



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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REGULATORY IMPACT STATEMENT FOR MINIMUM WAGE REVIEW 2015

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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 setting New Zealand's minimum wage rates for 2016/17.
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.
3. In line with the Government's objective for the minimum wage review and its economic growth goal, MBIE's analysis has focused on increasing the minimum wage rate 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. The 2015 review has provided a mix of both direct and indirect estimated 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 publicly 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. While MBIE's model provides estimates based on figures publicly available from Statistics New Zealand, the actual impacts or the degree of those impacts on changes to the minimum wage are difficult, if not impossible, to assess. There is general international consensus that low to moderate changes to the minimum wage do not create net unemployment effects.
6. The estimated change in earnings for minimum wage workers under each proposed option is only assessed after tax (and ACC levies) and the inclusion of Working for Families. It was not possible in the time available for the review to include other assistance such as an accommodation supplement or other deductions that may be applicable to an individual. This was not possible due to the numerous scenarios this would create, and the variances it would create. For example, the accommodation supplement differs between each region of the country.
7. 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. Under the comprehensive process, the review must consider other relevant factors to those set for the streamlined process, and consult with a range of stakeholders. The 2015 review followed the comprehensive process and invited 69 stakeholders, along with Business NZ and the New Zealand Council of Trade Unions, to make submissions. Twenty-five submissions were made. The views and submissions of stakeholders have been analysed and were considered in the review process.

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_____/02 /2016

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)	\$14.75	\$15.00	\$15.25	\$15.50	\$16.05	\$19.25
Adult minimum wage (gross weekly income) ¹	\$590	\$600	\$610	\$620	\$642	\$770
Percentage increase	N/C	1.7%	3.4%	5.1%	8.8%	30.5%
Estimated change in earnings for minimum wage workers ²	N/C	0.95-1.11%	1.91-2.21%	2.62-3.28%	5.11-5.89%	17.30-18.30%
Relativity to median wage ³	64.6%	65.7%	66.8%	67.9%	70.3%	84.3%
Number of people impacted (rounded up to nearest 100)	74,900	85,500	152,700	173,300	267,200	555,900
Estimated restraint on employment	N/C	N/C	N/C	-2,000	-5,500	-28,000
Estimated economy-wide increase in wages (\$m, annual)	N/C	25	75	132	304	2,379
Estimated inflationary impact/GDP (percentage points)	N/C	N/C	N/C	N/C	0.1%	0.8%
Additional annual costs to the government (\$m) ⁴	N/C	\$8.79	\$22.82	\$37.97	\$86.61	\$555.74 ⁵

¹ This is calculated on a 40 hour week basis.

² This is based on change in earnings after tax, and tax credits in the form of Working for Families received.

³ The median hourly earnings are \$22.83 per hour (New Zealand Income Survey, June 2015).

⁴ 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.

⁵ 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 \$19.25. This figure should also be considered alongside the \$1.1 billion increase to ACC's Outstanding Claims Liability which would result in higher ACC levies.

EXECUTIVE SUMMARY

8. New Zealand’s minimum wage rates must be reviewed annually by the responsible minister under section 5 of the Minimum Wage Act 1983 (the Act). The Act does not specify the process or content of the review. However, Cabinet has agreed on an objective and process for the review.
9. 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 MBIE has interpreted this objective as requiring an increase to the minimum wage at a rate that is not out of step with CPI and median wage changes, while ensuring that it does not create net ‘disemployment’. For the purposes of the review, real income is not about maintaining the minimum wage rate with increases in inflation. MBIE has taken the view that real income for minimum wage workers is the income earned after tax (and ACC levies), and the addition or reduction as a result of factors such as tax credits in the form of Working for Families.
10. Under the cyclical approach⁶ established by Government to review the minimum wage, the 2015 review followed the comprehensive process. The table below sets out the review process under the cyclical approach:

Table 2: Minimum wage review process

	Streamlined review (2012, 2013, 2014)	Comprehensive review (2015)
Factors	<ul style="list-style-type: none"> • Inflation, using the Consumers Price Index (CPI) as the indicator • Wage growth, using median wage as the indicator • Restraint on employment 	<ul style="list-style-type: none"> • Streamlined review plus ‘other relevant factors’
Stakeholders consulted	<ul style="list-style-type: none"> • NZCTU • Business NZ 	<ul style="list-style-type: none"> • Streamlined review plus additional stakeholders

11. Cabinet also specified that the Minister for Workplace Relations and Safety may consider ‘other relevant factors’ in a comprehensive review. The ‘other relevant factors’ agreed to by the Minister for this year’s review were:
 - labour productivity — to consider the effect of the minimum wage increases on wage levels, and whether changes in the minimum wage have kept up with labour productivity
 - effects of minimum wage increases on social assistance received
 - effects of minimum wage increases on business growth
 - effects of minimum wage increases on the hours worked by employees
 - effects of minimum wage increases on workers that are earning at a rate slightly higher than the minimum wage
 - affordability to Government of changes to the minimum wage rate
 - international standing of New Zealand’s minimum wage rate.
12. Cabinet’s directive for the comprehensive review was to consider the factors used in the streamlined review, as well as any other relevant factors. MBIE provided advice to, and

⁶ The objective of the minimum wage review and the cyclical approach to the review were changed at the same time. See CAB Min (12) 41/5B.

received direction from, the Minister for Workplace Relations and Safety on which other relevant factors would be considered in this review. The Minister also directed that consultation would be extended to a similar number and type of stakeholders that were consulted in reviews prior to the cyclical process for the review being introduced. The comprehensive review is based on reviews conducted prior to the cyclical process being introduced. While public consultation would have been possible, the Minister directed that consultation be extended to a similar number and type of stakeholder as were consulted in these pre-cyclical reviews. To that end, he invited 69 agencies or stakeholders to make a submission to the review.

13. MBIE conducted the Minimum Wage Review 2015 on behalf of the Minister for Workplace Relations and Safety. The review also examined the current level of the minimum wage rates in comparison with other income benchmarks and other Organisation of Economic Cooperation and Development (OECD) countries, as well as some other key features regarding the minimum wage.
14. Table 1 lists the options considered in the review and a summary of the estimated impacts of those options derived from MBIE modelling. The modelling assumes that changes to the ratio of minimum wage to average wage can create negative employment impacts, and uses the best available data and evidence to determine at which point these impacts will occur, and how large they will be.
15. MBIE considers that Option 3 (\$15.25 per hour) best meets the objective of the minimum wage review. This option increases the minimum wage by 3.4 per cent, which is higher than the rate of inflation (0.4 per cent), and approaching the increase in wage growth annual median hourly earnings (3.8 per cent). The real incomes of minimum wage workers are affected by a range of factors such as tax credits. It is expected that most workers will receive an increase near, or slightly above, 2.3 per cent. Importantly, this option will not constrain employment growth. This option is preferred over other options because:
 - a A lower (or no) increase (options 1 or 2) would see the real incomes of the lowest paid workers decrease compared to wage growth (options 1 and 2) and inflation (option 1)
 - b A higher increase (options 4, 5 and 6) will increase the minimum wage higher than the increase in inflation, and significantly higher than the rate of wage growth. While only options 5 and 6 would have an effect on inflation, all three options would constrain employment growth.
16. Options 1 and 2 also have negligible employment and inflationary impacts, but do not have as significant or widespread impacts for low wage workers.
17. Option 4 would increase the value of the minimum wage relative to wage growth. Employment and inflationary impacts are relatively small. However, the employment impact is likely to be concentrated in the low-paid sector of the economy. Option 4 is not considered the most appropriate option.
18. Options 5 and 6 would considerably increase the relativity of the minimum wage to the median wage, and impact a much greater number of workers. However, while these options have a very small impact on inflation these options are inconsistent with the

objective of the minimum wage review because they have a considerable impact on employment.

STATUS QUO AND PROBLEM DEFINITION

19. The Minimum Wage Act 1983 (the Act) requires that the Minister for Workplace Relations and Safety must review the minimum wage rates annually by 31 December. 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.
20. The Act does specify how the review should occur. 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).
21. Under the cyclical approach⁷ established by Government to review the minimum wage, the 2015 review followed the comprehensive process. The table below sets out the review process under the cyclical approach:

Table 2: Minimum wage review process

	Streamlined review (2012, 2013, 2014)	Comprehensive review (2015)
Factors	<ul style="list-style-type: none"> • Inflation, using the Consumers Price Index as the indicator • Wage growth, using median wage as the indicator • Restraint on employment 	<ul style="list-style-type: none"> • Streamlined review plus 'other relevant factors'
Stakeholders consulted	<ul style="list-style-type: none"> • NZCTU • Business NZ 	<ul style="list-style-type: none"> • Streamlined review plus additional stakeholders

The current minimum wage rates

22. Minimum wages are set through an Order in Council made under Section 4 of the the Act. The current minimum wage rates are set out as follows:
 - The minimum adult rate is \$14.75 per hour
 - The minimum starting-out rate is \$11.80 per hour
 - The minimum training rate is \$11.80 per hour.
23. Minimum wages are being paid to approximately 74,900 New Zealand workers, making up about 3.2 per cent of all employees. They are more likely to be paid to young people, women, Māori, Pacific peoples and people without formal qualifications. These people are more likely to work in the retail and hospitality industries.

The current minimum wage rate compared with other income benchmarks

24. Compared with other income benchmarks, the minimum wage rate is more than twice the effective rate for a single adult on Jobseeker Support⁸ (Jobseeker Support (JS) in Figure 1 is calculated to be \$4.89 per hour for a single adult aged 18-24 years old).

⁷ The objective of the minimum wage review and the cyclical approach to the review were changed at the same time. See CAB Min (12) 41/5B.

25. However, the current minimum wage is 10 per cent lower than the average minimum weekly adult wage in collective agreements, which is \$657 per week (\$16.43 per hour for a 40 hours week).⁹ Figure 1 in the annex compares the minimum wage rates with other income benchmarks, all calculated as gross weekly income for a 40-hour week.

International comparisons

26. New Zealand has a high minimum wage compared with other OECD countries. Among OECD countries, when converted into US dollars, New Zealand's current minimum wage hourly rate is the eighth highest and the sixth highest as annual income.¹⁰ This is a drop from previous years largely due to the drop in value of the New Zealand dollar against the United States dollar and the introduction of the minimum wage in Germany.
27. At 51 per cent, New Zealand has the highest ratio of the minimum wage to the mean wage (average wage) amongst OECD countries. This is a result of a comparatively high minimum wage and a comparatively low average wage. More detailed information on how New Zealand's minimum wage compares with other countries is included in the annex.

Current economic growth and labour market conditions

28. Economic growth was moderate during 2015. According to the September 2015 NZIER Consensus Forecasts, economic growth is forecast to slow from 3.3 per cent in 2015 to 2.5 per cent and 2.6 per cent in the following two years
29. Data from the September 2015 quarter of the Labour Market Statistics indicated that a slowing economy is translating into a weaker labour market. Total employment increased by 34,000 between September 2014 and September 2015, while the growth in employment between September 2013 and September 2014 was 71,000. This equates to a 1.5 per cent rise in the year to the September 2015 quarter (down from a 3.2 per cent rise in the year to September 2014 year to the September 2015 quarter) — the lowest annual increase since 2012. Employment declined by 11,000 over the most recent quarter, a 0.4 per cent decrease.
30. The employment rate declined for the year to 64.5 per cent (-0.5 change) and labour force participation declined to 68.6 per cent (-0.2 change). The NZIER Consensus Forecasts of employment growth are 1.7 per cent in 2016 and 2017 March years, respectively.

⁸ The Jobseeker Support (JS) 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.

⁹ Blumenfeld, S., Ryall, S. and Kiely, P. (2015), *Employment Agreements: Bargaining Trends & Employment Law Update 2014/2015*, Victoria University of Wellington. The average annualised wage increment across all collective agreements in each of the last two year is 1.6 per cent.

¹⁰ For non-European countries, the exchange rates used to convert local currency to US dollars are the official exchange rates listed by the World Bank for 2014. They are calculated as an annual average based on monthly averages of the local currency unit (LCU) to US dollar in 2014. For countries using the Euro, the European Central Bank (ECB) average exchange rate with the US dollar for 2014 has been used.

31. The annual median hourly earnings from wages and salaries increased by 3.8 per cent to \$22.83 per hour in the year to June 2015 according to the New Zealand Income Survey 2015.
32. According to the Labour Market Statistics, average ordinary time hourly earnings rose 2.3 per cent to \$29.29 per hour in the year to September 2015. In terms of the Labour Cost Index (LCI), salary and ordinary wage rates, analytical unadjusted, rose 2.7 per cent over the same period.
33. The Consumer Price Index (CPI) increased by 0.4 per cent in the year to the September 2015 quarter. However, Treasury forecasts that the CPI will increase by 1.4 per cent in 2016 and 2.1 per cent in 2017. This increase in CPI is within the Reserve Bank of New Zealand's targets of 1-3 per cent.

Previous changes in the minimum wage

34. The minimum wage rates have been increased every year after the completion of the annual review. Table 3 shows the recent changes in the hourly rate. Detailed tables comparing minimum wage changes with various measures of inflation can be found in Figure 4 in the Annex to this RIS.

Table 3: Recent changes in minimum wage rates

Time Period	Adult minimum Wage	Youth Minimum Wage ¹¹	% Change
April 2005	\$9.50	\$7.60	5.6%
April 2006	\$10.25	\$8.20	7.9%
April 2007	\$11.25	\$9.00	9.8%
April 2008	\$12.00	\$9.60	6.7%
April 2009	\$12.50	\$10.00	4.2%
April 2010	\$12.75	\$10.20	2%
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%

Problem definition

35. The Minister is required to review the minimum wage rates annually under section 4 of the Act. The Act does not set out a process or an objective for the review. However, as noted before, Cabinet has agreed on an objective and process for the review.

¹¹ This includes new entrants and training rates and the starting-out wages (from 2013)

36. While many some employers and employees primarily use CPI to negotiate wage increases, some employees do not have the power to do this. If the minimum wage rate is not increased or it is increased less than the CPI increase, it would result in a loss of real value of the minimum wage. Although increasing the minimum wage in line with 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. The change to the objective of the minimum wage review in 2012 and the subsequent Cabinet directive that both changes to CPI and the median wage are considered in any minimum wage review seems to reflect this approach, and the approach has been used in this review.

OBJECTIVE OF THE MINIMUM WAGE REVIEW

37. 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).
38. MBIE has interpreted this objective as requiring an increase to the minimum wage at a rate that is not out of step with CPI and median wage changes, while ensuring that it does not create net 'disemployment'. For the purposes of the review, real income is not about maintaining the minimum wage rate with increases in inflation. MBIE has taken the view that real income for minimum wage workers is the income earned after tax (and ACC levies), and the addition or reduction as a result of factors such as tax credits in the form of Working for Families.
39. The process established by Government to review the minimum wage also requires assessment and balancing of the following factors:
- inflation, using CPI as the indicator
 - wage growth, using median wage as the indicator
 - restraint on employment, and
 - other relevant factors.
40. The 'other relevant factors' agreed to by the Minister for Workplace Relations and Safety for the 2015 review were:
- labour productivity — to consider the effect of the minimum wage increases on wage levels, and whether changes in the minimum wage have kept up with labour productivity
 - effects of minimum wage increases on social assistance received
 - effects of minimum wage increases on business growth
 - effects of minimum wage increases on the hours worked by employees
 - effects of minimum wage increases on workers that are earning at a rate slightly higher than the minimum wage
 - affordability to Government of changes to the minimum wage rate
 - international standing of New Zealand's minimum wage rate.
41. The Minister invited 69 agencies or stakeholders to make a submission to the review.
42. The stakeholders were selected on basis that they or similar agencies had previous been consulted before the cyclical review process was introduced. These stakeholders represent views from business, low wage workers, charities, Māori, Pacific peoples, and

migrant communities. While public consultation would have been possible, the Minister directed that consultation be extended to a similar number and type of stakeholder as were consulted in these pre-cyclical reviews. To that end, he invited 69 agencies or stakeholders to make a submission to the review.

43. The review process agreed by Cabinet does not apply a single factor, such as CPI change, or median wage change, to determine a minimum wage rate. Rather it requires an assessment of the real income 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 and wage growth, and the other relevant factors. It then requires an assessment of the various options that are broadly consistent with these factors, against the potential effects on employment.

REGULATORY IMPACT ANALYSIS

Options developed for the review

44. For the purposes 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:
45. The options modelled for the 2016/17 adult minimum wage are as follows:
- Option 1: \$14.75 per hour (status quo)
 - Option 2: \$15.00 per hour
 - Option 3: \$15.25 per hour
 - Option 4: \$15.50 per hour
 - Option 5: \$16.05 per hour
 - Option 6: \$19.25 per hour
46. These options are developed for modelling purposes only, and there is no requirement that the adult minimum wage for 2016/17 be set at any of them.

Impact on wages and inflation

47. When the minimum wage rises, labour costs for businesses increase. Businesses may respond to their increased costs by increasing the price of goods produced using minimum wage labour. Whether this leads to general inflation depends on the drivers of inflation. The price of goods affected by the minimum wage may increase but others may decline due to other economic factors and therefore there may be no net impact.
48. Table 4 shows the number of workers affected by each option, and the estimated impacts on economy-wide wage expenditure and the potential inflationary impacts. Options 1-4 (\$14.75 - \$15.50) have no impact on inflation. Options 5 (\$16.05) and 6 (\$19.25) have minimal impacts on inflation.

Table 4: Economy-wide impacts of minimum wage options

Option	Workers earning between current and new options of minimum wage	Economy-wide increase in wages (\$m, annual)	Impact on inflation (%)
1 \$14.75	74,900	N/C	N/C
2 \$15.00	85,500	25	N/C
3 \$15.25	152,700	75	N/C
4 \$15.50	173,300	132	N/C
5 \$16.05	267,200	304	0.1
6 \$19.25	555,900	2,379	0.8

Impacts on employment

49. Increases in the level of the minimum wage may have negative employment effects, including lower job growth and reduced hours. The extent of these effects is dependent on the size of the wage increase and the economic and labour market context in which it occurs.
50. MBIE's modelling, both this year and in previous reviews, indicates that only when changes to the minimum wage significantly increase the ratio of the minimum wage to the average wage, do they start to notably constrain employment growth. This is consistent with the domestic and international literature.
51. 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 (e.g. young people, women, Māori and Pacific peoples) and the employment impacts presented are the sum of the impacts on these groups.
52. MBIE's employment forecasts are used as a benchmark to estimate the impacts on employment growth of the various minimum wage options. The benchmark projected job growth is 1.7 per cent for the year to March 2016. Of the options being considered, only Option 6 (\$19.25 per hour) is estimated to act as a considerable restraint on employment growth.
53. Options 4 and 5 (\$15.50 and \$16.05 per hour) are estimated to have smaller impacts on employment growth, but those effects are likely to be concentrated in the low-wage sector of the economy, and among the groups most vulnerable to changes in the minimum wage.

Table 5: Summary of employment impacts

Option		Potential restraint on employment growth
1	\$14.75	N/C
2	\$15.00	N/C
3	\$15.25	N/C
4	\$15.50	2,000
5	\$16.05	5,500
6	\$19.25	28,000

Source: MBIE modelling

54. Even where the overall employment impacts of a minimum wage change are predicted to be negligible there may still be significant 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

55. Currently, amongst the 2,347,000 people employed in New Zealand, approximately 74,900 are paid the minimum wage. Table 6 estimates the number of people in each age group likely to be affected by increases in the minimum wage. Young workers are much more likely to be affected by even modest increases in the minimum wage.
56. Changes in the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. Currently there are about 202,200 low wage workers aged between 16 and 64 years, earning between \$14.75 and \$15.50 per hour. Nearly half of these workers are under 25 years old.

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

Options		18-64		18-19		20-24		25-64	
		%	Number	%	Number	%	Number	%	Number
1	\$14.75	3.4	62,400	23.2	13,800	8.2	18,200	1.9	30,400
2	\$15.00	3.9	73,300	25.3	15,100	9.0	20,100	2.4	37,200
3	\$15.25	7.2	133,200	38.5	22,900	16.9	37,400	4.6	73,200
4	\$15.50	8.2	152,700	41.1	24,400	19.4	43,000	5.4	85,300
5	\$16.05	13.1	243,200	54.9	32,600	29.3	65,000	9.2	145,500
6	\$19.25	28.4	528,100	71.6	42,600	55.4	122,900	22.9	362,700

Source: New Zealand Income Survey 2015

Note: % refers to the percentage of wage earners earning below the relevant wage level to be affected by a given option.

57. Data from the Income Survey from 1999 to 2015 shows 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 earning the minimum wage. These people are generally more likely to benefit from any increase in the minimum wage. However, they may also be the first to experience any negative impacts that could result from a change in the minimum wage (e.g. reduced hours offered or substitution towards more highly skilled groups of workers who are now relatively cheaper). 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. It may also decrease the number of new jobs being created for low skilled or inexperienced prospective workers.
58. Table 7 shows the demographic and job characteristics of workers paid at the current minimum wage. These groups are most likely to experience both the positive and negative effects of an increase in the minimum wage. In past reviews, Māori have been overrepresented. More detailed information about possible impacts on each of these groups is included in the annex.

Table 7: Demographics of minimum wage earners

Demographic	Minimum wage earners			Total wage earners
	16-24	25-64	16-64	16-64
Aged 16–24	13.8% ¹²	0.0%	59.4%	17.0%
Female	52.7%	67.0%	58.5%	48.9%
European/Pakeha	59.1%	37.6%	50.4%	67.3%
Maori	17.8%	17.4%	17.6%	12.5%
Pacific	4.7%	9.3%	6.6%	5.4%
Part-time	72.4%	45.3%	61.4%	20.1%
Studying	61.7%	10.5%	40.9%	12.3%
Total	44,500	30,400	74,900	1,903,900

Source: New Zealand Income Survey 2015

Impact on industries

59. The impact of a minimum wage change on industries will vary widely across the different sectors of the economy. Some industries employ a large number of people who earn the minimum wage or close to it. The following industries are estimated to have the highest percentage of workers earning the current minimum wage, and will therefore face the greatest impact:
- Hospitality: 30 per cent (32,600 workers)
 - Retail: 19.7 per cent (39,100 workers)
 - Administrative services: 16.2 per cent (10,100 workers)
 - Agriculture: 11.8 per cent (9,700 workers)
60. All other industries surveyed pay minimum wages to less than 10 per cent of workers. A detailed breakdown is included in the annex.
61. Additional costs to industry could range from \$25 million per year (Option 2) to approximately \$2.37 billion per year (Option 6). However, it is likely that additional wages in the economy may lead to increased spending, which could provide some benefits for industry.

'Other relevant factors'

Labour productivity

62. The questionnaire sent to stakeholders asked whether any changes were made to productivity to adjust for the cost of a minimum wage increase. Submitters responded that there was no change. For the latest year, 2014, for which labour productivity data is available, labour productivity increased 1.4 per cent and the real minimum wage increase was 2.3 per cent.

¹² This figure indicates that from the total population of 16 to 24 year-olds, approximately 13.8 per cent are minimum wage earners.

63. Business NZ, in its submission, stated that continued increases to the minimum wage are inconsistent with the Government's priority of raising productivity and growth. Remuneration is a key factor in higher productivity, but only where it can be linked to specific individual or team outcomes. Increases in minimum wage boost wages but of themselves do not boost productivity. Furthermore increased costs that are not offset by increased productivity typically flow through either into increased prices or, if the market cannot sustain higher prices, cost cutting and, often, job losses. In a survey of employers, Business NZ reported that 95 per cent of respondents reported a reduction in productivity as a direct result of increases in the minimum wage.

64. E tū in its submission stated that:

In our experience the increases in the minimum wage, because they have not been major increases, have not caused any direct moves to increase productivity. These moves around productivity have normally been driven by other things, such as the cost of machinery coming down, technology improving or pressure by client companies on contractors to operate differently.

Social assistance

65. MBIE recognises that 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, among which social assistance and taxation generally have a more direct impact on low paid people.

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

67. The following tables (8 to 19) 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 is likely to be relatively small compared to the increase in the minimum wage.

68. 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 beneficiaries to seek employment will diminish.

69. The following tables set out the scenario for a family of four people (a couple working at 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 8: Scenario 1 - A couple working for 60 hours per week between them at \$14.75 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$590.00	\$30,680	\$4389.00	\$444.86	\$25,849.14
Parent B	20	\$295.00	\$15,340	\$1704.5	\$222.43	\$13,413.07
Combined net earnings without other income support						\$39,262.21
Maximum In Work Tax Credit ¹³						+\$3,120
Maximum Family Tax Credit ¹⁴						+\$8,173
Total abatement on family support due to income						-\$2,054.88
Total Working for Families assistance after abatement ¹⁵						\$9,238.12
Effective annual earnings for the household						\$48,500.33

Table 9: Scenario 2 - A couple working for 60 hours per week between them at \$15.00 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$600	\$31,200	\$4480.00	\$452.40	\$26,267.60
Parent B	20	\$300	\$15,600	\$1750.00	\$226.20	\$13,623.80
Combined net earnings without other income support						\$39,891.40
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,220.63
Total Working for Families assistance after abatement						\$9,072.37
Effective annual earnings for the household						\$48,963.77
Percentage increase in minimum wage						1.69%
Percentage increase in annual earnings						0.95%

¹³ Calculation of the In Work Tax Credit is set out in section MD 10 of the *Income Tax Act 2007*. MBIE has assumed the maximum amount available for the purposes of this calculation.

¹⁴ 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 amounts are:

- Eldest child between the ages of 18 and 16 – \$5303
- Eldest child under the age of 16 – \$4822
- Other child between the ages of 18 and 16 – \$4745
- Other child between the ages of 15 and 13 – \$3822
- Other child under the age of 13 – \$3351

¹⁵ Income support payments under Working for Families are subject to a 21.5 cent abatement for every dollar earned by the household in excess of \$36,350 annually. There is a pending change to the abatement threshold for the 2016/17 year. The *Support for Children in Hardship Bill* will change the abatement from 21.25 cents to 22.50.

Table 10: Scenario 3 - A couple working for 60 hours per week between them at \$15.25 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$610	\$31,720	\$4571.00	\$459.94	\$26,690.01
Parent B	20	\$305	\$15,860	\$1795.50	\$229.97	\$13,834.53
Combined net earnings without other income support						\$40,524.54
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,386.38
Total Working for Families assistance after abatement						\$8,906.62
Effective annual earnings for the household						\$49,431.16
Percentage increase in minimum wage						3.38%
Percentage increase in annual earnings						1.91%

Table 11: Scenario 4 - A couple working for 60 hours a week between them at \$15.50 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$620.00	\$32,240	\$4662.00	\$467.48	\$27,029.92
Parent B	20	\$310.00	\$16,120	\$1841.00	\$233.74	\$14,004.96
Combined net earnings without other income support						\$41,034.88
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,552.13
Total Working for Families assistance after abatement						\$8,740.87
Effective annual earnings for the household						\$49,775.75
Percentage increase in minimum wage						5.08%
Percentage increase in annual earnings						2.62%

Table 12: Scenario 5 - A couple working for 60 hours a week between them at \$16.05 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$642	\$33,384	\$4862.20	\$483.55	\$28,038.25
Parent B	20	\$321	\$16,692	\$1914.10	\$242.03	\$14,535.87
Combined net earnings without other income support						\$42,574.12
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$2,916.78
Total Working for Families assistance after abatement						\$8,409.37
Effective annual earnings for the household						\$50,983.49
Percentage increase in minimum wage						8.81%
Percentage increase in annual earnings						5.11%

Table 13: Scenario 6 - A couple working for 60 hours a week between them at \$19.25 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$770	\$40,040	\$6027.00	\$580.58	\$33,432.42
Parent B	20	\$385	\$20,020	\$2523.50	\$290.29	\$17,206.21
Combined net earnings without other income support						\$50,638.63
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$5,038.38
Total Working for Families assistance after abatement						\$6,254.62
Effective annual earnings for the household						\$56,893.25
Percentage increase in minimum wage						30.50%
Percentage increase in annual earnings						17.30%

70. These scenarios demonstrate that when the workers' wages increase from \$14.75 per hour to \$15.50 per hour, the net gain is \$1,275.42 rather than \$2,340; the net gain to \$16.05 per hour is \$2,483.16 rather than \$4,056; and the net gain to \$19.25 per hour is \$8392.92 rather than \$14,040.¹⁶ The additional income that people on Working for Families would receive from smaller increases in the minimum wage would be even smaller. This is partly due to the effect of the abatement settings on income support as well as the interplay of taxes.

71. The following tables set out the scenario for a family with a single earner at 40 hours per week and two children (where the earner does not belong to KiwiSaver and has no student loans) at each of the minimum wage options.

Table 14: Scenario 1 – One parent working for 40 hours a week at \$14.75 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$590.00	\$30,680	\$4389.00	\$444.86	\$25,849.14
Net earnings without other income support						\$25,849.14
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,293
Effective annual earnings for the household						\$37,142.14

¹⁶ This is calculated by multiplying 60 (hours) and 52 (weeks) and the amount of increase — \$0.75 (\$15.50 - \$14.75); \$1.25 (\$16.05 - \$14.75); \$4.50 (\$19.25 - \$14.75).

Table 15: Scenario 2 – One parent working for 40 hours a week at \$15.00 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$600	\$31,200	\$4480.00	\$452.40	\$26,267.60
Combined net earnings without other income support						\$26,267.60
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,293
Effective annual earnings for the household						\$37,560.60
Percentage increase in minimum wage						1.69%
Percentage increase in annual earnings						1.11%

Table 16: Scenario 3 – One parent working for 40 hours a week at \$15.25 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$610	\$31,720	\$4571.00	\$459.94	\$26,689.06
Combined net earnings without other income support						\$26,689.06
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,293
Effective annual earnings for the household						\$37,982.06
Percentage increase in minimum wage						3.38%
Percentage increase in annual earnings						2.21%

Table 17: Scenario 4 – One parent working for 40 hours a week at \$15.50 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$620.00	\$32,240	\$4662.00	\$467.48	\$27,110.52
Combined net earnings without other income support						\$27,110.52
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,293
Effective annual earnings for the household						\$38,403.52
Percentage increase in minimum wage						5.08%
Percentage increase in annual earnings						3.28%

Table 18: Scenario 5 – One parent working for 40 hours a week at \$16.05 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$642	\$33,384	\$4862.20	\$483.55	\$28,038.25
Combined net earnings without other income support						\$28,038.25
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$0
Total Working for Families assistance after abatement						\$11,293
Effective annual earnings for the household						\$39,331.25
Percentage increase in minimum wage						8.81%
Percentage increase in annual earnings						5.89%

Table 19: Scenario 6 – One parent working for 40 hours a week at \$19.25 per hour

	Weekly work hours	Weekly earnings	Annual earnings	Tax	ACC	Net earnings
Parent A	40	\$770	\$40,040	\$6027.00	\$580.58	\$33,432.42
Combined net earnings without other income support						\$33,432.42
Maximum In Work Tax Credit						+\$3,120
Maximum Family Tax Credit						+\$8,173
Total abatement on family support due to income						-\$784.13
Total Working for Families assistance after abatement						\$10,508.87
Effective annual earnings for the household						\$43,941.29
Percentage increase in minimum wage						30.5%
Percentage increase in annual earnings						18.30%

72. As a minimum wage rate increase will not be able to significantly increase the net gain for those on benefits or working for limited hours, the Expert Advisory Group on Solutions to Child Poverty did not recommend raising the minimum wage rate as a solution to reducing poverty.¹⁷
73. In its submission to the review, the Office of the Children’s Commissioner (OCC) stated that increasing wages for low income earners is one way to address poverty and inequality, but minimum wage policy must be part of the wider system of transfers to families to be effective. The OCC suggests that a number of additional factors should be included in the review in determining the minimum wage rate. The effect minimum wage has on children should be considered. Policies related to employment and wages often have limited consideration for children, however, those wages support the families those children live in. When the minimum wage rate is increased other income based subsidies need to be increased to ensure that people do not miss out on essential social assistance.
74. The OCC added that changes to the minimum wage are unlikely to help many low income families for two reasons. First, the net impact on families with children will be low as it is offset by reductions in other tax credits and subsidies. Second, the majority of working families do not have members paid the minimum wage, and many minimum

¹⁷ Children’s Commissioner (2012), Solutions to Child Poverty in New Zealand: evidence for action.

wage workers do not live in low income households. Owing to this, changes need to be made across a number of policy settings to increase real incomes of low paid workers.

Business growth

75. A majority of submissions received from businesses and business representative groups stated that an increase to the minimum wage rate would have some form of effect on business growth. This would be either in the form of cost increase, deferring plans to hire more staff or defer other business related spending.
76. In Business NZ's submission to the Review it reported the results of a survey of employers in one segment of the food retail sector. That survey reported that since 2010, as a result of minimum wage increases:
- 36 per cent cut staff
 - 32 per cent cut maintenance and upgrades to systems and processes
 - 21 per cent cut staff training
 - 28 per cent cut staff rewards and recognition
 - 64 per cent cut increases to higher level staff
 - 21 per cent cut stock levels
77. Despite the effect on business growth, businesses supported a moderate increase to the minimum wage, while most business representative groups did not support an increase to the minimum wage. Unions submitted that increases to the minimum wage have had negligible effect on business growth.

Hours worked by employees

78. Some submissions made by businesses and business representative groups indicated that increases to the minimum wage could lead to a reduction in hours worked by employees. In Business NZ's survey, 40 per cent of respondents reported cutting staff hours and avoided additional summer staff or took personal income cuts.
79. Submissions made by unions stated that increases to the minimum wage do not lead to a decrease to the hours worked by workers. In response to the question whether increases to the minimum wage had any impact on the hours worked by workers, E tū stated:
80. In our experience the increases to the minimum wage have not had any effect on the hours worked by workers. If the increases to the minimum wage had been substantial, as we saw when the parking officers at the Wellington City Council saw their wages boosted by over \$3.20 an hour with the introduction of the living wage, then working hours decreased. However, at 50 cents an hour this is not enough to cause such an immediate impact.

Workers earning at a rate slightly higher than the minimum wage

81. Submissions from businesses stated that some of them had collective agreements in place that increase the wages of people earning at a rate above the minimum wage, when the minimum wage rate increases. Other businesses and representative groups stated that usually increases to the minimum wage would prompt them to change the wage rate for those earning above the minimum wage rate.
82. In Business NZ's survey of employers, 71 per cent of those surveyed said that they increased the wages of senior staff to maintain relativity to the minimum wage.

Impact on the state sector

83. Increases in the minimum wage are likely to have a direct (and possibly also indirect or 'flow-on') fiscal impact on some state sector employers. The Ministries of Education, Health and Social Development (MSD) and the Accident Compensation Corporation (ACC) have been identified as the agencies which are most likely to be impacted by changes in the minimum wage. For these four government agencies, total annual costs directly related to a minimum wage increase are estimated to be:
 - \$8.79 million for \$15.00 per hour (option 2)
 - \$22.82 million for \$15.25 per hour (option 3)
 - \$37.97 million for \$15.50 per hour (option 4)
 - \$86.61 million for \$16.05 per hour (option 5)
 - \$555.74 million for \$19.25 per hour (option 6).
84. It should be noted that these are high level estimates based on the additional costs to these four agencies from higher wage costs to their employees and service providers. The impact of increasing the minimum wage to \$19.25 is likely to be higher than the figure provided here, because an increase of this magnitude would affect more departments than the four surveyed.
85. Detailed information on the costs to each agency under each option can be found in the annex.

Table 20: Indicative costs to surveyed agencies under each option

Option	Ministry of Education	Ministry of Health	Ministry of Social Development	Accident Compensation Corporation	Total
\$14.75	N/C	N/C	N/C	N/C	N/C
\$15.00	\$259,195	\$7,527,260	\$65,531	\$940,000	\$8,791,986
\$15.25	\$728,100	\$20,098,629	\$135,364	\$1,860,000	\$22,822,093
\$15.50	\$1,492,485	\$33,451,687	\$207,735	\$2,820,000	\$37,971,907
\$16.05	\$15,646,015	\$65,668,386	\$377,681	\$4,920,000	\$86,612,082

Option	Ministry of Education	Ministry of Health	Ministry of Social Development	Accident Compensation Corporation	Total
\$19.25	\$75,972,965	\$424,212,528	\$3,155,059	\$52,400,000	\$555,740,552¹⁸

International Standing of the New Zealand minimum wage rate

86. Table 21 provides a comparison of New Zealand's current minimum wage rate (\$14.75) against that of other OECD countries, converted to US\$. New Zealand has the eighth highest hourly rate in the OECD. Table 22 provides a comparison at the proposed minimum wage rate (\$15.25).
87. For non-European countries, the exchange rates used to convert local currency to US dollars are the official exchange rates listed by the World Bank for 2014. They are calculated as an annual average based on monthly averages of the local currency unit (LCU) to the US dollar in 2014. For countries using the Euro, the European Central Bank (ECB) average exchange rate with the US dollar for 2014 has been used.

Table 21: International minimum wage comparisons at \$14.75 per hour

As Annual Income			Standard work week (hours)	As Hourly Rate		
1	Luxembourg	US\$33,218	40	1	Luxembourg	US\$15.97
2	Australia	US\$30,766	38	2	Australia	US\$15.57
3	Netherlands	US\$26,042	40	3	France	US\$13.84
4	Belgium	US\$25,945	38	4	Belgium	US\$13.13
5	Germany	US\$25,438	40	5	Netherlands	US\$12.52
6	New Zealand	US\$25,355	40	6	Ireland	US\$12.45
7	Ireland	US\$25,249	39	7	Germany	US\$12.23
8	France	US\$25,189	35	8	New Zealand	US\$12.19
9	Canada	US\$22,377	44	9	Canada ¹⁹	US\$9.78

Table 22: International minimum wage comparisons at proposed minimum wage rate of \$15.25 per hour

As Annual Income			Standard work week (hours)	As Hourly Rate		
1	Luxembourg	US\$33,218	40	1	Luxembourg	US\$15.97
2	Australia	US\$30,766	38	2	Australia	US\$15.57
3	New Zealand	US\$26,208	40	3	France	US\$13.84
4	Netherlands	US\$26,042	40	4	Belgium	US\$13.13

¹⁸ This figure is likely to be underestimated because an increase of this magnitude would affect agencies other than the four surveyed.

¹⁹ Minimum wages in Canada are set by the provinces and therefore there is no national minimum wage rate. For the purposes of the table, an average of the provincial minimum wages was used. This average was calculated at CAD 10.86.

As Annual Income			Standard work week (hours)	As Hourly Rate		
5	Belgium	US\$25,945	38	5	New Zealand	US\$12.60
6	Germany	US\$25,438	40	6	Netherlands	US\$12.52
7	Ireland	US\$25,249	39	7	Ireland	US\$12.45
8	France	US\$25,189	35	8	Germany	US\$12.23
9	Canada	US\$22,377	44	9	Canada ²⁰	US\$9.78

88. Figure 1 shows that New Zealand has the highest ratio of minimum wage to average wage in the OECD (50 per cent). This compares with 43 per cent in Australia, 40 per cent in Canada, 40 per cent in the United Kingdom and 27 per cent in the United States. As noted earlier in the RIS, this is the result of a comparatively high minimum wage and a comparatively low average wage.
89. Figure 1 also indicates the GDP per capita of the OECD countries. Current data shows that New Zealand ranks 18th out of 34 OECD countries for GDP per capita, about 10 per cent below the OECD average.²¹

Figure 1: Comparison of minimum relative to mean wages and GDP per capita among OECD, 2014

²⁰ Ibid.

²¹ This is measured using 2014 data in US dollars (PPP) per head with New Zealand at US\$36,810 and the OECD average at US\$38,867.

CONSULTATION

Feedback from submitters

90. The comprehensive minimum wage review process calls for consultation with Business NZ, the NZCTU and a wide range of other stakeholders. Letters were sent to 69 stakeholders to invite submissions to the review. Twenty-five submissions were received and summaries are set out below.

Business NZ

91. Consolidation of the minimum wage is needed to lower its ratio to the average wage. Minimum wages have steadily increased since 1999 and are now playing an increasing role in setting wage levels for a number of jobs. In the interim the government should focus on enabling and encouraging increased access to training and employment to achieve higher productivity and hence increased real earnings over time. Relying on increased minimum wages alone, Business NZ believes, is likely to have the opposite effect. In fact, there is some evidence to suggest that as minimum wage rates increase so too does the number of people being paid the minimum wage.
92. Minimum wages are becoming increasingly inefficient at guaranteeing jobs. In fact, the minimum wage frequently places an obstacle in the path of particular people gaining employment, such as youth and low skilled people who are disproportionately affected by minimum wage increases. Many young people in employment are not in a vulnerable position and are merely in after school employment. This teaches them important financial skills and provides additional pocket money. Additionally, increases to the minimum wage reduce on-the-job training opportunities for youth, as does the extension of the youth minimum wage to employees on training agreements. It is likely that continued increases and extensions of coverage to the minimum wage rate may instead send a signal to younger people that further education and training is not warranted.
93. In addition to impacts on youth, increases to the minimum wage create artificial inflationary pressure. This will result in the minimum wage not having the desired impact. Minimum wages should not be increased higher than inflation in order to prevent this artificial inflation from occurring.
94. When the government determines the actual wages of such a large proportion of the labour force, the employers of those employees, and all others, are directly impacted in ways they can only manage by making sacrifices in other areas of the business. Ultimately, this means that the government is creating unintended wage pressures in the New Zealand labour market, with little regard for the practicalities of that market.
95. One effect that many employers have reported in recent times is that movements in the minimum wage are increasingly and directly responsible for reductions in staffing or other service costs. A recent survey of employers showed that 95 per cent of respondents reported a reduction in productivity as a direct result of increases in the minimum wage. Other results include:

- a. In relation to the effect of minimum wage increases on the wages of more senior staff;
 - i. 25 per cent said they could not increase the wages of more senior staff and of those around 80 per cent reported negative effects on morale and productivity.
 - ii. 71 per cent said they increased the wages of senior staff to maintain relativity.
 - iii. 19 per cent said that senior staff left as a result of not getting increases.
 - iv. 28 per cent said it was harder to hire more senior staff
 - b. 75 per cent of respondents reported that the percentage of staff on the minimum wage had increased (25 per cent) or not changed (50 per cent) since 2010.
 - c. When asked what cuts were made as a direct result of minimum wages increases since 2010.
 - i. 36 per cent cut staff
 - ii. 32 per cent cut maintenance and upgrades to systems and processes
 - iii. 21 per cent cut staff training
 - iv. 28 per cent cut staff rewards and recognition
 - v. 64 per cent cut increases to higher level staff
 - vi. 21 per cent cut stock levels
 - vii. 40 per cent cut staff hours and avoided additional summer staff or took personal income cuts.
96. While these results reflect only one segment of the food retail sector they are illustrative of the sorts of issues faced by any business with a relatively high proportion of lower paid staff.
97. In setting the minimum wage higher than \$14.75 the government would be arbitrarily setting the wages of at least one third of all wage earners. The scope for relativity based pressures on other wages and rates is inescapable. This in turn impacts on the ability of employers to provide other enhancements to conditions of employment, as the capacity to accommodate compulsory increases to wages and other enhancements together is diminished. Closing the gap between the minimum wage and the average wage essentially makes the government, not the labour market, the primary driver of at least the lower half of all wages, thus intervening in business in a very significant way. When added to other imposts (eg ACC) the government's influence becomes very significant and possibly distortionary on true market values for work both in New Zealand and in international labour markets.
98. Continued increases to the minimum wage are inconsistent with the government's priority on raising productivity and growth. Action on labour productivity is needed sooner rather than later. New Zealand's labour productivity has been consistently lower than the OECD average from the late 1970s. Remuneration is a key factor in higher productivity, but only where it can be linked to specific individual or team outcomes. Increases to the minimum wage rates boost wages but of themselves do not boost productivity. Furthermore, increased costs that are not offset by increased productivity typically flow through either into increased prices or, if the market cannot sustain higher prices, cost cutting and, often, job losses.

99. A better approach to ensure New Zealand is more highly productive is to lower taxes rather than increasing the minimum wage. By instigating a broad base, low rate approach to taxes while containing government spending, most New Zealanders will have more cash in hand. The advantages of a tax cut over minimum wage increases for low paid workers are numerous and include: costs not increasing for businesses, lowering the likelihood of redundancy or reduced hours; and the relativity of those earning more than the minimum wage is kept.
100. Business New Zealand recommends:
- a A review be undertaken of the role and effect of the minimum wage (not just its level) in light of the very significant movements in it over the past 10 years. This should take particular account of the effects of recent “Sleepover”²² and “Woodford House”²³ cases. These cases highlight the significant differences in the environment pertaining in 1945 when the Act was created, and the diverse and dynamic working conditions prevalent today.
 - b Future changes to the current minimum wage or starting-out minimum wage rate be at levels below inflation (as measured by the CPI) until the minimum wage falls significantly from its present position of 54 per cent of the average national wage and 65 per cent of the median national wage.
 - c The Minimum Wage Act be amended to require that a worker’s average wage not fall below the minimum wage set by the Act, rather than, as at present, requiring that the minimum rate for every hour worked be paid at the minimum wage.
 - d The government should continue to emphasise the need for increased access to training and employment opportunities, particularly for young people
 - e The government should seriously consider the use of further tax cuts, rather than increases to the minimum wage rates, as a more effective way of increasing real wages for relatively low paid workers. These would mitigate the effects of the abatement of government transfer payments such as Working for Families. Abatement reduces the benefits of pay increases.

New Zealand Council of Trade Unions (NZCTU)

101. One of the functions of a minimum wage is to underpin the wages system, ensuring as far as possible that vulnerable and unrepresented workers do not fall deeply into poverty because of low wages. This requires that wages be at a high enough level to maintain living standards and to cover the vulnerable workforce, and that it is well enforced. This is increasingly important for the increasing numbers of temporary, casual and low paid workers, beneficiaries under increasingly harsh work requirements enforced by partial or full loss of income, and low waged immigrant workers, particularly those who are temporary or tied to a single employer. The great majority of these people have little or no bargaining power.

²² *Idea Services Ltd v Dickson* [2011] 2 NZLR 522

²³ *Victoria Law v Board of Trustees of Woodford House* (2014) 11 NZELR 355

102. New Zealand wages are low, in absolute terms, in terms of what the economy and employers can afford, and in terms of an economic transformation in New Zealand to a high skill, high wage, and high value economy. The minimum wage therefore also has an important function to raise the wage floor as it is the only tool that the government has to influence wages directly. However, a better instrument for this would be a return to widespread collective bargaining which can be more sensitive to the circumstances of different industries and employers.
103. This is a good time for action to raise wages: inflation is low so any inflation induced by a wage rise (which MBIE calculations show is very small in any case) is unlikely to cause problems. Growth in the economy is falling sharply so increases to wages would help to stimulate the economy because those on lower wages are more likely to spend their extra wages. A significant rise in the minimum wage is likely to be fiscally net positive, assuming no change in taxation or social welfare policies, as a result of greater tax intake and falls in government transfers.
104. NZCTU recognises that wages will not increase simply through minimum wage increases and recognises the need for a significant increase in investment in skills development. Such investment in people can lift wages over a period, if it is alongside union collective bargaining and wider programmes to invest in new technology and infrastructure and engage workers in workplace and industry issues.
105. Since 1999 the minimum wage has increased nominally by 111 per cent or 46 per cent in real terms and this has not been a disincentive for employers to hire new staff. The argument that minimum wage increases lead to increased unemployment has now been discredited. Increases in the minimum wage will have some impact on employment, but there is increasing evidence that these effects are at worst small, and frequently do not exist.
106. The NZCTU is unconvinced by the model that MBIE uses to forecast the employment outcomes from a rise in the minimum wage. These routinely predict employment losses. Its model, assumptions and methodology has not been published in a replicable form, and details of its annual run, including margins of error, are not published or open to scrutiny. It is unclear whether it takes account of secondary effects by raising the minimum wage in changing relative prices, increasing demand and stimulating economic activity which could increase employment. This is frequently identified as one of the possible reasons for the ambiguous employment effects of a rise in the minimum wage. NZCTU recommends that the details of the model be published and a detailed report on its output should be published each year. As far as possible the data on which the modelling is based should also be made publicly available. This would allow independent scrutiny and analysis and could stimulate further research. There are now numerous studies concluding no significant impact on employment of increases in the minimum wage.
107. While the minimum wage is only one policy lever, a significant lift in the minimum wage would chart a clear course in terms of productivity enhancement alongside high labour market participation. The minimum wage can stimulate reform by reducing employers' ability to reduce wage rates to maintain their viability, and focus on raising productivity as the instrument of commercial adjustment. While it is a commonplace cliché to assert that wages cannot rise unless productivity rises, it is notable that there is no acknowledgement of the ability of wage rises to encourage productivity growth. It is often acknowledged that weak wage growth may lead to low productivity growth but

not the natural corollary that strong wage growth encourages higher productivity. It is notable that there is no acknowledgement that weak wage growth may lead to low productivity growth but not the natural corollary that strong wage growth encourages higher productivity.

108. The NZCTU continues to oppose the starting-out wage and calls for its repeal. It is unfair and discriminatory to pay lower wages to a worker performing the same work as another worker on the basis of age.
109. The NZCTU supports an exemption for trainees on a conditional basis. The conditions are: that wage rates are negotiated on a scale which sees the rate progressively increase to at least the minimum wage; training requires 60 credits a year on a programme on the National Qualification Framework; the maximum length of time a trainee can remain on a rate lower than the adult minimum wage is 12 months; and there must be oversight to ensure that a significant training component exists in the job and that trainees are getting access to quality training.
110. An increase in minimum wages will have a beneficial impact on labour participation. Two of the most significant challenges facing the labour market are maintaining participation rates and improving labour productivity. Low wages are an impediment to optimal labour market participation and they impede productivity improvements.
111. Reducing the gender pay gap is an essential consideration in making an adjustment to the minimum wage increase. The NZCTU has noted its concern previously about the removal of the gender pay gap as a criterion in deciding the level of the minimum wage. A comprehensive review must include the impact of a minimum wage adjustment on the gender pay gap and by implication gender equity.
112. The NZCTU recommends an increase in the minimum wage to \$19.46, which is 66 per cent of the average wage. This is close to the level of the Living Wage which the NZCTU also supports. A possible alternative would be to progressively increase it to that level over three years beginning with \$16.50 in 2016. The NZCTU would also support a mechanism for indexing the minimum wage relative to the average wage once the minimum wage has reached a reasonable level.

MBIE comment

113. MBIE has assessed and modelled the NZCTU's proposals of \$16.50 per hour (the NZCTU's suggested alternative step for 1 April 2016) and \$19.46 per hour (NZCTU's preferred step for 1 April 2016).

Table 23: Assessment of NZCTU's proposal for the minimum wage

Option	Workers affected	Inflationary impact	Annual increase in wages (\$m)	Midpoint constraint on employment growth
\$16.50	288,800	0.2%	\$490	-9000
\$19.46	565,200	0.8%	\$2,578	-29,500

Source: MBIE modelling

Small Business Development Group

114. Moderate wage impacts are easier for employers to manage and plan for. Significant increases have larger impacts, particularly in the tourism and hospitality industries. Increases to the minimum wage have to be passed on so ultimately the consumer will pay for it through price increases.
115. Minimum wage increases are important to help vulnerable people in the workplace. The minimum wage also acts as an incentive to work so that people reduce their reliance on social assistance.
116. The tourism sector will likely be the most affected by an increase to the minimum wage. Despite contributing so much to the economy and New Zealand's international profile, margins are often low owing to the seasonal nature of tourism. This means that businesses can often not afford to pay wages higher than the minimum wage. Owing to this, increases to the minimum wage can have a significant effect on many in the tourism industry. Other industries affected by the minimum wage are fast-food, retail and hospitality.
117. Higher minimum wages affect those who struggle to find jobs such as youth and low-skilled workers. This could also lead to youth entering unpaid internships where they will receive no protection under the law.
118. The Small Business Development Group supports an increase to the minimum wage of between 35c and 50c. It is expected that after a period of time, promising employees would receive a pay increase taking them off the minimum wage onto a higher rate.
119. Minimum wages affect all businesses. This can impact on a business's potential to grow and develop as they are continually constrained by wage increases. Generally, business does not like being told what to pay. It is preferable for the market and a business's potential income earned to dictate that.

E tū

120. E tū supports the submission of the CTU and an increase in the minimum wage to two thirds of the average wage, even if this was to be staged over three years starting with \$16.50 in 2016. E tū also support the living wage movement which advocates a living wage of \$19.25. E tū opposes the starting-out wage and advocates moving back to a position where workers aged over 16 years are paid the full minimum wage.
121. Minimum wage increases are the only way workers' wages in cleaning, catering and security industries move. Additionally, the health and disability sector remain constrained by funding whereby the minimum wage is increased while funding is not.
122. E tū has seen no evidence that a 50c increase to the minimum wage has decreased employment nor impacted on the employment in the sectors which E tū organise. E tū submit that even doubling this increase would have had no effects.
123. The issue with moderate increases, such as 50c per hour, is that they are not based on a long term plan for wage levels and for addressing low pay. They appear to be simply a stop gap system that is about political appeasement at the time they are announced. The minimum wage increases would be more understandable if increases were targeted

at a goal such as raising productivity or moving to the living wage. The current issue is that moderate increases do not address the wider issues of income inequality, being able to live on such a wage or in the absence of a robust wage setting system ending up with more workers simply back to the minimum wage.

124. Workers should receive enough in their wage to be able to live a reasonable life without relying on a top up from the taxpayer by way of a government transfer. Acquiring these top ups can be confusing and difficult, particularly when a person has uncertain hours.
125. The starting-out wage has significantly disadvantaged young people in a discriminatory manner. There is little evidence that this measure has resulted in more work, or indeed that that most employers really want it. E tū strongly oppose any form of discrimination in pay rates that lowers those rates, whether on the basis of age, disability or jobs traditionally performed by women. There is more impact on Māori, Pacific Island and migrant families.
126. E tū considers that the process around consultation over the minimum wage is too narrow and that social justice and equity factors should be included in the setting of the minimum wage. Additionally, E tū considers that the government should ratify ILO Convention 131 on Minimum Wage fixing.

Foodstuffs

127. The main impact of an increase to the minimum wage is the increase in wage costs for the rest of the business. When the minimum wage increases, staff on wages above the minimum expect increases in line with the increase of the minimum wage. However, staff are generally pleased to get a pay rise and an increase to staff morale is evident. Increases to the minimum wage may have a detrimental effect on first time job seekers, those seeking a return to the workforce after a period of absence, and special needs employees. Foodstuffs employ a number of special needs workers but are reliant on government subsidisation to continue to do this. Supermarkets employ vulnerable workers, such as students and part-time caregivers, so care needs to be taken when considering the increase to the minimum wage.
128. Foodstuffs supports an extension to the starting-out wage beyond 6 months. A lot of young people need more than six months to gain the skills to be comparable to their fellow workers.
129. Foodstuffs supports a modest increase of 25c to the minimum wage. This would represent a 1.7 per cent increase which is in line with wage inflation (1.6 per cent) and well above the Consumers Price Index (0.4 per cent).

New Zealand Chamber of Commerce (NZCC)

130. The NZCC conducted a survey of its members which received 390 responses. More than 50 per cent of respondents indicated they had no employees on the minimum wage. Of those with minimum wage employees many are paid the minimum wage for only the first 6 to 12 months, many of whom are on short term contracts, or are students. Sixty per cent of employers indicated that all wages were adjusted to reflect minimum wage increases while 40 per cent indicated that only those close to the minimum wage would have a pay increase in line with the minimum wage. Seventy-five per cent of businesses

encourage minimum wage staff to undertake training and support government giving greater emphasis to linking training allowances to those on the minimum wage entitlement.

131. NZCC strongly recommends that the government uses the minimum wage for what it is meant to be and not turn it into a living wage which is a subjective amount. There needs to be a balance maintained to ensure the increase to the minimum wage does not fuel a demand for increases across the board, but at the same time delivers on its statutory responsibility to protect the real incomes of low paid people from employment impacts.
132. The NZCC supports an increase to the minimum wage of between 25c and 75c per hour.

Progressive Enterprises

133. Progressive Enterprises supports an increase to the minimum wage to \$15.00. This is an increase of 1.7 per cent and is lower than the negotiated wage increase paid to their employees covered by collective agreements. These employees are paid at least \$16.00 per hour, even those who are starting out and youth progress to this rate after either completing 200 hours or three months service.
134. Generally speaking, wage growth drives customer confidence and spending. This is generally positive for retail businesses.

Horticulture New Zealand

135. Wage costs are the most significant cost for horticulture businesses making up about 40 per cent to 60 per cent of total costs. Since 2011 the number of grower members has reduced from 7000 to 5500 with many exiting the industry owing to rising costs. Horticulture NZ sees no positive impacts from an increase to the minimum wage. Most workers are paid based on their productivity, with some taking the view that regardless of their productivity they will at least be paid the minimum wage. This is becoming more of a problem as the minimum wage increases. Horticulture NZ employs a significant number of young, semi-retired and part-time (often women) workers. It is in the interest of the local community and national economy that these people are employed but, as costs increase this is becoming more difficult. Horticulture NZ recommends a nil increase to the minimum wage for 2016.

NARGON: The Grocery Retailers' Association

136. NARGON supports Business NZ's submission, in particular: allowing the minimum wage to fall in comparison to the average wage; the government should continue its growing focus on increased access to training and employment opportunities; the government should consider tax cuts rather than increasing the minimum wage; that the minimum wage should be an average rather than an hourly rate.
137. Impacts of the minimum wage indicated by NARGON members included: reduction in staff/staff hours, delaying maintenance, cutting training, reduction or cancellation of employee rewards, and less general stock holding.

- 138. Positive effects of minimum wage increases were increases in consumer spending; most staff will receive pay increases in line with minimum wage increase. On average 30 per cent of workers are directly affected by the minimum wage.
- 139. Negative comments were — increase of costs; no longer hiring staff above the minimum wage; it places pressure on business to cover increases that are not met with increases in productivity; difference in pay of senior and junior staff decreases; increased costs for business in highly competitive market; and that many members' stores had to reduce staff hours or not replace leaving staff placing additional pressure on existing staff.

Federated Farmers

- 140. Federated Farmers support the use of the minimum wage to protect vulnerable workers but note that it should not be used as a means of increasing wages overall. There are concerns the minimum wage is at such a level that it is increasingly affecting the wages of workers who are not vulnerable. The minimum wage has increased substantially with a 46 per cent increase in the real value since 1999.
- 141. On average the agricultural sector is well above minimum wage levels with the lowest paid employees averaging \$17.99. Owing to this, an increase in the minimum wage will not directly affect farm workers but, farmers note that staff expect pay increases in line with the minimum wage placing pressure on farmers to pay more. Farmers are already struggling with lower milk prices resulting in culling stock and reducing overheads. There is a low level of skill in the industry meaning farmers want to retain staff while placing pressure on farmers as wage costs increase while income is decreasing. Of further concern is the near certain occurrence of a strong El Niño over the coming months placing further pressure on farmers as potential drought hits.
- 142. Farmers are also moving to wages rather than salaries as farm work often requires many hours to be worked over busy times with less hours worked in the off season. Salaries will work out to be above minimum wage over the year, however, the Minimum Wage Act only allows wages to be averaged over a two week period. While this will not increase costs for farmers it will make earnings less certain for workers.
- 143. Federated Farmers support a nil increase to the minimum wage for 2016.

Retail New Zealand

- 144. Previous minimum wage increases have put additional pressure on margins without realising any gains in productivity. As the minimum wage has increased, Retail NZ have noticed a trend towards more mature staff with better skills and experience being employed in minimum wage positions. This means that 18 year olds with no work experience are now competing directly with more experienced staff for minimum wage positions. However, it is hoped that increases to the minimum wage will encourage employees to stay longer in their jobs.
- 145. Retail is a low margin business and there are no signs that productivity is increasing due to minimum wage increases. Members suggest that effects from a minimum wage increase will be: laying off staff or reducing staff levels; increasing price of goods; reducing staff hours; and reducing investment in the business.

146. It would be preferable for the government to increase welfare assistance rather than increasing minimum wages and making small business pay. Minimum wages are not and should not be a social initiative.
147. Retail New Zealand maintains that the minimum wage should remain at \$14.75 for 2016.

McDonald's New Zealand

148. McDonald's operates a low margin high turnover business, with labour representing a significant percentage of costs. Therefore, the most obvious impact as a result of changes to the minimum wage over the last five years is the increase to operating costs. One of the only levers available to restaurants to control costs is the amount of labour in restaurants. Therefore, increases to the minimum wage rate can have negative impacts on staffing levels in restaurants which can also lead to customer dissatisfaction. The next most obvious model to continue to be sustainable and profitable is to increase the prices of goods. However, McDonald's customers are extremely sensitive to price, and therefore changes must be carefully considered. McDonald's also increases pay rates for those who are paid above the minimum wage. This does however, lead to compression of wage rates. Finally, increases in pay based on the minimum wage are not based on merit leading to a disincentive for training and progression.
149. McDonald's formally works with Work and Income New Zealand to place long term unemployed people in work. Additionally, McDonald's is many people's first job. Therefore, McDonald's takes a degree of risk in hiring people and investing in their training. McDonald's has not used youth rates since 2008.
150. McDonald's supports an increase in the minimum wage to \$15, which is in line with inflation, as opposed to last year's 3.5 per cent increase. Continual increases in the minimum wage rate limit a company's ability to distribute increases based on skill and experience levels as increases are guaranteed each year with the minimum wage. It is also difficult for businesses to plan for the year ahead when it is unclear what the minimum wage will increase to.

Otago Chambers of Commerce

151. The Otago Chamber of Commerce supports NZCC's submission. It strongly supports the need to ensure that the minimum wage does not fuel demand for wage increases across the board, but at the same time delivers on its statutory responsibility to protect real incomes from low paid employment impacts. It would not like to see the chain effect of rushed decisions to mean a loss of employment, reduced hours, or closure of business.

First Union

152. First Union supports the NZCTU's submission on the minimum wage and advocates an increase of the minimum wage rate to \$19.46 per hour. First Union's second preference is to increase the minimum wage over three years to a point that is 66 per cent of the average wage.
153. First Union notes that there is no clear evidence that increases to the minimum wage have negative effects on employment. They contend that the majority of studies suggest that an increase to the minimum wage will have minimal effects on employment levels

with most studies suggesting employment effects will be around zero. Additionally, First Union is unconvinced by the model used by MBIE to forecast expected employment outcomes. They are concerned the forecasts will be misused heightening fears of greater unemployment.

154. First Union is concerned about the objective for the minimum wage of 'keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses'. This makes two wrong assumptions: first, it assumes the current level of minimum wage is adequate; second, that increasing the minimum wage leads to job losses. First Union is also concerned at MBIE's assertion that minimum wage is not effective in tackling poverty. This assumes that poverty is not the fault of low paying employers. First Union support the NZCTU's position that the starting-out wage should be removed immediately.
155. Enforcement of the minimum wage needs to be addressed. Many employers are still attempting to pay their staff below the minimum wage. An economic recession is a good reason to increase the minimum wage as it is an effective way of delivering an economic stimulus to the economy. This is because those on low incomes are more likely to spend any additional income. Evidence from the US suggests that increases to the minimum wage will increase tax revenue substantially.
156. Public money is also subsidising employers to pay low wages. If the increase in the minimum wage is too small this would mean employers would not pay as much as they can afford, meaning that workers will receive greater tax credits and other social assistance payments.
157. Student loan repayments place significant financial pressure on low wage workers. The low threshold of repayments means that even on the minimum wage and working part time, low pay workers will have to make a 12 per cent repayment to their student loan while not earning enough to live on.
158. Irregular and inconsistent work hours are becoming a major issue particularly when combined with low levels of minimum wage. One issue with this is that Inland Revenue calculate wages monthly for social assistance which can often lead to over estimating and therefore lower payments.
159. The minimum wage is an important tool for decreasing the gender pay gap. Many low pay jobs, for example in the retail sector, are staffed predominately by women. An increase to the minimum wage could help reduce the gender wage gap.

Stand Up Youth Union Movement

160. Stand Up supports the submission of the NZCTU. Stand Up supports the immediate rise in the minimum wage to the living wage of \$19.25. This is consistent with the view of the CTU to raise the minimum wage to 66 per cent of the average wage.
161. Stand Up opposes the starting-out wage and advocates for its removal. The starting-out rate, particularly in conjunction with the 90 day trial period, disproportionately affects young people. These policies indicate to young people that the work they do is not of equal value to that of adults.

- 162. Stand Up notes that there is a need for a minimum wage for people less than 16 years of age. This will provide better employment protections to young people in work.
- 163. The low level of minimum wage has driven people to accept unfair and uncertain working arrangements as they need the money. Workers then become dependent on additional hours and this can often lead to accepting shifts when it is potentially unsafe to do so.
- 164. A significant rise in the minimum wage is also needed to support those young people who are studying to allow them to have a healthy work/study/life balance.

New Zealand Nurses Organisation

- 165. NZNO supports the submission of the NZCTU.
- 166. Wages in New Zealand are low; work is increasingly insecure and precarious; income inequality has increased; and the benefits of increasing productivity have largely and iniquitously accrued to capital rather than wage earners. The minimum wage can help to address the extreme and unjustified imbalance of power and wealth that has emerged as a result of global and demographic pressures and changes in the employment environment.
- 167. New Zealand should ratify ILO Convention 131 on minimum wage fixing which provides a modern and effective framework for consultation on wage fixing and should index the minimum wage to 66 per cent of the average wage.
- 168. Minimum hourly rates are more meaningful when the common understanding is that a working week is 40 hours. This is no longer the case with one hour per week being considered employed by Statistics NZ and 30 to 35 hours per week being considered full time in many instances in New Zealand.
- 169. The NZNO also advocates for the removal of the starting-out wage and note the continued inaction regarding minimum wages for those under 16 years.
- 170. Enforcement is an issue. There is no point in having minimum wages if there is no mechanism for enforcing it. Robust inspection and enforcement is needed to ensure businesses are complying with the law. Additionally, penalties need to be increased for those found to be in breach.

Public Service Association (PSA)

- 171. The PSA has several thousand members employed at or just above the minimum wage, mainly working for community organisations on programmes funded by the government. Most of these people care for the most vulnerable people in our society.
- 172. The PSA endorses the submission of the NZCTU.
- 173. When the minimum wage is increased often the level of funding for community organisations funded by government is not. In one case this led to a \$800,000 short fall for one provider. Owing to this providers can generally not afford to maintain fair relativities for what are highly skilled and responsible service jobs. This is particularly the case for the disability care sector where employees are paid for sleepover time. In this

situation the employees it affects will welcome the increase in wages while the funding will not increase.

174. The minimum wage is one of the main drivers of pay increases in the low paid sector. Because of this, a significant increase is needed rather than a moderate one. Effects on social assistance benefits should not be a reason to not increase the minimum wage. However, it is important that if the minimum wage is increased the threshold for social assistance is also increased to ensure people maintain the assistance they need.
175. The workforce who work in this low paid sector are disproportionately Māori and Pacifica and predominately women, less educated and likely to be older in age.
176. Another concern is the apparent gender pay gap. Compared to therapy assistants and corrections officers disability support workers are paid 22 per cent and 52 per cent less respectively. This shows the extent of the gender pay gap and that Government funded disability support workers are likely to be lower paid than comparable skilled jobs in the state sector.
177. The PSA recommends an increase of the minimum wage to two thirds of the average wage. This would result in a minimum wage of \$19.34. This is slightly higher than the living wage at \$19.25. The minimum wage should be a living wage so it is good that they are closely aligned.

Home & Community Health Association (HCHA)

178. HCHA support a nil increase to the minimum wage. It would support a 50c increase provided the costs of that increase were directly met through increased funding. Unfunded minimum wage increases have been the primary financial pressure on the home help sector over the last seven years and the cumulative effect of this underfunding is bankrupting the sector. A report commissioned by HCHA found that minimum wage increases have not been met by increases to funding by a substantial amount. The result has been that providers have been struggling with negative margins for the past three years. In 2014, four out of six providers responded to a survey reporting negative earnings before interest and tax. An increase of 50c to the minimum wage equates to a 3.5 per cent increase in funding that is needed. In the past three years DHB funding increases have been at or below one per cent. The gap means that providers must meet between 45c and 51c on every contract hour from their overheads budget. As there is no contract margin the majority of workers must remain on the minimum wage. The HCHA submits that they can honestly not support any increase in the minimum wage.

National Council of Women of New Zealand (NCWNZ)

179. The NCWNZ supports the realisation of the living wage, currently at \$19.25. The review of the minimum wage should pay particular attention to: poverty, particularly child poverty; the growth of insecure work; the gender pay gap; and weakening of legislative employment protections.
180. The NCWNZ notes that the questionnaire refers to a moderate increase in the minimum wage. However, to date, moderate increases have had no effect on the issues listed above. NCWNZ is aware of concerns that a more than moderate increase to the

minimum wage will have a negative impact on employment. However, they do reiterate that there is no conclusive evidence to support that concern. A recent comprehensive review of the minimum wage research confirms that position.

181. The minimum wage should be part of an integrated policy approach to address low pay and inequality, with other linked interventions such as equal pay; employment legislation that enables collective bargaining and provides adequate protection for vulnerable workers which includes robust compliance mechanisms; a progressive taxation system; Working for Families; and other social welfare interventions.

Living Wage Aotearoa

182. An increase of the minimum wage to the living wage would assist many New Zealand families who currently live below the poverty threshold. It is estimated that 270,000 children live in poverty in New Zealand. Of those two in five live in a house-hold with at least one person working full time or self-employed.
183. Higher wages will increase savings for government due to less reliance on social assistance and in work benefits. While it is crucial to support low paid workers and their families, it seems important to ensure that the labour market and wage rates are working efficiently for all, not just business.
184. A study conducted in the UK showed that businesses that paid a living wage saw significantly lower rates of staff turnover, leading to substantial savings on recruitment and training. Similarly, when the minimum wage is set at a reasonable level, we will see lower turnover and therefore improved labour market productivity.

Child Poverty Action Group (CPAG)

185. CPAG support a 10 per cent increase to the minimum wage in 2016 in addition to a 10 per cent increase to the starting-out wage. The minimum wage needs to increase to reflect productivity growth which has not been reflected in growth in wages.
186. An increase to the minimum wage is needed to increase labour's share of national income. Recent research shows that this has decreased 8.5 percentage points since 1978.
187. The minimum wage acts as a floor and in many occupations it is the only pay rise people will receive.
188. An increase will benefit disadvantaged groups such as Māori, Pacific people and those without formal qualifications.
189. An increase will assist students who work part-time with the additional cost of education. Research indicates that around 60 per cent of workers earning the minimum wage aged between 16 and 24 years are studying. For many years tertiary fees have risen above inflation resulting in an increase in student debt.

Young Workers Resource Centre (YWRC)

190. The YWRC supports an immediate increase in the minimum wage to the living wage rate — \$19.25. Alternatively, the YWRC would support a progressive increase over three years to \$21.04 by 1 April 2018.
191. A report by the UK Low Pay Commission (2014) found that the labour market has a tendency to adapt to any potential negative effects of raising the minimum wage. Higher minimum wages will provide low paid workers with more income and as a consequence provide more income for government in the form of taxes. Minimum wage legislation is the primary mechanism for establishing a reasonable wage floor, especially considering the deteriorating position of centralised bargaining agreements made worse by the Employment Relations Amendment Act 2014.
192. Young workers are disproportionately affected by minimum wages therefore any increase will significantly benefit young workers. This is particularly true for students who are currently needing to increase hours of part time work to meet rising study and living costs.
193. The YWRC advocates that the starting-out wage needs to be removed and that the full minimum wage apply to all those aged over 16 years. According to MBIE's National Survey of Employers 2013/2014 only three per cent of employers used the starting-out wage with only five per cent using the training wage. This suggests that these wage levels have had a low buy in from employers and any improvements to youth employment have been minimal. When combined with the 90 day trial the starting-out wage allows unscrupulous employers to exploit young workers as cheap labour.

Office of the Children's Commissioner (OCC)

194. Increasing wages for low income earners is one vital way to address poverty and inequality, but minimum wage policy must be part of the wider system of transfers to families to be effective. The OCC suggests that a number of additional factors should be included in the review in determining the minimum wage rate. The effect that the minimum wage has on children should be considered. Policies related to employment and wages often have limited consideration for children, however, those wages support the families those children live in. When the minimum wage is increased other income based subsidies also need to be increased to ensure that people do not miss out on essential social assistance.
195. Changes to the minimum wage are unlikely to help many low income families for two reasons. First, the net impact on families with children will be low as it is offset by reductions in other tax credits and subsidies. Second, the majority of working families are not on the minimum wage, and many minimum wage workers do not live in poor households. Owing to this, changes need to be made across a number of policy settings to increase the real incomes of low paid workers.

Equal Employment Opportunities Commissioner

196. The Human Rights Commission strongly supports raising the minimum wage so that workers are able to receive a decent living for themselves and their families. The Commission also supports a living wage. Data received by the Human Rights Commission showed that inequality at work existed against each indicator used for measurement. This also indicated that the most disparate were women, Māori, Pacific people, disabled

and youth. Significantly, the data suggests that 66 per cent of minimum wage workers are women. The minimum wage needs to be increased to ensure these groups do not continue to be left behind.

IHC

197. The rate of increase to the minimum wage over the last five years has been greater than increases to wages. This has meant that the margin between the minimum wage and IHC's lowest rate has reduced from 12.5 per cent to 6.9 per cent (April 2010 to April 2015). IHC estimates that an increase of 50c will reduce this margin to 5.2 per cent. The lesser margin means that more employees are competing for the same available people with less ability to offer a significant wage advantage. It is likely that with a minimum wage increase people with disabilities will receive a pay increase, although they may also find it harder to become employed. However, it will become much harder to fund the IHC's operations particularly with the sleepover rate being the minimum wage. Funding for sleepover rates is critical for IHC.
198. IHC supports an increase of the minimum wage to \$15 per hour. Anything further will further erode IHC's margin of the lowest rate against the minimum wage.

MBIE response to submissions

199. There were a number of consistent issues raised in the submissions received. These are outlined, along with a response, in the table below.

Table 24: MBIE response to issues raised in the consultation

Issue	MBIE response
Some submissions proposed a minimum wage rate higher, and in many cases a lot higher, than the recommended option (for instance at the rate proposed as a 'living wage').	MBIE modelling estimates that options higher than that recommended would have negative employment effects, and are most likely to impact on some demographic groups, such as Maori, Pacific people, and youth.
Some submissions proposed no change to the minimum wage, or a rate lower than recommended.	A lower minimum wage increase would see the real incomes of low income workers decrease compared to wage growth and in some cases inflation.
Some submissions raised concerns that there will be fewer jobs as a result of minimum wage increases.	MBIE has recommended a minimum wage increase that, according to its modelling, will produce no constraint on employment growth.
Some submission raised concerns that with a minimum wage increase employers will be required to cut costs elsewhere, such as their training and development budgets.	MBIE acknowledges that increased labour costs as a result of minimum wage increases may result in businesses spending less in other areas. However, a minimum wage increase that is not too disparate from either the inflation rate or wage growth, means that these costs are not disproportionate to other business cost increases.
Some submission raised concerns that wages above minimum wage level will be affected by a minimum wage increase.	MBIE notes that it is widely considered that increases in the minimum wage rate may cause wage compression at the lower end of the wage distribution. However where increases are not disparate from wage growth generally, there is unlikely to be a significant impact on wages above the minimum wage, or significant wage compression.

Issue	MBIE response
Some submissions advocated a change to the minimum wage as a way to reduce the gender wage gap.	MBIE modelling indicates that moderate increases to the minimum wage rate are unlikely to significantly affect the current gender pay gap. A large increase is not recommended because of the resulting impact on employment growth, which is likely to disproportionately impact on women who are more likely to be minimum wage workers.
Some submissions advocated an increase to the minimum wage as a way to reduce income inequality for groups such as Maori, Pacific people, and youth.	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 with people of European descent. However, Maori and Pacific people are also more likely to be affected by any adverse impacts of a higher minimum wage, such as 'disemployment' effects.

Agency comments

200. MBIE has consulted with the following ministries and agencies on the Minimum Wage review: the Treasury, Ministry of Education, Ministry of Health, Ministry of Pacific Peoples, Ministry of Social Development, Te Puni Kōkiri, Ministry for Women, Accident Compensation Corporation and Inland Revenue. The Department of the Prime Minister and Cabinet has been informed of the review.
201. The Ministry of Health advises that an increase above \$15.50 would incur significant financial pressure on the health budget to deal with the increases to personnel costs, particularly in the aged care and disability support services sector. Such increases would not be affordable under current Vote Health appropriations. Some agencies did not provide comment and some endorsed the preferred option.
202. The Ministry for Women has indicated support for either option 3 (recommended option), or option 4 (\$15.50). The Ministry for Pacific Peoples has also indicated support for the recommended option.
203. Treasury has provided the following commentary:

The Treasury acknowledges that a small increase in the minimum wage is likely to have minimal impact on inflation and on overall levels of employment. However, there is a case for maintaining the minimum wage at the current rate.

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.

CONCLUSIONS AND RECOMMENDATIONS

Summary of the assessment

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

- Increased earnings for minimum wage workers (although net household income is also affected by other government interventions, such as taxation and abatement for those receiving income support and tax credits) and potentially flow-on impacts for other workers earning close to the minimum wage.
- Increased labour costs for employers, especially for those industries that employ a large number of minimum wage workers such as retail and hospitality. This could result in greater inflation pressure. An increase in the minimum wage will also have a fiscal impact on the state sector, mainly the Ministries of Education, Health and Social Development and the Accident Compensation Corporation (ACC).
- Negative employment effects, including lower job growth and reduced hours, particularly from a significant rise in the level of the minimum wage. The extent of these effects will depend on the size of the wage increase and the economic and labour market context in which it occurs, and are most likely to impact on some demographic groups, such as youth and Māori/Pacific.
- While MBIE's modelling and recommended rate suggests there should be no net 'disemployment' with the increase, there remains the possibility of other 'disemployment' effects taking place. For example, over time the mix of staff employed by businesses, away from less experienced or less skilled workers. A higher minimum wage may also increase insider-outsider effects, with higher wages for those in work and worse outcomes for those left unable to find work.

206. The 2015 minimum wage review provides an assessment of the options for change to the minimum wage from April 2016, taking into account inflation, wage growth, restraint on employment and other relevant factors.

Option 1 (\$14.75 per hour)

207. Option 1 is the current adult minimum wage rate. This option would erode the real value of the minimum wage paid to about 74,900 workers. It would not constrain employment growth. There would be no impact on national weekly wage earnings or inflation. It would have no fiscal cost.

Option 2 (\$15.00 per hour)

208. This option represents a 1.69 per cent increase to the minimum wage. Examples of the impact on the actual incomes of minimum wage workers are:

- A full time worker receiving no tax credits or other income support would receive \$600 gross per week (up from \$590). Their net weekly income would increase by \$8.05 from \$497.09 to \$505.14 (1.61 per cent)
- A single full time worker with two dependents receiving working for families support would see their net weekly income increase by \$8.05 from \$714.27 to \$722.32 (1.11 per cent)

- A single worker who works 30 hours per week and has two dependents would see their net weekly income increase by \$6.08 from \$594.66 to \$600.74 (1.02 per cent).

209. This option could directly affect up to 85,500 workers. It could increase annual economy-wide wages by \$25 million. However it would not constrain employment growth, and would not affect inflation. It would have an annual fiscal cost of \$8.79 million.

Option 3 (\$15.25 per hour) — *recommended option*

210. This option represents a 3.38 per cent increase to the minimum wage. Examples of the impact on the actual incomes of minimum wage workers are:

- A full time worker receiving no tax credits or other income support would receive \$610 gross per week (up from \$590). Their net weekly income would increase by \$16.17 from \$497.09 to \$513.26 (3.25 per cent)
- A single full time worker with two dependents receiving working for families support would see their net weekly income increase by \$16.17 from \$714.27 to \$730.44 (2.21 per cent)
- A single worker who works 30 hours per week and has two dependents would see their net weekly income increase by \$12.16 from \$594.66 to \$606.82 (2.04 per cent).

211. This option could directly affect up to 152,700 workers. It could increase annual economy-wide wages by \$75 million. However it would not constrain employment growth, and would not affect inflation. It would have an annual fiscal cost of \$22.82 million

Option 4 (\$15.50 per hour)

212. This option represents a 5.08 per cent increase to the minimum wage. Examples of the impact on the actual incomes of minimum wage workers are:

- A full time worker receiving no tax credits or other income support would receive \$620 gross per week (up from \$590). Their net weekly income would increase by \$23.92 from \$497.09 to \$521.01 (4.81 per cent)
- A single full time worker with two dependents receiving working for families support would see their net weekly income increase by \$23.92 from \$714.27 to \$738.53 (3.28 per cent)
- A single worker who works 30 hours per week and has two dependents would see their net weekly income increase by \$18.24 from \$594.66 to \$612.90 (3.06 per cent).

213. This option could directly affect up to 173,300 workers. It could increase annual economy-wide wages by \$132 million. However it would constrain employment growth by an estimated 2,200 jobs, but would not affect inflation. It would have an annual fiscal cost of \$37.97 million.

Option 5 (\$16.05 per hour)

214. This option represents an 8.81 per cent increase to the minimum wage. Examples of the impact on the actual incomes of minimum wage workers are:

- A full time worker receiving no tax credits or other income support would receive \$642 gross per week (up from \$590). Their net weekly income would increase by \$42.10 from \$497.09 to \$539.19 (8.47 per cent)
- A single full time worker with two dependents receiving working for families support would see their net weekly income increase by \$42.10 from \$714.27 to \$756.37 (5.89 per cent)
- A single worker who works 30 hours per week and has two dependents would see their net weekly income increase by \$31.61 from \$594.66 to \$626.27 (5.31 per cent).

215. This option could directly affect up to 267,200 workers. It could increase annual economy-wide wages by \$304 million. However it would constrain employment growth by an estimated 5,500 jobs, and would affect inflation by 0.1 per cent. It would have an annual fiscal cost of \$86.61 million.

Option 6 (\$19.25 per hour)

216. This option represents a 30.5 per cent increase to the minimum wage. Examples of the impact on the actual incomes of minimum wage workers are:

- A full time worker receiving no tax credits or other income support would receive \$770 gross per week (up from \$590). Their net weekly income would increase by \$145.84 from \$497.09 to \$642.93 (29.33 per cent)
- A single full time worker with two dependents receiving working for families support would see their net weekly income increase by \$130.75 from \$714.27 to \$845.02 (18.30 per cent)
- A single worker who works 30 hours per week and has two dependents would see their net weekly income increase by \$109.28 from \$594.66 to \$703.94 (18.37 per cent).

217. This option could directly affect up to 555,900 workers. It could increase annual economy-wide wages by \$2,379 million. However it would constrain employment growth by an estimated 28,000 jobs, and would affect inflation by 0.8 per cent. It would have an annual fiscal cost of \$555.74²⁴ million.

²⁴ 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 \$19.25. This figure should also be considered alongside the \$1.1 billion increase to ACC's Outstanding Claims Liability which would result in higher ACC levies.

Recommendation from MBIE

218. Setting the minimum wage requires balancing the benefits of any changes, such as the protection of the lowest paid, against the costs that any changes might bring, such as employment impacts.
219. Given the current economic climate, MBIE recommends a modest increase to the minimum wage, to increase the real income of the lowest paid workers, without constraining employment growth.
220. The option that best aligns with this approach is option 3 (\$15.25). This option increases the minimum wage by 3.4 per cent, which is significantly higher than the rate of inflation (0.4 per cent), and approaching the increase in annual median hourly earnings (3.8 per cent). The real incomes of minimum wage workers are affected by a range of factors such as tax credits. It is expected that most workers will receive an increase near, or slightly above, the rate of increase to average ordinary time hourly earnings of 2.3 per cent. Importantly, this option will not constrain employment growth. This option is preferred over other options because:
- A lower (or no) increase (options 1 or 2) would see the real incomes of the lowest paid workers decrease compared to wage growth (options 1 and 2) 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 wage growth. While only options 5 and 6 would have an effect on inflation, all three options would constrain employment growth.
221. MBIE also recommends maintaining the starting-out and training minimum wages at 80 per cent of the adult minimum wage. A differential between these rates and the adult minimum wage rate 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 per cent of the adult minimum wage.

IMPLEMENTATION

222. Changes to the minimum wage rates will be implemented through an Order in Council. Historically, changes in the minimum wage rates occur on or before 1 April of each year.
223. 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.
224. Some employers may choose not to comply with minimum wage legislation or delay their compliance with an increase in the minimum wage. MBIE will continue to support sustainable compliance through education, engagement and enforcement. The labour inspectors have a range of enforcement tools for responding to non-compliance.
225. The table below sets out the number of breaches of the Minimum Wage Act 1983 that have required enforcement action, and the total number of breaches that were investigated.

INVESTIGATION OUTCOME	2012-13	2013-14	2014-15	2015-16*	Grand Total
Breaches, for enforcement action	21	51	68	36	176
Total investigations with breach	101	111	97	47	356

MONITORING, EVALUATION AND REVIEW

226. 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 of each year.
227. 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 minimum wage change and provide advice on whether the objectives of the minimum wage are met and whether further mechanism changes are needed to the responsible Minister to fulfil the obligation.
228. When the starting-out wage was introduced, Cabinet directed MBIE to undertake a post-implementation review to be completed by November 2016. A report of the review will be presented to the Minister of Finance and the Minister for Workplace Relations and Safety.

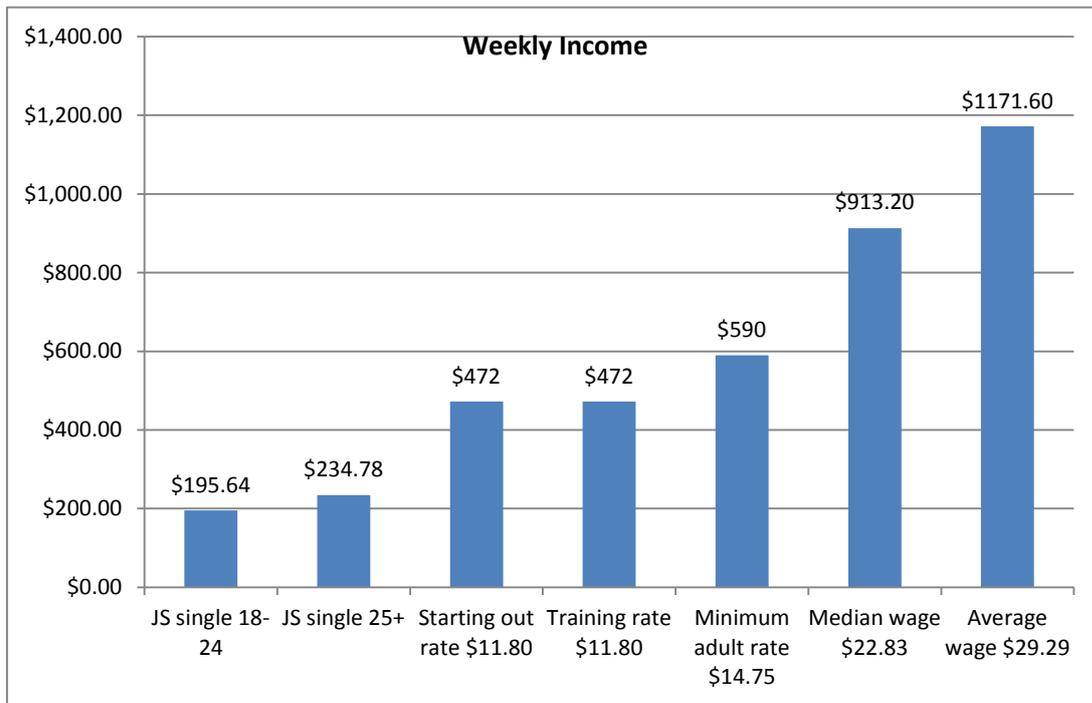
ANNEX ONE: DETAILED BREAKDOWNS

The current minimum wage rates

The current minimum wage rate compared with other income benchmarks

1. Compared with other income benchmarks, the minimum wage rate is more than twice the effective rate for a single adult on Jobseeker Support²⁵ (Jobseeker Support (JS) in Figure 1 is calculated to be \$4.89 per hour for a single adult aged 18-24 years). It is 10 per cent lower than the average minimum weekly adult wage in collective agreements, which is \$657 per week (\$16.43 per hour for a 40 hours week).²⁶
2. Figure 1 provides a detailed breakdown of the minimum wage versus other key income benchmarks. All figures are calculated as gross income for a 40-hour week.

Figure 2: Minimum wages compared with other income benchmarks



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

²⁵ The Jobseeker Support (JS) 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.

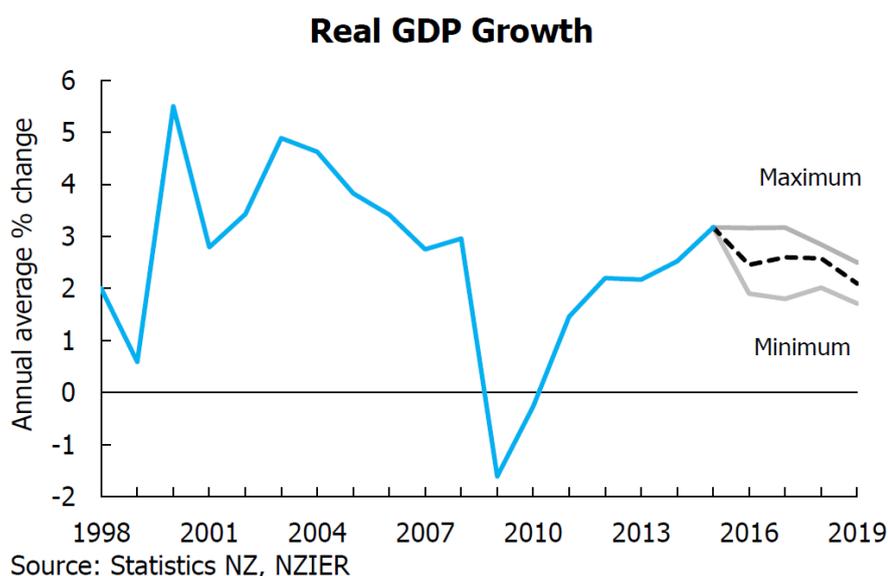
²⁶ Blumenfeld, S., Ryall, S. and Kiely, P. (2015), *Employment Agreements: Bargaining Trends & Employment Law Update 2014/2015*, Victoria University of Wellington. The average annualised wage increment across all collective agreements in each of the last two year is 1.6 per cent.

International comparisons

Current economic growth and labour market conditions

- Figure 3 shows the history of GDP growth from 1998 onwards, and forecasts of GDP growth through to 2019, as estimated by the Consensus Forecasts compiled by the New Zealand Institute of Economic Research (NZIER). Economic growth is forecast to moderate from 3.3 per cent in 2015 to 2.5 per cent and 2.6 per cent in the following two years.

Figure 3: Forecasts of real GDP growth

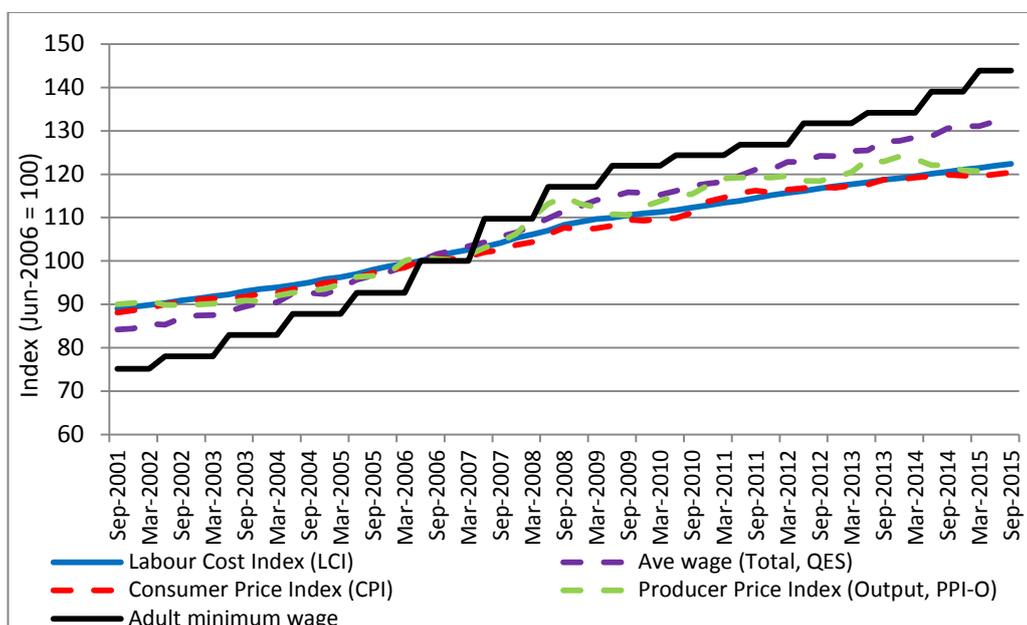


- Data from the September 2015 quarter of the Labour Market Statistics indicated that a slowing economy is translating into a weaker labour market. Total employment increased by 34,000 between September 2014 and September 2015, while the growth in employment between September 2013 and September 2014 was 71,000. This equates to a 1.5 per cent rise in the year to the September 2015 quarter (down from a 3.2 per cent rise in the year to September 2014 year to the September 2015 quarter) — the lowest annual increase since 2012. Employment declined by 11,000 over the most recent quarter, a 0.4 per cent decrease.
- The employment rate declined for the year to 64.5 per cent (-0.5 change) and labour force participation declined to 68.6 per cent (-0.2 change).

Recent changes in the minimum wage

- In general, the minimum wage rate increases each year. Table 3 in the RIS illustrates the magnitude of those changes. Between 2000 and 2008, the minimum wage rate increased at a faster rate than general wages (as measured by the Labour Cost Index or QES) and general prices (as measured by the CPI). From 2009 to 2011 the rate of increase has been more in line with price inflation, and increases from 2012 have been at a faster rate than price inflation. The faster rate of increases is due to the very low price inflation rate. Figure 4 shows increases in the minimum wage rate compared with various measurements of inflation over the past 14 years.

Figure 4: Increases in the minimum wage compared with various measurements of inflation



Impacts on minimum wage workers

Young people

7. Minimum wage increases can be expected to have two offsetting impacts on young people. Those who remain in work may see an increase in their wages. However, some people might lose their jobs or not gain employment due to the dis-employment effect of increases to the minimum wage. Young people who do not successfully transition into employment, particularly those with low skills and prolonged spells of inactivity, are at risk of low employability over the long-term.
8. Young people tend to earn less than older employees due to their lack of work experience and lower stage in career development. For example, almost all teenagers and the majority of people in their twenties earn less than \$19.25 per hour. Over 59 per cent (down from 61.6 per cent in the previous year) of those earning the minimum wage are between 16 and 24 years of age, while the same age group accounts for approximately 17 per cent (up 0.9 per cent from the previous year) of total wage workers. However, most young people do not remain in minimum wage jobs long term. They move on to higher paying jobs as they gain skills and work experience.
9. 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.²⁷ The study found that the new entrants' minimum wage was largely not used by businesses and that firms generally paid the majority of 16 and 17 year old workers the adult minimum wage.
10. The policy change effectively resulted in a minimum wage increase for 16 and 17 year olds, leading to a rise in average hourly earnings of 8.5 per cent in 2008 for this group. As a result, the minimum wage increase lowered the proportion of 16 and 17 year olds

²⁷ Hyslop and Stillman, (2011).

in employment by between 3 and 6 per cent (4,500-9,000 jobs), which accounted for between 20 and 40 per cent of the fall in the proportion of 16 and 17 year olds in work between 2008 and 2010. However, the jobs that were lost by 16 and 17 year olds were generally taken up by people aged 18 and 19 years.

11. As mentioned in the RIS, Cabinet directed MBIE to undertake a post-implementation review of the Starting-out minimum wage to be completed by November 2016. A report of the review will be presented to the Minister of Finance and the Minister for Workplace Relations and Safety.
12. Table 11 shows a much larger number of 16 to 17 year olds will be affected by increases in the minimum wage because very few young people are paid the starting-out wage.

Table 25: Estimated affected young workers (16 - 17 years)

Option	Paid at starting-out wage rate		Option	Paid at adult minimum wage rate	
	%	Number		%	Number
\$11.80	S	S	\$14.75	30.1	12,500
\$12.00	S	S	\$15.00	32.4	13,500
\$12.20	4.4	1,800	\$15.25	46.9	19,500
\$12.40	4.5	1,900	\$15.50	48.8	20,300
\$12.84	5.3	2,200	\$16.05	57.8	24,000
\$15.40	63.6	26,400	\$19.25	66.9	27,800

Source: New Zealand Income Survey 2015

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

Women

229. Women are more likely than men to be affected by any changes to the minimum wage rate as they tend to be overrepresented in low paid jobs (for example part-time and service sector jobs). Just over half of all minimum wage workers are women, and 67 per cent (up 0.4 per cent from the previous year) of minimum wage workers aged between 25 and 64 years are women. In comparison, just under half of the total workforce is women.
230. Small to moderate increases to the minimum wage rate are unlikely to significantly affect the current gender pay gap. The table below sets out the estimated reduction in the gender pay gap at each option.

Table 26: Percentage change in gender pay gap at each minimum wage option

Minimum Wage option		% reduction in gender pay gap
Option 2	\$15.00	0.02%
Option 3	\$15.25	0.05%
Option 4	\$15.50	0.08%
Option 5	\$16.05	0.18%
Option 6	\$19.25	1.18%

Māori and Pacific peoples

13. 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 with people of European descent. Interestingly, in the modelling for this review Māori account for approximately 12.5 per cent (up 0.2 per cent from the previous year) of the total wage earners, and 17.6 per cent (up from 13.4 per cent in the previous year) of minimum wage earners. Pacific people account for around 5.4 per cent (up 0.4 per cent from the previous year) of total wage earners. The percentage of Pacific people earning the minimum wage is at 6.6 per cent (down 2.7 per cent from the previous year).
14. Māori people are more likely to be affected than other ethnic groups by any adverse impacts of a higher minimum wage. A report by Auckland University economist Gail Pacheco finds that Māori people who were earning the minimum wage experienced significant falls in their employment propensity and total weekly work hours when the minimum wage rate increased significantly.²⁸

Part-time workers

15. Any increase to the minimum wage will directly benefit a large proportion of low paid, part-time workers in terms of income level as 72.4 per cent (up 1.6 per cent from the previous year) of 16 to 24 year olds earning the minimum wage work part-time, while 45.3 per cent (down from 52 per cent in the previous year) of those aged 25 years and over earning the minimum wage work part-time. Nonetheless, as with all groups of workers paid the minimum wage, they might experience negative reactions to a minimum wage increase by employers, such as reducing hours and recruiting fewer people. A survey by the former Department of Labour in 2010 found that some employers change their hiring practices in reaction to the changes to minimum wage rates.²⁹

Students

231. Approximately 61.7 per cent (up 0.8 per cent from the previous year) of minimum wage workers aged 16 to 24 years are in study, compared with 12.3 per cent (up 1 per cent from the previous year) of total wage workers. Young workers in part-time minimum wage jobs who are studying are likely to move into higher paying, full-time jobs in the future.
16. A higher minimum wage rate may either encourage young people to enter the workforce (rather than continue in training or education) or encourage them to remain in study. The impact depends on the level of the minimum wage, the costs of education and the job opportunities available. Hyslop and Stillman's study cited above also found that the removal of the youth minimum wage in 2008 increased the proportion of 16 and 17 year olds participating in study, while the proportion looking for work

²⁸ Pacheco, G. (2011), Estimating Employment Impacts with Binding Minimum Wage Constraints, *The Economic Record* VOL. 87, No. 279, December, 2011, 587-602.

²⁹ Department of Labour (2012), Employers' attitudes and practice around the change to the minimum wage, Wellington.

(unemployed) or inactive did not increase following the rise in minimum wages (inactivity actually fell).

Impact on industries

17. The impact of a minimum wage change on industries depends on the number of minimum wage workers that the industry employs. Changes to the minimum wage impact on employees earning the minimum wage and may also have flow on effects on other employees' wages.
18. 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 groups are more likely to have staff on or near the minimum wage than employers in the professional/technical services and health and social services industries.³⁰ Employers typically also increase the wages of staff above the minimum wage when the minimum wage increases so the associated ripple effect has a significant impact on their businesses.
19. Some employers stated that regular increases to the minimum wage rate were useful for their internal wage-setting. The flow-on effect was also a consequence of employers benchmarking their wages to the minimum wage. Table 27 provides an indication of how different industries are expected to be affected by an increase to the minimum wage rate to \$15.25 per hour. For example, in the hospitality industry 30 per cent of workers are paid below \$15.25 and would be affected by such a minimum wage increase. Those workers affected account for 23.3 per cent of the hours worked (from total hours worked in the hospitality industry), and they account for 17.5 per cent of earnings (from total earnings made in the hospitality industry).

Table 27: Industries affected by \$15.25 option (by estimated workers aged 16 to 64 years)

Industry	Workers		Working Hours	Their Earnings
	% of workers in the workforce affected by \$15.25 option	Number of workers affected	% share of working hours of affected workers	% share of total earnings of affected workers
Agriculture	11.8	9,700	11.5	7.8
Mining	S	S	S	S
Manufacturing	7.4	17,500	6.4	3.4
Utilities	S	S	S	S
Construction	5.6	8,800	5.6	3.2
Wholesale	5.2	3,500	4.0	2.0
Retail	19.7	39,100	15.4	10.5
Hospitality	30.0	32,600	23.3	17.5
Transport and Storage	3.2	2,700	2.5	1.4

³⁰ Department of Labour (2012), Employers' perspectives - Part Two: The Minimum Wage System, Wellington.

Industry	Workers		Working Hours	Their Earnings
	% of workers in the workforce affected by \$15.25 option	Number of workers affected	% share of working hours of affected workers	% share of total earnings of affected workers
Information and Telecommunications	6.5	2,500	3.0	1.3
Finance	2.1	1,300	1.9	0.7
Real Estate	6.3	1,400	5.1	2.5
Professional services	2.7	3,900	1.8	0.7
Administrative services	16.2	10,100	14.8	9.9
Public administration	2.5	2,900	2.5	1.1
Education	4.2	7,500	2.4	1.3
Health	9.5	20,700	7.6	4.0
Arts & recreation	9.8	3,300	6.4	3.6
Other services	7.1	5,100	4.9	3.0
Total	9.1	173,000	6.9	3.6

Source: New Zealand Income Survey 2015

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

Impact on the state sector

20. MBIE has consulted with the Ministries of Education, Health and Social Development and the Accident Compensation Corporation who have provided high-level estimates of additional costs under each option.

Ministry of Education

21. In the Ministry of Education (MoE), a large proportion of the sector support staff (ground staff, caretaker and cleaners, support staff and untrained teachers) is low paid. Any change to the minimum wage rate will have a greater impact on the sector as costs are paid from individual schools' operating grants. Option 6 (\$19.25 per hour) would impact more staff across the whole MoE but not those under the teacher and principal collective agreements.

Ministry of Health

22. 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, they estimate that option 6 (\$19.25 per hour) would also have significant direct cost implications for District Health Boards (DHBs) and other health sector employers.
23. 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 increases to the minimum wage are likely to result in increased costs to these organisations and indirect funding implications through any resultant increase in the contract rates.

24. 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 rates comparative to the rest of the health sector. The only option that would have significant direct wage implications is \$19.25 per hour.
25. The Ministry of Health also advises that the overall implications for the public health sector for minimal to moderate increases to the minimum wage are moderate. An increase in the minimum wage to \$16.05 per hour or more would be difficult for the sector to absorb compared to an increase to \$15.00 or \$15.50 per hour.
26. 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 will shortly be enacted to reflect this settlement and while funding has been appropriated, cost pressure on providers and funders would result from additional increases in the minimum wage rate.

Ministry of Social Development

27. MSD advises that any 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 some entitled people who require temporary part-time help to complete domestic tasks (normally performed in their homes). By convention 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.

Accident Compensation Corporation

28. ACC funds Home and Community Support Services (HCSS) which includes attendant care (for example, personal care), 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 2014/15 financial year, approximately 22,000 clients received HCSS at an annual cost of \$205 million. Any increase in 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.
29. The \$19.25 option includes costs associated with both non-contracted and contracted providers as this level of increase would require an immediate increase to contracted rates.
30. 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 \$19.25 would result in a considerable increase in the OCL of approximately \$1.1 billion.

Alleviating poverty

31. As a minimum wage rate increase will not be able to significantly increase the net gain for those on benefits or working for limited hours, the Expert Advisory Group on Solutions to Child Poverty did not recommend raising the minimum wage rate as a solution to reducing poverty.³¹
32. In its submission to the review, the Office of the Children’s Commissioner (OCC) stated that increasing wages for low income earners is one way to address poverty and inequality, but minimum wage policy must be part of the wider system of transfers to families to be effective. The OCC suggests that a number of additional factors should be included in the review in determining the minimum wage rate. The effect minimum wage has on children should be considered. Policies related to employment and wages often have limited consideration for children, however, those wages support the families those children live in. When the minimum wage rate is increased other income based subsidies need to be increased to ensure that people do not miss out on essential social assistance.
33. The OCC added that changes to the minimum wage are unlikely to help many low income families for two reasons. First, the net impact on families with children will be low as it is offset by reductions in other tax credits and subsidies. Second, the majority of working families do not have members paid the minimum wage, and many minimum wage workers do not live in low income households. Owing to this, in the submitters views, changes need to be made across a number of policy settings to increase real incomes of low paid workers.

³¹ Children’s Commissioner (2012), Solutions to Child Poverty in New Zealand: evidence for action.