ's view that when the government determines the actual wages of such a large proportion of the labour market, the impact is felt across the economy. This results in the government creating unintended wage pressures with little regard for the practicalities of the labour market.

### **MBIE comment on BusinessNZ submission**

133. BusinessNZ also provided MBIE with a thorough submission which detailed their views on the minimum wage. MBIE has considered this submission and the research contained within it as part of this review.

134. BusinessNZ submitted that as the minimum wage rate increases, so to does the number of people that are paid the minimum wage. MBIE uses data from the Labour Market Statistics (Income) and the minimum wage model to estimate the number of people that are paid the minimum wage. There has not been any evidence in recent years that the number of people that are paid the minimum wage has increased. If this was occurring, we would expect to see the number of people who are paid the minimum wage increase in each minimum wage review. It appears that that people who are paid within a range close to the minimum wage have their wages increased in line with the minimum wage. As a result, and supported by data, the number of people paid the minimum wage and the number of people paid slightly above the minimum wage remains relatively stable over time, although it does fluctuate.

*Table 27: Number of people paid the minimum wage*

<b>Review year</b>	<b>Number of people paid minimum wage</b>	<b>% of total workers</b>
2011	64,000	2.7%
2012	84,800	3.8%
2013	54,600	2.4%
2014	62,700	2.7%
2015	74,900	3.2%
2016	73,300	2.9%

135. Small to moderate increases in the minimum wage are not estimated to create any inflationary effect. Of the options assessed in this review, only options 5 (\$16.50) and 6 (\$19.80) are estimated to have any impact on inflation rates.

136. Parts of BusinessNZ's submission, such as continued training and employment for young people and tax cuts, fall outside of the scope of this review. Although increased training and employment for young people does fall into other areas of the governments active work programme.

## Chapter seven – Setting the rate

137. This section provides an assessment of the options to increase the minimum wage rate for the Minimum Wage Review 2016. The review has taken into account:

- inflation, using CPI as the indicator
- wage growth, using the median wage as the indicator
- restraint on employment, and
- other relevant factors.

### Option 1: \$15.25 per hour (current minimum wage rate)

Table 28: Employment impacts of option 1

Minimum wage rate impact measures	Impacts of option 1
Adult minimum wage (hourly rate)	\$15.25
Adult minimum wage (gross weekly income) <sup>48</sup>	\$610
Percentage increase	N/C
Relativity to median wage <sup>49</sup>	64.9%
Number of people impacted (rounded up to nearest 100)	73,300
Estimated restraint on employment	N/C
Estimated economy-wide increase in wages (\$m, annual)	N/C
Estimated inflationary impact/GDP (percentage points)	N/C
Additional annual costs to the government (\$m) <sup>50</sup>	N/C

138. This option would reduce the value of the current minimum wage paid to about 73,300 workers and is therefore not in line with government policy. It would not constrain employment growth and there would be no impact on national weekly wage earnings or inflation. It will have no fiscal cost to government. Currently an employee receiving the minimum wage receives \$610 gross per 40 hour work week.

### Option 2: \$15.50 per hour

Table 29: Employment impacts of option 2

Minimum wage rate impact measures	Impacts of option 2
Adult minimum wage (hourly rate)	\$15.50
Adult minimum wage (gross weekly income)	\$620
Percentage increase	1.6%
Relativity to median wage	66.0%
Number of people impacted (rounded up to nearest 100)	89,900
Estimated restraint on employment	N/C
Estimated economy-wide increase in wages (\$m, annual)	26
Estimated inflationary impact/GDP (percentage points)	N/C
Additional annual costs to the government (\$m)	\$15.33

<sup>48</sup> This is calculated on a 40 hour week basis.

<sup>49</sup> The median hourly earnings are \$23.49 per hour (Labour Market Statistics (Income), June 2016).

<sup>50</sup> This is a high level estimate based on the additional costs to the Ministries of Health, Social Development and Education, and the Accident Compensation Corporation from higher wage costs for their employees and service providers.

139. This option represents a 1.64 percent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:

- A full-time employee receiving no tax credits or other income support would receive \$620 gross per 40 hour work week. Their net weekly income would increase by \$8.11 from \$513.62 to \$521.73 (1.64 percent).
- A single full-time worker with two dependants receiving Working for Families support would see their net weekly income increase by \$8.11 from \$743.29 to \$751.40 (1.09 percent)

140. This option could directly affect up to 89,900 workers. It could increase annual economy wide wages by \$26 million. However, it is estimated it would not constrain employment growth, and would not affect inflation. It would have an annual fiscal cost of \$15.33 million to government.

### Option 3: \$15.75 per hour (recommended option)

*Table 30: Employment impacts of option 3*

Minimum wage rate impact measures	Impacts of option 3
Adult minimum wage (hourly rate)	\$15.75
Adult minimum wage (gross weekly income)	\$630
Percentage increase	3.3%
Relativity to median wage	67.0%
Number of people impacted (rounded up to nearest 100)	119,500
Estimated restraint on employment	-1,500
Estimated economy-wide increase in wages (\$m, annual)	65
Estimated inflationary impact/GDP (percentage points)	N/C
Additional annual costs to the government (\$m)	\$29.38

141. This option represents a 3.28 percent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:

- A full-time employee receiving no tax credits or other income support would receive \$630 gross per 40 hour work week. Their net weekly income would increase by \$16.22 from \$513.62 to \$529.84 (3.28 percent).
- A single full-time worker with two dependants receiving Working for Families support would see their net weekly income increase by \$16.22 from \$743.29 to \$759.51 (2.18 percent).

142. This option could directly affect up to 119,500 workers. It could increase annual economy wide wages by \$65 million. However, it is estimated that this rate would constrain employment growth by 1,500 jobs. It would have an annual fiscal cost of \$29.38 million to government, and would not affect inflation.

#### Option 4: \$16.00 per hour

Table 31: Employment impacts of option 4

Minimum wage rate impact measures	Impacts of option 4
Adult minimum wage (hourly rate)	\$16.00
Adult minimum wage (gross weekly income)	\$640
Percentage increase	4.9%
Relativity to median wage	68.1%
Number of people impacted (rounded up to nearest 100)	142,700
Estimated restraint on employment	-3,500
Estimated economy-wide increase in wages (\$m, annual)	113
Estimated inflationary impact/GDP (percentage points)	N/C
Additional annual costs to the government (\$m)	\$40.44

143. This option represents a 4.92 percent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:

- A full-time employee receiving no tax credits or other income support would receive \$640 gross per 40 hour work week. Their net weekly income would increase by \$24.33 from \$513.62 to \$537.95 (4.92 percent).
- A single full-time worker with two dependants receiving Working for Families support would see their net weekly income increase by \$24.33 from \$743.29 to \$767.12 (3.28 percent).

144. This option could directly affect up to 142,700 workers. It could increase annual economy wide wages by \$113 million. It is estimated that this rate would constrain employment growth by 3,500 jobs. It would have an annual fiscal cost of \$40.44 million to government, and would not impact on inflation.

#### Option 5: \$16.50 per hour

Table 32: Employment impacts of option 5

Minimum wage rate impact measures	Impacts of option 5
Adult minimum wage (hourly rate)	\$16.50
Adult minimum wage (gross weekly income)	\$660
Percentage increase	8.2%
Relativity to median wage	70.2%
Number of people impacted (rounded up to nearest 100)	212,000
Estimated restraint on employment	-7,000
Estimated economy-wide increase in wages (\$m, annual)	257
Estimated inflationary impact/GDP (percentage points)	0.1%
Additional annual costs to the government (\$m)	\$87.10

145. This option represents an 8.20 percent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:

- A full-time employee receiving no tax credits or other income support would receive \$660 gross per 40 hour work week. Their net weekly income would increase by \$40.55 from \$513.62 to \$554.17 (8.20 percent).
- A single full-time worker with two dependants receiving Working for Families support would see their net weekly income increase by \$40.55 from \$743.29 to \$783.84 (5.46 percent).

146. This option could directly affect up to 212,000 workers. It could increase annual economy wide wages by \$257 million. However, it is estimated that this rate would constrain employment growth by 7,000 jobs. It would have an annual fiscal cost of \$87.10 million to government, and is estimated to increase inflation by 0.1 percent.

### Option 6: \$19.80 per hour

*Table 33: Employment impacts of option 6*

Minimum wage rate impact measures	Impacts of option 6
Adult minimum wage (hourly rate)	\$19.80
Adult minimum wage (gross weekly income)	\$792
Percentage increase	29.8%
Relativity to median wage	84.3%
Number of people impacted (rounded up to nearest 100)	528,700
Estimated restraint on employment	-28,000
Estimated economy-wide increase in wages (\$m, annual)	2,331
Estimated inflationary impact/GDP (percentage points)	0.7%
Additional annual costs to the government (\$m)	\$543.55 <sup>51</sup>

147. This option represents a 29.84 percent increase to the minimum wage rate. Examples of the impact on the actual incomes of minimum wage workers are:

- A full-time employee receiving no tax credits or other income support would receive \$792 gross per 40 hour work week. Their net weekly income would increase by \$147.62 from \$513.62 to \$661.24 (29.84 percent).
- A single full-time worker with two dependants receiving Working for Families support would see their net weekly income increase by \$126.70 from \$743.29 to \$869.99 (17.05 percent).

148. This option could directly affect up to 528,700 workers. It could increase annual economy wide wages by \$2,331 million. It is estimated that this rate would constrain employment growth by 28,000 jobs. It would have an annual fiscal cost of \$543.55 million to government, and is estimated to increase inflation by 0.7 percent.

<sup>51</sup> This figure in particular is likely to be underestimated because employees and contractors working for state agencies other than the four surveyed here would be affected by a minimum wage rate increase to \$19.80. This figure should also be considered alongside the increase to ACC's Outstanding Claims Liability which could result in higher ACC levies.

## Recommendation from MBIE

149. Setting the minimum wage rate requires balancing the benefits of any changes to the rate, such as the protection of the lowest paid employees, against the costs that any change to the rate might bring, such as restraint on employment growth.

150. MBIE is recommending increasing the adult minimum wage rate to \$15.75 (option 3).

151. The median wage has increased 2.9 percent in the year to September 2016 and an increase of 50 cents would maintain the relativity of the minimum wage to the median wage at 67 percent. It is expected that this option will increase the real income of minimum wage workers receiving Working for Families by 1.83 percent. This option is preferred because:

- A lower (or no) increase (options 1 or 2) would erode the real incomes of the lowest paid workers compared to wage growth and inflation (option 1).
- A higher increase (options 4, 5 and 6) will increase the minimum wage significantly higher than the increase in inflation, and higher than the rate of median wage growth. While only options 5 and 6 would have any effect on inflation, all three options would significantly constrain employment growth.

152. An increase to \$15.75 equates to an increase of 50 cents or 3.28 percent. Inflation is 0.4 percent for the year to September 2016, as a result the real increase in income of this option is 2.88 percent. However, the Treasury forecasts that the CPI will increase to 1.5 percent in 2017 and 2.0 percent in 2018. This could mean that the real increase in income of this option could be closer to 1.38 percent once it comes into effect in 2017.

153. MBIE's model estimates that employment constraint could impact 1,500 jobs with an increase to \$15.75.

154. Although, the decision between options 2 (\$15.50) and 3 (\$15.75) is close, MBIE considers that option 3 is the most consistent with the objective for the minimum wage review and the criteria each option is assessed against.

155. MBIE also recommends maintaining the starting-out and training minimum wage rates at 80 percent of the adult minimum wage. A differential between these rates and the adult minimum wage rates supports the transition of youth into employment. Youth employment is still relatively low, and there is no reason to set either of these rates at a rate higher than the statutory minimum of 80 percent of the adult minimum wage rate.