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Executive summary

1. This Minimum Wage Review report fulfils a statutory obligation under the *Minimum Wage Act 1983* (the Act) for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year.

2. The Government’s objective for the minimum wage review is ‘to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses’ (CAB Min (12) 41/5B refers). The factors that are agreed to be considered in each review are inflation (using the CPI), wage growth (using median wage as the indicator) and restraint on employment.

3. In 2012 Cabinet agreed to change the minimum wage review process to provide a streamlined process for three years, with the fourth year being a comprehensive process. Under this comprehensive process, the review must consider other relevant factors to those set for the streamlined process, and consult with a range of additional stakeholders. This year’s minimum wage review is the first comprehensive review since the change to the review process.

4. The current minimum wage rates are $14.75 per hour for adults and $11.80 per hour for starting-out workers and trainees. Minimum wages are paid to approximately 74,900 workers, making up approximately 3.2 per cent of all employees. Workers paid the minimum wage are disproportionately young people and those working part-time. Women, Māori and Pacific workers, people without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid the minimum wage than other groups of workers.

5. This year’s review takes place in a weaker economic climate, marked by slower economic growth and labour market performance. The Treasury predicts economic growth in the December 2015 quarter may fall below two per cent. This is lower than the *Budget Update* forecast of three per cent.¹ In the September 2015 quarter unemployment rose to 6 per cent and the number of people employed fell for the first time in three years to 64.5 per cent. However, there are some positive signs in the labour market. For example, even though the number of people employed fell in the September 2015 quarter, this was still up 1.5 percent for the September year. The number of filled jobs was also up at 1.7 per cent for the September year. It is also worth noting that net migration for October 2015 year was at 67,360.²

6. To fulfil the objective of the minimum wage review, the Ministry of Business, Innovation & Employment (MBIE) continues its practice of developing a range of options for the minimum wage rate and assessing the impacts of each option. This report analyses the impact of the options on wages and inflation, employment, workers paid the minimum wage, industries, the state sector, and the interface with other government interventions. Impacts of the options are summarised in Table 1.

7. In general, minimum wage increases can be expected to have the following impacts:

   - **Increased earnings for workers paid the minimum wage** (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.

---

¹ The Treasury, Monthly Economic Indicators (October 2015)
² Statistics New Zealand, International Travel and Migration: October 2015
• **Increased labour costs for employers**, especially for those industries that employ a large number of workers paid the minimum wage, such as retail and hospitality. This could result in **greater inflation pressure**. An increase in the minimum wage will also have a fiscal impact on the state sector, mainly the Ministries of Health, Social Development and Education and the Accident Compensation Corporation (ACC).

• **Negative employment effects**, including lower job growth and reduced hours, particularly from a significant rise in the level of the minimum wage. The extent of these effects will **depend on the size of the wage increase and the economic and labour market context** in which it occurs, and are most likely to impact on demographic groups such as young people, Māori and Pacific workers, and low-skilled workers.

8. This year’s consultation process invited 69 stakeholders, along with Business NZ and the New Zealand Council of Trade Unions, to make submissions on the annual minimum wage rate. Twenty-five stakeholders responded with submissions. MBIE met with Business NZ, the Small Business Development Group and the NZCTU and their affiliates to discuss their submissions.

9. Along with assessing the impacts of the various minimum wage rate increases, the comprehensive review must also consider a range of other relevant factors when recommending the minimum wage rate for the 2016/17 year. The relevant factors agreed to by the Minister for Workplace Relations and Safety are:

- labour productivity —the effect of minimum wage rate increases on wage levels, and whether changes to the minimum wage rate have kept up with labour productivity
- effects of minimum wage rate increases on social assistance received
- effects of minimum wage rate increases on business growth
- effects of minimum wage rate increases on the hours worked by employees
- effects of minimum wage rate increases on workers who are earning at a rate slightly higher than the minimum wage
- affordability for Government of changes to the minimum wage rate; and
- international standing of New Zealand’s minimum wage rate.

10. The minimum wage rate options developed for this review 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

11. MBIE recommends that the adult minimum wage rate is raised to:

- $15.25 per hour (option 3). This would raise the incomes of minimum wage earners to maintain the current relativity with the median wage (the median wage grew by 3.8 per cent from June 2014 to June 2015). It is also expected to have no dis-employment effects and would not affect inflation. For a family of two adults working 60 hours per week (40 + 20 hours) with two children this would see their annual earnings increase by
approximately $930.83. While the minimum wage increase is at 3.38 per cent, the change in annual earnings for the couple would be only 1.91 per cent. This would potentially reduce tax credits for families by approximately $331.50. This option would be more expensive for businesses and government than options 1 and 2.

- MBIE also recommends that the starting-out and training minimum wage rate remain at 80 per cent of the adult minimum wage rate.

---

3 This is assuming no contributions to KiwiSaver or student loan repayments. For a family with one parent working, the gain to annual earnings would be $840.87. This is a 2.26 per cent increase in annual earnings.

4 This calculation has assumed maximum in work and Working for Families tax credits at the abatement of 21.50 cents in the dollar. 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 cents in the dollar.
Table 1: Summary of the impacts of the minimum wage options

<table>
<thead>
<tr>
<th>Minimum wage rate impact measures</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
<th>Option 5</th>
<th>Option 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult minimum wage (hourly rate)</td>
<td>$14.75</td>
<td>$15.00</td>
<td>$15.25</td>
<td>$15.50</td>
<td>$16.05</td>
<td>$19.25</td>
</tr>
<tr>
<td>Adult minimum wage (gross weekly income)$^5$</td>
<td>$590</td>
<td>$600</td>
<td>$610</td>
<td>$620</td>
<td>$642</td>
<td>$770</td>
</tr>
<tr>
<td>Percentage increase</td>
<td>N/C</td>
<td>1.7%</td>
<td>3.4%</td>
<td>5.1%</td>
<td>8.8%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Relativity to median wage$^6$</td>
<td>64.6%</td>
<td>65.7%</td>
<td>66.8%</td>
<td>67.9%</td>
<td>70.3%</td>
<td>84.3%</td>
</tr>
<tr>
<td>Number of people impacted (rounded up to nearest 100)</td>
<td>74,900</td>
<td>85,500</td>
<td>152,700</td>
<td>173,300</td>
<td>267,200</td>
<td>555,900</td>
</tr>
<tr>
<td>Estimated restraint on employment</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>-2,000</td>
<td>-5,500</td>
<td>-28,000</td>
</tr>
<tr>
<td>Estimated economy-wide increase in wages ($m, annual)</td>
<td>N/C</td>
<td>25</td>
<td>75</td>
<td>132</td>
<td>304</td>
<td>2,379</td>
</tr>
<tr>
<td>Estimated inflationary impact/GDP (percentage points)</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>0.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Additional annual costs to the government ($m)$^7$</td>
<td>N/C</td>
<td>$8.79</td>
<td>$22.82</td>
<td>$37.97</td>
<td>$86.61</td>
<td>$555.74$^8</td>
</tr>
</tbody>
</table>

$^5$ This is calculated on a 40 hour week basis.
$^6$ The median hourly earnings are $22.83 per hour (New Zealand Income Survey, June 2015).
$^7$ 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.
$^8$ 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.
Chapter one – Background

The current minimum wage rates

The prescribed minimum wage rates and their coverage

12. The Minimum Wage Act 1983 (the Act) provides for minimum hourly wage rates; ensuring a floor for wages paid to employees. Minimum wage rates are set through an Order in Council made under section 4 of the Act. It is an offence to pay an employee less than the minimum wage and an employer failing to do so may be liable for a penalty imposed by the Employment Relations Authority.

13. The current minimum wage rates, prescribed in the Minimum Wage Order 2015, are set out below:

- The adult minimum wage rate is $14.75 per hour
- The starting-out minimum wage rate is $11.80 per hour
- The training minimum wage rate is $11.80 per hour.

14. The adult minimum wage rate applies to all employees aged 16 years of age and over, unless they are eligible for a starting-out wage or the training minimum wage.

15. The starting-out wage was introduced on 1 May 2013. Its purpose is to support more young people entering the workforce (and gaining the work-readiness and training they need for work). The Act provides that the starting-out wage rate must be set at not less than 80 per cent of the adult minimum wage rate. It is currently set at 80 per cent of the adult minimum wage rate. The rate applies to an eligible starting-out worker:

- aged 16 or 17 years who has not completed 6 months' continuous employment with his or her current employer, and is not involved in supervising or training other workers; or
- aged 18 or 19 years who has been continuously paid one or more specified social security benefits for not less than 6 months, and has not completed 6 months' continuous employment with any employer, and is not involved in supervising or training other workers; or
- aged 16, 17, 18, or 19 years who is required by his or her contract of service to undertake at least 40 credits a year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates, and is not involved in supervising or training other workers.

16. The training minimum wage rate is also set at 80 per cent of the adult minimum wage rate. As with the starting-out wage rate, the Act provides that it must be set at not less than 80 per cent of the adult minimum rate. The rate applies to a trainee who is:

- aged 20 years or over; and
- required by his or her contract of service to undertake at least 60 credits a year of an industry training programme for the purpose of becoming qualified for the occupation to which the contract of service relates; and
- not involved in supervising or training other workers.

17. Minimum wages are currently paid to approximately 74,900 workers, making up approximately 3.2 per cent of all employees. Workers paid the minimum wage are disproportionately young people and those working part-time. Women, Māori and
Pacific workers, people without formal qualifications, disabled workers, and refugees or migrants are also more likely to be paid the minimum wage than other groups of workers. These workers are more likely to work in the retail and hospitality industries. For more detailed information on the demographic and job characteristics of workers paid at the current minimum wage, refer to Chapter 2 of this report.

The current minimum wage rate compared with other income benchmarks

18. The current adult minimum wage rate of $14.75 per hour is approximately 50 per cent of average ordinary time hourly earnings ($29.29 per hour in the Labour Market Statistics (LMS), September 2015) and 64.6 per cent of median total hourly earnings ($22.83 per hour in the New Zealand Income Survey, June 2015).

19. Compared with other income benchmarks, the minimum wage rate is more than twice the effective rate for a single adult on Jobseeker Support (Jobseeker Support (JS) in Figure 1 is calculated to be $4.89 per hour for a single adult aged 18-24 years old). 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). The following figure compares the minimum wage rates with other income benchmarks, all calculated as gross weekly income for a 40-hour week.

Figure 1: Weekly income from minimum wages and other income benchmarks

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9 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.

International comparisons

20. New Zealand has a moderately high minimum wage compared with similar countries. Among OECD countries, three other countries (Australia, Luxembourg and France) had higher minimum wage rates than New Zealand in 2014 in terms of the absolute wage level. If transferred to annual income, assuming a standard working week for each country, two other countries have a higher annual income for workers paid the minimum wage than New Zealand as Table 2 indicates.

Table 2: Ranking of the minimum wage rate in OECD countries

<table>
<thead>
<tr>
<th>As Annual Income</th>
<th>Standard work week (hours)</th>
<th>As Hourly Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>US$25,355</td>
<td>6</td>
</tr>
<tr>
<td>Ireland</td>
<td>US$25,249</td>
<td>7</td>
</tr>
<tr>
<td>France</td>
<td>US$25,189</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>US$25,438</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>US$26,042</td>
<td>3</td>
</tr>
<tr>
<td>Australia</td>
<td>US$30,766</td>
<td>2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>US$33,218</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>US$25,945</td>
<td>4</td>
</tr>
<tr>
<td>Ireland</td>
<td>US$25,249</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>US$25,438</td>
<td>5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>US$26,042</td>
<td>3</td>
</tr>
<tr>
<td>Australia</td>
<td>US$30,766</td>
<td>2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>US$33,218</td>
<td>1</td>
</tr>
</tbody>
</table>

21. New Zealand has the highest ratio of the minimum wage to the average wage (mean wage) amongst OECD countries, as is shown in Figure 2.

11 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.

Note: When the 2015 Minimum Wage Review was presented to the Minister for Workplace Relations and Safety, the Ministry was unable to provide an updated version of the table and advised the Minister of this. Before making this report publicly, the Minister was provided with an updated table.

12 Minimum wages in Canada are set by the provinces and therefore has 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.
22. New Zealand’s ratio of 51 per cent of minimum/mean wages\textsuperscript{13} compares with 43 per cent in Australia, 39 per cent in the United Kingdom, 40 per cent in Canada, and 26 per cent in the United States. New Zealand’s high ratio of minimum to mean wages is a result of both a comparatively high minimum wage and a comparatively low average wage.

23. Figure 2 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.\textsuperscript{14}

**Annual minimum wage review**

**Review obligation under legislation and international conventions**

24. The Act requires the responsible Minister to review the minimum wage rates by 31 December each year.

25. The International Labour Organisation (ILO) recommends that the minimum wage rate be reviewed regularly to preserve its purchasing power.\textsuperscript{15} New Zealand is a signatory to an ILO Convention that includes a requirement to ensure an adequate minimum wage rate.\textsuperscript{16} According to the ILO, ‘The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period of time and its ability to meet the different needs of all parties concerned’.\textsuperscript{17}

\textsuperscript{13} This comparison is from the 2014 OECD data. Data for 2015 is currently not available

\textsuperscript{14} This is measured by 2014 data in US dollars (PPP) per head with New Zealand at US$36,810 and OECD average at US$38,867.


\textsuperscript{16} The ILO’s Minimum Wage-Fixing Machinery Convention (1928), to which New Zealand is a signatory, obliges the government to create minimum wage-fixing machinery where “no arrangements exist for the effective regulation of wages … and wages are exceptionally low”.

\textsuperscript{17} International Labour Organisation (1998), Minimum Wage Fixing: A Summary of Selected Issues, Briefing Note No.14.
26. 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).

**Process for minimum wage review 2015**

27. In 2012 Cabinet agreed to change the minimum wage review process to provide a streamlined process for three years, with the fourth year being a comprehensive process. This year’s review is the first comprehensive review since the Government made its decision.

28. The table below sets out the process for the review under the cyclical approach:

<table>
<thead>
<tr>
<th>Factors</th>
<th>Streamlined review (2012, 2013, 2014)</th>
<th>Comprehensive review (this year)</th>
</tr>
</thead>
</table>
| Factors | • Inflation, using the Consumers Price Index as the indicator  
          • Wage growth, using median wage as the indicator  
          • Restraint on employment | • Streamlined review plus other factors |
| Stakeholders consulted | • New Zealand Council of Trade Unions  
                            • Business New Zealand | • Streamlined review plus additional stakeholders |

29. The other factors agreed to by the Minister for Workplace Relations and Safety are:

- labour productivity — to consider the effect of the minimum wage rate increases on wage levels, and whether changes to the minimum wage rate have kept up with labour productivity
- effects of minimum wage rate increases on social assistance received
- effects of minimum wage rate increases on business growth
- effects of minimum wage rate increases on the hours worked by employees
- effects of minimum wage rate increases on workers who are earning at a rate slightly higher than the minimum wage
- affordability for Government of changes to the minimum wage rate; and
- international standing of New Zealand’s minimum wage rate.

30. Letters inviting submissions to the minimum wage review were sent to 69 stakeholder groups including unions, business and other organisations. MBIE received 25 submission responses. Business NZ, the New Zealand Council of Trade Unions (NZCTU), the Small Business Development Group and the Engineers, Printers & Manufacturers Union (now known as E tū) were invited to make their submissions orally to officials from MBIE. Submissions have been summarised and included with this report.

31. Conventionally, the responsible Minister makes a decision on the minimum wage rates having received MBIE’s advice and notifies Cabinet about any changes to the minimum wage rates. A change to the rate is given effect through an Order in Council. Changes to all the minimum rates would take effect at the same time from 1 April 2016.
Recent changes to minimum wage rates

32. Historically, the minimum wage rates have been increased every year after the completion of the annual review. Table 4 shows the changes in the hourly minimum wage rates since 2007.

Table 4: Recent changes to minimum wage rates

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Adult Minimum Wage</th>
<th>Other Minimum Wage</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2007</td>
<td>$11.25</td>
<td>$9.00</td>
<td>9.8%</td>
</tr>
<tr>
<td>April 2008</td>
<td>$12.00</td>
<td>$9.60</td>
<td>6.7%</td>
</tr>
<tr>
<td>April 2009</td>
<td>$12.50</td>
<td>$10.00</td>
<td>4.2%</td>
</tr>
<tr>
<td>April 2010</td>
<td>$12.75</td>
<td>$10.20</td>
<td>2.0%</td>
</tr>
<tr>
<td>April 2011</td>
<td>$13.00</td>
<td>$10.40</td>
<td>3.8%</td>
</tr>
<tr>
<td>April 2012</td>
<td>$13.50</td>
<td>$10.80</td>
<td>3.6%</td>
</tr>
<tr>
<td>April 2013</td>
<td>$13.75</td>
<td>$11.00</td>
<td>1.9%</td>
</tr>
<tr>
<td>April 2014</td>
<td>$14.25</td>
<td>$11.40</td>
<td>3.5%</td>
</tr>
<tr>
<td>April 2015</td>
<td>$14.75</td>
<td>$11.80</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

33. 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 3 shows increases in the minimum wage rate compared with various measurements of inflation over the past 14 years.

Figure 3: Increases in the minimum wage rate compared with various measures of inflation

Source: Statistics New Zealand

This includes new entrants minimum wage rate and training minimum wage rates and the starting-out minimum wage rate (from 2013).
Economic growth and labour market outlook

34. This year’s review takes place in a weaker economic climate, marked by slower economic growth and labour market performance. Treasury predicts economic growth in the December 2015 quarter may fall below 2 per cent. This is lower than the Budget Update forecast of 3 per cent. In the September 2015 quarter unemployment rose to 6 per cent and the number of people employed fell for the first time in three years to 64.5 per cent. However, there are some positive signs in the labour market. For example, even though the number of people employed fell in the September 2015 quarter, this was still up 1.5 percent for the September year. The number of filled jobs was also up at 1.7 per cent for the September year. It is also worth noting that net migration for October 2015 year was at 67,360.

Economic situation and outlook

35. The latest New Zealand Institute of Economic Research (NZIER) Quarterly Predictions: September quarter 2015 reported that while the dairy downturn is dominating the economic outlook, other sectors were starting to pick up. On dairy, NZIER state that the downturn in the sector has driven a decline in confidence, with the effects most apparent in the dairy-intensive regions with a downstream impact on spending over 2015. However, NZIER did report that there were positive aspects to the local economy. It stated:

Construction activity remains solid, buoyed by increased house-building requirements in Auckland and strengthening non-residential construction. Other export sectors are also benefiting from the drop in the NZ dollar. Tourism is a standout, as more direct flights between New Zealand and China mean many of these tourists are staying longer and spending more. Global beef prices are at record highs, reflecting tight supply and strong demand. Meanwhile, our kiwifruit industry is undergoing a revival and recovering from the PsA outbreak a few years ago. Even the manufacturing sector, which has borne the brunt of the high NZ dollar for so many years, has rebounded on the lower currency and a pick-up in global demand.

36. Uncertainty in the global economy remains a concern. Performance of the Chinese economy, along with the devaluation of the yuan has raised concerns about the growth outlook for China’s economy. The risks from the European economy have reduced for now. The US economy continues to strengthen, with the US Federal Reserve indicating that is comfortable with raising interest rates by the end of 2015.

37. Economic growth was strong during 2014. According to the latest NZIER Consensus Forecasts, 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 4 shows the trend in real GDP growth from 1998 and the forecast until 2019.

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19 The Treasury, Monthly Economic Indicators (October 2015)
20 Statistics New Zealand, International Travel and Migration: October 2015
21 NZIER, Quarterly Predictions: September quarter 2015 (25 August 2015).
22 Ibid.
23 Ibid.
24 NZIER’s Consensus Forecasts in September 2015
38. 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 September 2015 from a 3.2 per cent rise in September 2014 — the lowest annual increase since 2012. Employment declined by 11,000 over the most recent quarter, a 0.4 per cent decrease.

39. 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).

40. The NZIER Consensus Forecasts of employment growth are 1.7 per cent in 2016 and 2017 March years, respectively. Figure 5 shows employment growth since 1998 and the NZIER forecast for the next three years.


Labor market and employment outlook

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 September 2015 from a 3.2 per cent rise in September 2014 — 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).

The NZIER Consensus Forecasts of employment growth are 1.7 per cent in 2016 and 2017 March years, respectively. Figure 5 shows employment growth since 1998 and the NZIER forecast for the next three years.
41. The unemployment rate increased from 5.6 per cent to 6.0 per cent in the year to September 2015. Over the year, the total number of people unemployed increased by 10.5 per cent to 150,000. This increase has been relatively balanced between rises in short and long-term unemployment.

42. However, the unemployment rate is still lower compared with that at the peak of the Global Financial Crisis. Latest Consensus Forecast is for the unemployment rate to decline slightly to 5.8 per cent in March 2017, with a further gradual decline to 5.6 per cent by March 2019 in association with moderate but steady employment growth. Figure 6 shows the unemployment rate since 1998 and the NZIER forecast for the next three years.

43. There are some positive signs in the labour market. For example, even though the number of people employed fell in the September 2015 quarter, this was up 1.5 percent compared with the September 2014 quarter. The number of filled jobs was up 0.7 per cent in the same quarter and compared with one year ago is up 1.7 per cent.

![Figure 6: History and forecasts of employment growth](image)

Youth employment

44. Youth employment dropped from 2008 to 2012, but has slightly recovered. The proportion of 15-19 year olds in employment fell from about 46 per cent at the start of the Global Financial Crisis, to about 31 per cent in 2013 but has recovered to about 37 per cent by 2015 (green line in Figure 7).

45. Around eight out of ten 15-19 year olds are in education and training (blue line in Figure 7) and the NEET rate has fallen to a lower level than in 2008 at the advent of the Global Financial Crisis and its peak at about 10 percent in 2010 (teal line in Figure 6). Of those 15-19 year olds in education, approximately 36 per cent are also employed. The labour force participation rate of 15-19 year olds in education dropped during the Global Financial Crisis, but has been relatively stable in recent years (see Figure 8).
Wage growth and inflation

46. 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 (New Zealand Income Survey 2015). In terms of the Labour Cost Index (LCI), salary and ordinary wage rates rose 2.1 per cent over the same period.

47. According to the Quarterly Employment Survey, the unadjusted, average ordinary time hourly earnings rose 2.3 per cent to $29.29 per hour in the year to September 2015.
Treasury forecasts that average ordinary time hourly earnings will increase at a slightly faster level over the next few years – by about 3.0 per cent in 2016 and 2017.  

48. The 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.

**International literature review on the effects of changes to the minimum wage rate**

49. Internationally, there are contrasting views regarding the impact of the minimum wage on employment. One view is that increases in minimum wage rates at any levels will have negative effects on employment levels, particularly for some categories of workers and industries. The converse view is that provided increases are small those increases will have little or no impact on employment levels. The differing views of minimum wage research are likely due to a number of factors. First, it is difficult to isolate the impacts of the minimum wage because changes are often one of many changes taking place in the labour market. Second, income and related labour market data are frequently noisy. Third, changes in minimum wage rates are often small and only affect a small proportion of the workforce meaning increases can be anticipated or effects lagged. Finally, cumulative effects and longer term changes will be entangled with a number of other economic factors and effects will differ depending on economic circumstances. Notwithstanding this, the majority of the international literature appears to favour the view that small increases will have little or no impact on employment.

**Effect on employees**

50. In a study in the United States researchers sought to compare effect of federal minimum wage increases on employees in states that were bound by the federal increase with those employees in states that were not bound. The authors estimated that dis-employment effects in states that were bound were up to eight percentage points higher than those in states that were not bound by the federal increase. The authors noted that the dis-employment effects were largely constrained to low-skilled employees. The increase in the federal minimum wage, which this study applied to, was a substantial increase from $5.15 to $7.25 (41 per cent) over a two year period. It could be argued that such a substantial increase is more analogous to an introduction of a binding minimum wage rate rather than an increase of it.

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27 See for example, Bewley and Wilkinson (2015), The Impact of the National Minimum Wage on Employment and Hours, The National Institute of Economic and Social Research.
29 Ibid
30 Ibid
31 Ibid
51. Other authors argue that such a substantial increase to the minimum wage will inevitably cause dis-employment effects owing to sudden substantial increases in wage costs for businesses. The prevailing view is that small but frequent (relatively predictable) increases to the minimum wage will have little to no effect on employment levels. It is argued that small increases maintain the real value of the minimum wage while preventing sudden shocks to labour costs for businesses. Data from the United Kingdom suggests that small and incremental increases in the minimum wage have had little effect on employment levels. This view is supported in a number of international studies. The United Kingdom has seen relatively rapid increases in the level of minimum wage. It has been recognised in the United Kingdom that despite this relatively rapid growth in the minimum wage, the incremental increases of the minimum wage has resulted in there being few negative effects on employment.

Effects on groups of employees

52. Academic consensus appears to favour the view that some groups of workers, particularly youth and low skilled workers, are more likely to be adversely affected by increases to the minimum wage. The United Kingdom implemented a freeze to the youth minimum wage in 2011 in an effort to stabilise youth employment which was suffering during the Global Financial Crisis. The study into this youth wage freeze found that 16 to 20 year olds were 2.5 per cent more likely to be employed than 21 to 22 year olds during the period of the freeze. Additionally, the results suggested that the relatively lower youth wage rates increased the probability of youth being in full time education at age 18 years of age. The youth wage freeze therefore appears to have had multiple effects in the United Kingdom. First, that youth were more likely to remain in education as there was little incentive to work owing to low wages. Second, those that chose to leave education for work had greater employment opportunity. Additionally, there did not appear to be any adverse effects in employment retention when youth made the transition from youth wage rates to adult wage rates.

Effects on low skilled workers

53. It is widely recognised that increases in the minimum wage disproportionately affect low skilled workers. With increases in the minimum wage rate businesses may seek to replace increasing labour costs with production capital. However, the timing of this impact may vary as some businesses may choose to pre-empt the increase of the minimum wage while others wait to see what effects it has on the operating costs of their business. The investment of production capital directly impacts on the

34 See for example: Organisation for Economic Co-operation and Development (2015), Working Party on Enforcement, OECD Conference Centre
36 Resolution Foundation (2014)
37 London Economics (2015), The Impact of the Minimum Wage on Young People, Final Report to the Low Pay Commission
38 Ibid
39 Ibid
40 Ibid
42 Ibid
employability of both low skilled workers and youth. However, it should be noted that these effects are likely to be more predominate where substantial minimum wage increases are implemented because this will substantially reduce the relative cost of productive capital.

**Effect on businesses**

54. Evidence from the United Kingdom suggests that the advent of the minimum wage and subsequent increases have increased labour costs by four per cent for low paying firms when compared to higher paying firms.\(^43\) Overall, the data suggests that increases in the minimum wage level have little effect on businesses. Importantly, there is no evidence to suggest that an increase in the minimum wage rate increases exit rates for business.\(^44\)

55. Evidence from the United States suggests that businesses that are reliant on consumers sensitive to price increases are more likely to be impacted by minimum wage increases.\(^45\) Conversely, businesses that already pay above the minimum wage will be comparatively better off as they will become more competitive with lower paying firms, potentially allowing them to hire more staff and increase production.\(^46\) Following an increase in the minimum wage, higher wage earning workers may become relatively less expensive to business owing to their higher productivity. This would therefore have the potential to have negative employment effects for lower skilled workers.

56. Australian evidence suggests that the most common responses of businesses to an increase of the minimum wage is to increase prices, reduce staffing hours, and seek improvements in productivity. However, further evidence suggests that such adjustments were rarely based solely on minimum wage increases and other business factors contributed to those decisions being made.\(^47\)

**Effect on poverty**

57. There is little evidence regarding the direct effect of minimum wage increases in decreasing poverty. However, the evidence that does exist suggests that the minimum wage is a relatively blunt tool in combatting poverty.\(^48\) Minimum wages do not target many of those affected by poverty because people below the poverty line often live in non-working households. Many workers who are paid minimum wages live in households that collectively earn above the poverty line and above the minimum wage. It is widely accepted internationally that tax credits and other income related policies are far more effective at reducing poverty than increases to minimum wages.\(^49\)

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\(^{43}\) Riley and Bondibene (2015), *The Impact of the National Minimum Wage on UK Businesses*, National Institute of Economic and Social Research and Centre for Macroeconomics, Report to the Low pay Commission.

\(^{44}\) Ibid


\(^{46}\) Ibid


\(^{48}\) Organisation for Economic Co-operation and Development (2015), *Working Party on Enforcement*

\(^{49}\) Burkhauser (2014), *Why Minimum Wage Increases are a Poor way to help the Working Poor*, Institute for the Study of Labour Policy Paper 86
Minimum wage, education and training

58. Several theoretical frameworks suggest a relationship between minimum wages, education and training. In general minimum wages are earned by low skilled workers, a higher minimum wage will likely improve their relativity to high skilled wage earners, therefore, reducing the premium that can be paid for higher skills. This has the potential to reduce the willingness of individuals to invest in developing higher skills as those skills become less valuable.50

59. Conversely, higher minimum wages may result in employers being more selective in the people they employ in minimum wage positions, for example, requiring higher skills as they must pay higher wages. In this circumstance, higher minimum wages may induce more training to increase skills (this would be marginal in some cases as some jobs will not require more skill). While this will affect those with low skills who are unemployed or unemployable without training, it may induce young people to remain in education longer.51

Minimum wage and social assistance

60. In many situations the level of social assistance is a key factor in an individual’s decision to gain employment. If the minimum wage is low relative to social assistance provided, there may be little incentive to enter employment.52 If the minimum wage remains high relative to the level of social assistance, there is a higher incentive to enter the workforce. Careful consideration is needed when designing social assistance packages and minimum wage to ensure that the financial incentive to enter the workforce is high.53

Wage compression

61. It is widely considered that increases in the minimum wage rate may cause wage compression at the lower end of the wage distribution.54 Wage compression can occur when there is a rise in the statutory minimum wage relative to other wage levels which are determined by the market, or collective bargaining. This could lead to reducing the mobility of lower skilled workers.55

Minimum wage and productivity

62. As a general rule, wage levels will increase as labour productivity increases. However, the minimum wage can often artificially increase wage levels where there has not been an increase to productivity. Long-term minimum wage increases are likely to be sustainable only if productivity also increases.56

51 Ibid
52 Ibid
53 Ibid
56 Ibid
Conclusion

63. International consensus appears to support the view that minimum wage rate increases have little or no impact on employment levels, under circumstances where minimum wage increases are small but frequent. This allows business to adapt to the changes in labour costs while protecting the real value of the minimum wage for workers. The negative employment impacts that increases in the minimum wage can have on young people and low skilled workers must also be considered. With small but frequent increases in the minimum wage, as cited in the international literature, will likely limit the adverse impacts on these groups.

Minimum wage increases do not always exert influence in the same direction. Everything depends on conditions at the outset. If the minimum wage is low, bordering on basic welfare, an increase in it attracts new workers whom firms have an interest in employing. But if the minimum wage is high at the onset, every increase incentivises firms to trim from their payrolls those whose productivity has been overtaken by the new level of the minimum wage, without hiring an equivalent number of new, more productive workers. Hence, minimum wage can either be helpful or harmful.57

57 Ibid
Chapter two – Assessment of minimum wage impacts

Options developed for the review

65. 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 NZCTU in its submission from the previous review.

66. The options that are considered in this report for the adult minimum wage rate for 2016/17 are as follows:

- Option 1: $14.75 per hour (status quo)
- Option 2: $15.00 per hour (for comparison purposes)
- Option 3: $15.25 per hour (consistent with last minimum wage increase)
- Option 4: $15.50 per hour (for comparison purposes)
- Option 5: $16.05 per hour (proposed by NZCTU in 2014 review)
- Option 6: $19.25 per hour (proposed as a ‘living wage’).

67. These options are developed for assessment and modelling purposes. There is no requirement that the adult minimum wage rate for 2016 be set at any of these rates.

Assessment of increasing the minimum wage rate

68. This section outlines the assessment of increasing the minimum wage rate. This year’s comprehensive review requires MBIE to consider other relevant factors in addition to the factors it considers when undertaking the streamlined reviews. The other relevant factors agreed to by the Minister for Workplace Relations and Safety are:

- labour productivity — the effect of the minimum wage rate increases on wage levels, and whether changes to the minimum wage rate have kept up with labour productivity
- effects of minimum wage rate increases on social assistance received
- effects of minimum wage rate increases on business growth
- effects of minimum wage rate increases on the hours worked by employees
- effects of minimum wage rate increases on workers who are earning at a rate slightly higher than the minimum wage
- affordability for Government of changes to the minimum wage rate; and
- international standing of New Zealand’s minimum wage rate.

69. These factors have been assessed against information provided by stakeholders, research, statistical data, and submitters. MBIE’s in-house model has been used to assess the impacts of the six options for the minimum wage rate on:

- wages and inflation;
- employment;
- minimum wage workers; and

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58 This figure is proposed by the Living Wage Aotearoa New Zealand Campaign. The wage rate is intended to provide the income necessary to meet a set of specified needs for a family of two adults and two children where one adult works 40 hours a week and the other 20 hours.
MBIE uses the in-house model, developed in conjunction with the NZIER in 2012, to estimate the impact of a minimum wage increase on wage costs, inflation and employment compared with the counterfactual of no change to the minimum wage. The employment impacts are estimated using coefficients derived from econometric analysis of historical New Zealand data. Historical analysis indicates that different groups (for example young people, women and Pacific peoples) will be impacted differently by a given change to the minimum wage. These different sensitivities are incorporated in the model.

‘Other relevant factors’

Labour productivity

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.

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.

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

Wages are often only part of the income of low income workers. There is 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.

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

The following tables (5 to 16) 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.

77. 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.

78. 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 5: Scenario 1 - A couple working for 60 hours per week between them at $14.75 per hour

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

Table 6: Scenario 2 - A couple working for 60 hours per week between them at $15.00 per hour

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

59 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.

60 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

61 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 7: Scenario 3 - A couple working for 60 hours per week between them at $15.25 per hour

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$610</td>
<td>$31,720</td>
<td>$4571.00</td>
<td>$459.94</td>
</tr>
<tr>
<td>Parent B</td>
<td>20</td>
<td>$305</td>
<td>$15,860</td>
<td>$1795.50</td>
<td>$229.97</td>
</tr>
<tr>
<td><strong>Combined net earnings without other income support</strong></td>
<td></td>
<td></td>
<td></td>
<td>$45,715.00</td>
<td>$1,489.91</td>
</tr>
<tr>
<td>Maximum In Work Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$3,120</td>
</tr>
<tr>
<td>Maximum Family Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$8,173</td>
</tr>
<tr>
<td>Total abatement on family support due to income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$2,386.38</td>
</tr>
<tr>
<td>Total Working for Families assistance after abatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$8,906.62</td>
</tr>
<tr>
<td><strong>Effective annual earnings for the household</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$49,431.16</td>
</tr>
<tr>
<td>Percentage increase in minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.38%</td>
</tr>
<tr>
<td>Percentage increase in annual earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.91%</td>
</tr>
</tbody>
</table>

### Table 8: Scenario 4 - A couple working for 60 hours a week between them at $15.50 per hour

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

### Table 9: Scenario 5 - A couple working for 60 hours a week between them at $16.05 per hour

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$642</td>
<td>$33,384</td>
<td>$4862.20</td>
<td>$483.55</td>
</tr>
<tr>
<td>Parent B</td>
<td>20</td>
<td>$321</td>
<td>$16,692</td>
<td>$1914.10</td>
<td>$242.03</td>
</tr>
<tr>
<td><strong>Combined net earnings without other income support</strong></td>
<td></td>
<td></td>
<td></td>
<td>$42,574.12</td>
<td></td>
</tr>
<tr>
<td>Maximum In Work Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$3,120</td>
</tr>
<tr>
<td>Maximum Family Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$8,173</td>
</tr>
<tr>
<td>Total abatement on family support due to income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$2,916.78</td>
</tr>
<tr>
<td>Total Working for Families assistance after abatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$8,409.37</td>
</tr>
<tr>
<td><strong>Effective annual earnings for the household</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$50,983.49</td>
</tr>
<tr>
<td>Percentage increase in minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.81%</td>
</tr>
<tr>
<td>Percentage increase in annual earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.11%</td>
</tr>
</tbody>
</table>
### Table 10: Scenario 6 - A couple working for 60 hours a week between them at $19.25 per hour

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

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 $8,392.92 rather than $14,040.62. 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.

### Table 11: Scenario 1 – One parent working for 40 hours a week at $14.75 per hour

<table>
<thead>
<tr>
<th></th>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$590.00</td>
<td>$30,680</td>
<td>$4389.00</td>
<td>$444.86</td>
<td>$25,849.14</td>
</tr>
<tr>
<td><strong>Net earnings without other income support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$25,849.14</strong></td>
</tr>
<tr>
<td>Maximum In Work Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$3,120</td>
</tr>
<tr>
<td>Maximum Family Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$8,173</td>
</tr>
<tr>
<td>Total abatement on family support due to income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$50</td>
<td></td>
</tr>
<tr>
<td>Total Working for Families assistance after abatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$11,293</td>
<td></td>
</tr>
<tr>
<td><strong>Effective annual earnings for the household</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$37,142.14</strong></td>
</tr>
</tbody>
</table>

### Table 12: Scenario 2 – One parent working for 40 hours a week at $15.00 per hour

<table>
<thead>
<tr>
<th></th>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$600</td>
<td>$31,200</td>
<td>$4480.00</td>
<td>$452.40</td>
<td>$26,267.60</td>
</tr>
<tr>
<td><strong>Combined net earnings without other income support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$26,267.60</strong></td>
</tr>
<tr>
<td>Maximum In Work Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$3,120</td>
</tr>
<tr>
<td>Maximum Family Tax Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+$8,173</td>
</tr>
<tr>
<td>Total abatement on family support due to income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-$50</td>
<td></td>
</tr>
<tr>
<td>Total Working for Families assistance after abatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$11,293</td>
<td></td>
</tr>
<tr>
<td><strong>Effective annual earnings for the household</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$37,560.60</strong></td>
</tr>
<tr>
<td>Percentage increase in minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.69%</td>
</tr>
<tr>
<td>Percentage increase in annual earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.11%</td>
</tr>
</tbody>
</table>

---

62 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 13: Scenario 3 – One parent working for 40 hours a week at $15.25 per hour

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$610</td>
<td>$31,720</td>
<td>$4571.00</td>
<td>$459.94</td>
</tr>
</tbody>
</table>

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: -$50

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

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$620.00</td>
<td>$32,240</td>
<td>$4662.00</td>
<td>$467.48</td>
</tr>
</tbody>
</table>

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: -$50

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

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$642</td>
<td>$33,384</td>
<td>$4862.20</td>
<td>$483.55</td>
</tr>
</tbody>
</table>

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: -$50

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

<table>
<thead>
<tr>
<th>Weekly work hours</th>
<th>Weekly earnings</th>
<th>Annual earnings</th>
<th>Tax</th>
<th>ACC</th>
<th>Net earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent A</td>
<td>40</td>
<td>$770</td>
<td>$40,040</td>
<td>$6027.00</td>
<td>$580.58</td>
</tr>
</tbody>
</table>

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%
81. 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. 63

82. 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.

83. 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, changes need to be made across a number of policy settings to increase real incomes of low paid workers.

Business growth

84. 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.

85. 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

86. 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

87. 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

---

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

88. 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:

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

89. 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.

90. 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.

Affordability of changes to Government

91. Increases in the minimum wage are likely to have a direct (and possibly also indirect or ‘flow-on’) fiscal impact on some state sector employers. The Ministries of Health, Social Development (MSD), Education, and the Accident Compensation Corporation (ACC) have been identified as the agencies that 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).

92. A consideration of the cost of minimum wage rate increases for each of the four agencies follows.

Ministry of Health

93. 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) will also have significant direct cost implications for District Health Boards (DHBs) and other health sector employers.

94. 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.

95. 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.

96. 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.

97. 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.

98. Total cost implications for each option are summarised in the following table.

<table>
<thead>
<tr>
<th>Option</th>
<th>Aged Residential Care</th>
<th>Home Based Aged Care</th>
<th>Disability Support Services</th>
<th>DHB Direct wage costs</th>
<th>In between travel costs</th>
<th>Estimated total increased costs for health sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$15.00</td>
<td>$2,275,000</td>
<td>$1,913,600</td>
<td>$2,646,700</td>
<td>$1,438</td>
<td>$690,521</td>
<td>$7,527,260</td>
</tr>
<tr>
<td>$15.25</td>
<td>$5,408,000</td>
<td>$4,748,120</td>
<td>$8,556,077</td>
<td>$5,389</td>
<td>$1,381,043</td>
<td>$20,098,629</td>
</tr>
<tr>
<td>$15.50</td>
<td>$9,633,000</td>
<td>$8,061,040</td>
<td>$13,649,785</td>
<td>$36,298</td>
<td>$2,071,564</td>
<td>$33,451,687</td>
</tr>
<tr>
<td>$16.05</td>
<td>$20,644,000</td>
<td>$16,717,688</td>
<td>$24,366,828</td>
<td>$349,158</td>
<td>$3,590,712</td>
<td>$65,668,386</td>
</tr>
<tr>
<td>$19.25</td>
<td>$102,320,400</td>
<td>$86,540,168</td>
<td>$208,967,048</td>
<td>$13,955,526</td>
<td>$12,429,386</td>
<td>$424,212,528</td>
</tr>
</tbody>
</table>

**Ministry of Social Development (MSD)**

99. 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.

100. The expected cost increase for MSD from different minimum wage options are outlined in the following table.
Table 18: Indicative increased costs for MSD under each option

<table>
<thead>
<tr>
<th>Option</th>
<th>Home Help programme (2016/2017)</th>
<th>Direct Wage Costs</th>
<th>Estimated total increased costs for MSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$15.00</td>
<td>$38,000</td>
<td>$27,531</td>
<td>$65,531</td>
</tr>
<tr>
<td>$15.25</td>
<td>$77,000</td>
<td>$58,364</td>
<td>$135,364</td>
</tr>
<tr>
<td>$15.50</td>
<td>$116,000</td>
<td>$91,735</td>
<td>$207,735</td>
</tr>
<tr>
<td>$16.05</td>
<td>$199,000</td>
<td>$178,681</td>
<td>$377,681</td>
</tr>
<tr>
<td>$19.25</td>
<td>$688,000</td>
<td>$2,467,059</td>
<td>$3,155,059</td>
</tr>
</tbody>
</table>

Ministry of Education

101. In the Ministry of Education (MoE), a large number 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.

Table 19: Indicative increased costs for Ministry of Education under each option

<table>
<thead>
<tr>
<th>Option</th>
<th>Sector Staff</th>
<th>Ministry Staff</th>
<th>Estimated total increased costs for MoE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>$15.00</td>
<td>$259,135</td>
<td>$60</td>
<td>$259,195</td>
</tr>
<tr>
<td>$15.25</td>
<td>$727,935</td>
<td>$165</td>
<td>$728,100</td>
</tr>
<tr>
<td>$15.50</td>
<td>$1,491,955</td>
<td>$530</td>
<td>$1,492,485</td>
</tr>
<tr>
<td>$16.05</td>
<td>$5,644,600</td>
<td>$1,415</td>
<td>$5,646,015</td>
</tr>
<tr>
<td>$19.25</td>
<td>$75,719,225</td>
<td>$253,740</td>
<td>$75,972,965</td>
</tr>
</tbody>
</table>

Accident Compensation Corporation (ACC)

102. 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.

103. The following table shows the corresponding impact of increases to the minimum wage on HCSS. These are cash costs only. 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.

104. 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.
Table 20: Indicative increased costs for ACC under each option

<table>
<thead>
<tr>
<th>Minimum wage option</th>
<th>Estimated total increased costs for ACC</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>-</td>
</tr>
<tr>
<td>$15.00</td>
<td>$940,000</td>
</tr>
<tr>
<td>$15.25</td>
<td>$1,860,000</td>
</tr>
<tr>
<td>$15.50</td>
<td>$2,820,000</td>
</tr>
<tr>
<td>$16.05</td>
<td>$4,920,000</td>
</tr>
<tr>
<td>$19.25</td>
<td>$52,400,000</td>
</tr>
</tbody>
</table>

International standing

105. As mentioned in chapter one of this report, New Zealand’s minimum wage rate as a portion of the average (mean) wage rate per hour is at 51 per cent and is the highest in the OECD. Against the median wage it is at 65 per cent, this is the second highest in the OECD (behind France). The 2014 Minimum Wage Review noted that as an hourly rate, the minimum wage was the fourth highest, behind Australia, Luxembourg and France. As an annual income it was the third highest, behind Australia and Luxembourg.

Impact on wages and inflation

106. When the minimum wage increases, labour costs for businesses increase, and businesses respond to this in various ways. Some businesses respond by increasing the price of goods. Whether this leads to general inflation depends on the drivers of inflation. The price of minimum wage goods may increase but others may decline and therefore there may be no net impact.

107. Table 12 shows the number of workers affected by each option, and the estimated impacts on the 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) would greatly increase wages across the economy, which MBIE estimates will lead to increases in inflation.

Table 21: Economy-wide impacts of minimum wage options

<table>
<thead>
<tr>
<th>Option</th>
<th>Workers earning between current and new options of minimum wage</th>
<th>Economy-wide increase in wages ($m, annual)</th>
<th>Increase inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>74,900</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>$15.00</td>
<td>85,800</td>
<td>25</td>
<td>0.00</td>
</tr>
<tr>
<td>$15.25</td>
<td>152,700</td>
<td>75</td>
<td>0.00</td>
</tr>
<tr>
<td>$15.50</td>
<td>173,000</td>
<td>132</td>
<td>0.00</td>
</tr>
<tr>
<td>$16.05</td>
<td>267,200</td>
<td>304</td>
<td>0.10</td>
</tr>
<tr>
<td>$19.25</td>
<td>555,900</td>
<td>2,379</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Source: MBIE modelling

64 These are the average annual cash costs increases associated with increases in HCSS rates to reflect increase in minimum wage for both contracted and non-contracted providers.
Impacts on employment

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

109. MBIE’s modelling, both this year and in previous reviews, indicates that it is only when changes to the minimum wage rate significantly increase the minimum wage relative to the average wage that a notable constraint on employment growth would occur. This is consistent with the domestic and international literature findings.

110. MBIE’s model predicts employment impacts from changes in the relativity between the minimum wage and the average wage by using a range of employment elasticities derived from econometric analysis of historical data. This analysis has focused on groups that are most sensitive to changes in the minimum wage (for example young people, women, and Pacific people) and the employment impacts presented are the sum of the impacts on these groups.

111. MBIE’s employment forecasts are used as a benchmark to estimate the impacts on employment growth of the various minimum wage rate options. The benchmark projected job growth is 1.7 per cent for the year to March 2016.

112. The modelling suggests that an increase to the minimum wage rate of up to 3.4 per cent (a rate of approximately $15.25) will not inhibit overall employment growth. The options above $15.25 have some constraint on employment growth.

Table 22: Summary of employment impacts

<table>
<thead>
<tr>
<th>Option</th>
<th>Potential constraint on employment growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>N/C</td>
</tr>
<tr>
<td>$15.00</td>
<td>N/C</td>
</tr>
<tr>
<td>$15.25</td>
<td>N/C</td>
</tr>
<tr>
<td>$15.50</td>
<td>2,000</td>
</tr>
<tr>
<td>$16.05</td>
<td>5,500</td>
</tr>
<tr>
<td>$19.25</td>
<td>28,000</td>
</tr>
</tbody>
</table>

Source: MBIE modelling

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

Impacts on workers earning the minimum wage

The number and demographics of people affected

114. Currently, of the 2,347,000 people employed in New Zealand, 74,900 are paid a minimum wage rate. The following tables estimate the number of workers aged 16 to 64 years who are likely to be affected by the minimum wage options.

115. Table 23 shows that a large proportion of workers in the 18 to 24 years age group will be affected by even a modest increase in the minimum wage, while an increase to $15.25 per hour or above will affect a much larger proportion of adult workers.
116. Table 24 shows that generally, larger numbers of 16 to 17 year olds will be affected by increases in the adult minimum wage than the starting-out wage, because few young people are paid the starting-out wage.

117. Changes to the level of the minimum wage can affect not just those receiving the minimum wage but also those who are paid close to it. Currently there are about 243,200 workers aged between 18 and 64 years, earning between $14.75 and $16.05 per hour. Approximately 40 per cent of these workers are under 25 years old.

Table 23: Estimated affected adult workers (18 - 64 years)

<table>
<thead>
<tr>
<th>Option</th>
<th>18-64</th>
<th>18-19</th>
<th>20-24</th>
<th>25-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.75</td>
<td>3.4</td>
<td>62,400</td>
<td>23.2</td>
<td>13,800</td>
</tr>
<tr>
<td>$15.00</td>
<td>3.9</td>
<td>72,300</td>
<td>25.3</td>
<td>15,100</td>
</tr>
<tr>
<td>$15.25</td>
<td>7.2</td>
<td>133,200</td>
<td>38.5</td>
<td>22,900</td>
</tr>
<tr>
<td>$15.50</td>
<td>8.2</td>
<td>152,700</td>
<td>41.1</td>
<td>24,400</td>
</tr>
<tr>
<td>$16.05</td>
<td>13.1</td>
<td>243,200</td>
<td>54.9</td>
<td>32,600</td>
</tr>
<tr>
<td>$19.25</td>
<td>28.4</td>
<td>528,100</td>
<td>71.6</td>
<td>42,600</td>
</tr>
</tbody>
</table>

Source: New Zealand Income Survey 2015
Note: % refers to the percentage of workers earning below the relevant wage level among the whole population of wage earners.

Table 24: Estimated affected young workers (16 - 17 years)

<table>
<thead>
<tr>
<th>Option</th>
<th>Paid at starting-out wage rate</th>
<th>Option</th>
<th>Paid at adult minimum wage rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11.80</td>
<td>S</td>
<td>$14.75</td>
<td>30.1</td>
</tr>
<tr>
<td>$12.00</td>
<td>S</td>
<td>$15.00</td>
<td>32.4</td>
</tr>
<tr>
<td>$12.20</td>
<td>4.4</td>
<td>$15.25</td>
<td>46.9</td>
</tr>
<tr>
<td>$12.40</td>
<td>4.5</td>
<td>$15.50</td>
<td>48.8</td>
</tr>
<tr>
<td>$12.84</td>
<td>5.3</td>
<td>$16.05</td>
<td>57.8</td>
</tr>
<tr>
<td>$15.40</td>
<td>63.6</td>
<td>$19.25</td>
<td>66.9</td>
</tr>
</tbody>
</table>

Source: New Zealand Income Survey 2015
Note: S stands for suppressed for those values less than 1000

118. Data from the New Zealand 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 paid at the minimum wage rate. These people are therefore 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 to the minimum wage (for example reduced hours offered or substitution of some groups of workers for others). A significant rise in the level of the minimum wage may have the effect of employment losses and subsequently increased hardship for lower skilled workers.

119. Table 25 shows the proportion of minimum wage earners and total wage earners with certain demographic and job characteristics. Minimum wage earners are divided into
three age groups. The table shows, for example, that 61.7 per cent of minimum wage earners aged 16-24 years are studying compared with 10.5 per cent of all wage earners.

Table 25: Demographics of wage earners

<table>
<thead>
<tr>
<th>Demographic</th>
<th>% of minimum wage earners</th>
<th>% of total wage earners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16-24</td>
<td>25-64</td>
</tr>
<tr>
<td>Aged 16–24 years</td>
<td>13.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Female</td>
<td>52.7%</td>
<td>67.0%</td>
</tr>
<tr>
<td>European/Pakeha</td>
<td>59.1%</td>
<td>37.6%</td>
</tr>
<tr>
<td>Māori</td>
<td>17.8%</td>
<td>17.4%</td>
</tr>
<tr>
<td>Pacific</td>
<td>4.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Part-time</td>
<td>72.4%</td>
<td>45.3%</td>
</tr>
<tr>
<td>Studying</td>
<td>61.7%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Total</td>
<td>44,500</td>
<td>30,400</td>
</tr>
</tbody>
</table>

Source: New Zealand Income Survey 2015

Young people

120. 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.

121. 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. Table 25 shows that 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.

122. 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. The study found that the new entrants’ minimum wage was largely not used by businesses and that firms generally pay the majority of 16 and 17 year old workers the adult minimum wage.

123. 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 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

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

Women

124. 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). Table 25 shows that 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 are women.

125. 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>
<thead>
<tr>
<th>Minimum Wage option</th>
<th>% reduction in gender pay gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.00</td>
<td>0.02%</td>
</tr>
<tr>
<td>$15.25</td>
<td>0.05%</td>
</tr>
<tr>
<td>$15.50</td>
<td>0.08%</td>
</tr>
<tr>
<td>$16.05</td>
<td>0.18%</td>
</tr>
<tr>
<td>$19.25</td>
<td>1.18%</td>
</tr>
</tbody>
</table>

Māori and Pacific peoples

126. 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).

127. 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.67

Part-time workers

128. Table 25 shows that 72.4 per cent (up 1.6 per cent from the previous year) of workers earning the minimum wage aged 16 to 24 years of age work part-time, while 45.3 per cent (down from 52 per cent in the previous year) of the workers earning the minimum wage aged 25 and 64 years are women. In comparison, just under half of the total workforce are women.

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wage over 25 years of age work part-time. Therefore, any increase to the minimum wage will directly benefit a large proportion of low paid, part-time workers in terms of income level. 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.  

**Students**

129. Table 25 shows that 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 the total wage workers. The high proportion of young workers in part-time minimum wage jobs while studying suggests that they are likely to move into higher paying, full-time jobs in the future.

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

**Impact on industries**

131. 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.

132. 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. 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.

133. 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

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

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)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Workers</th>
<th>Working Hours</th>
<th>Their Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of workers in the workforce affected by $15.25 option</td>
<td>Number of workers affected</td>
<td>% share of working hours of affected workers</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11.8</td>
<td>9,700</td>
<td>11.5</td>
</tr>
<tr>
<td>Mining</td>
<td>S</td>
<td>S</td>
<td>S</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.4</td>
<td>17,500</td>
<td>6.4</td>
</tr>
<tr>
<td>Utilities</td>
<td>S</td>
<td>S</td>
<td>S</td>
</tr>
<tr>
<td>Construction</td>
<td>5.6</td>
<td>8,800</td>
<td>5.6</td>
</tr>
<tr>
<td>Wholesale</td>
<td>5.2</td>
<td>3,500</td>
<td>4.0</td>
</tr>
<tr>
<td>Retail</td>
<td>19.7</td>
<td>39,100</td>
<td>15.4</td>
</tr>
<tr>
<td>Hospitality</td>
<td>30.0</td>
<td>32,600</td>
<td>23.3</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>3.2</td>
<td>2,700</td>
<td>2.5</td>
</tr>
<tr>
<td>Information and Telecommunications</td>
<td>6.5</td>
<td>2,500</td>
<td>3.0</td>
</tr>
<tr>
<td>Finance</td>
<td>2.1</td>
<td>1,300</td>
<td>1.9</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.3</td>
<td>1,400</td>
<td>5.1</td>
</tr>
<tr>
<td>Professional services</td>
<td>2.7</td>
<td>3,900</td>
<td>1.8</td>
</tr>
<tr>
<td>Administrative services</td>
<td>16.2</td>
<td>10,100</td>
<td>14.8</td>
</tr>
<tr>
<td>Public administration</td>
<td>2.5</td>
<td>2,900</td>
<td>2.5</td>
</tr>
<tr>
<td>Education</td>
<td>4.2</td>
<td>7,500</td>
<td>2.4</td>
</tr>
<tr>
<td>Health</td>
<td>9.5</td>
<td>20,700</td>
<td>7.6</td>
</tr>
<tr>
<td>Arts &amp; recreation</td>
<td>9.8</td>
<td>3,300</td>
<td>6.4</td>
</tr>
<tr>
<td>Other services</td>
<td>7.1</td>
<td>5,100</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>9.1</td>
<td>173,000</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Source: New Zealand Income Survey 2015
Note: S stands for suppressed for those values less than 1,000.
Chapter three – Consultation

134. The Minister for Workplace Relations and Safety invited 69 stakeholders to make a submission on the 2015 Minimum Wage Review. This chapter summarises the 25 submissions that were received.\textsuperscript{70}

Business New Zealand

135. 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.

136. 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.

137. 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.

138. When the government is the arbitral determinant of 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.

139. 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:

\textsuperscript{70} Some of the summaries of submissions have been updated (at the request of submitters) since the Minimum Wage Review Report was originally provided to the Minister.
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.

140. 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.

141. 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.

142. 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.

143. 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.

144. 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”\textsuperscript{71} and “Woodford House”\textsuperscript{72} 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)

145. 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.

146. 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

\textsuperscript{71} Idea Services Ltd v Dickson [2011] 2 NZLR 522

\textsuperscript{72} Victoria Law v Board of Trustees of Woodford House (2014) 11 NZELR 355
widespread collective bargaining which can be more sensitive to the circumstances of different industries and employers.

147. 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) is unlikely to cause problems. Growth in the economy is falling sharply so increases in 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.

148. 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.

149. 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.

150. 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 publically 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.

151. 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.

152. 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.
153. 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.

154. 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 rates. Low wages are an impediment to optimal labour market participation and they impede productivity improvements.

155. 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.

156. The NZCTU recommends an increase in the minimum wage to 66 per cent of the average wage of $19.46. 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 to the average wage once the minimum wage has reached a reasonable level.

**MBIE comment**

157. 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). The impacts of these proposals are outlined in Table 18.

<table>
<thead>
<tr>
<th>Option</th>
<th>Workers affected</th>
<th>Inflationary impact</th>
<th>Annual increase in wages ($m)</th>
<th>Midpoint constraint on employment growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16.50</td>
<td>288,800</td>
<td>0.2%</td>
<td>$490</td>
<td>-9000</td>
</tr>
<tr>
<td>$19.46</td>
<td>565,200</td>
<td>0.8%</td>
<td>$2,578</td>
<td>-29,500</td>
</tr>
</tbody>
</table>

Source: MBIE modelling

**Small Business Development Group**

158. Moderate wage impacts are easier for employers to manage, as they can plan for it, however, 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.

159. Minimum wage increases are important to help vulnerable people in the work place. The minimum wage also acts as an incentive to work so that people reduce their reliance on social assistance.
160. 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.

161. 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.

162. 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 and on to a higher rate.

163. 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.

164. 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.

165. 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 does not.

166. 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.

167. 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.

168. Workers should receive enough in their wage to be able to live a reasonable life without a reliance of a top up from the taxpayer by way of a government transfer. Acquiring these top ups can become a stress on families as they are often confusing and difficult, particularly when a person has uncertain hours.

169. 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 āhu 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 as they are disproportionately in these groups.

170. E āhu 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 āhu considers that the government should ratify ILO Convention 131 on Minimum Wage fixing.

**Foodstuffs**

171. 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.

172. 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.

173. 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)**

174. 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.

175. 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.

176. The NZCC supports an increase to the minimum wage of between 25c and 75c per hour.

**Progressive Enterprises**
177. 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.

178. Generally speaking, wage growth drives customer confidence and spending. This is generally positive for retail businesses.

**Horticulture New Zealand**

179. 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**

180. 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.

181. Impacts of the minimum wage indicated by NARGON members included: reduction in staff/staff hours, delays of maintenance, cutting training, reduction or cancellation of employee rewards, and less general stock holding.

182. Positive effects of minimum wage increases were increases in consumer spending; most staff will receive pay increases in line with minimum wage increase. On averages 30 per cent of workers are directly affected by the minimum wage.

183. 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; increases of cost of 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**

184. 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.
185. 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 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.

186. Farmers are also moving to wages rather than salaries as farm work often requires many hours 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 earning less certain for workers.

187. Federated Farmers support a nil increase to the minimum wage for 2016.

**Retail New Zealand**

188. 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.

189. 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.

190. 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.

191. Retail New Zealand maintains that the minimum wage should remain at $14.75 for 2016.

**McDonald’s New Zealand**

192. 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.
193. 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.

194. 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

195. 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

196. 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.

197. 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.

198. 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 be removed immediately.

199. 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.

200. 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.

201. 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.

202. 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.

203. 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

204. 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.

205. 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.

206. 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.

207. 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.

208. 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

209. NZNO supports the submission of the NZCTU.

210. 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.

211. 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.
212. 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.

213. 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.

214. 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)

215. 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.

216. The PSA endorses the submission of the NZCTU.

217. 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 effects will welcome the increase in wages while the funding will not increase.

218. 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.

219. 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.

220. 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.

221. 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)

222. 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 a 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)**

223. 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.

224. 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.

225. 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, 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**

226. 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.

227. 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.

228. 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 Action Poverty Group (CAPG)**
229. CAPG 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.

230. 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.

231. The minimum wage acts as a floor and in many occupations it is the only pay rise people will receive.

232. An increase will benefit disadvantaged groups such as Māori, Pacific people and those without formal qualifications.

233. 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)**

234. The YWRC supports the immediate increase of 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.

235. 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.

236. 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.

237. 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)**

238. 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.

239. 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

240. 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

241. 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.

242. 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.
Chapter four – Setting the rate

Summary of the assessment

243. This report provides an assessment of the options for change to the minimum wage rate for the 2015 minimum wage review, taking into account inflation, wage growth, restraint of employment and other relevant factors. Our analysis shows that these options could have the following impacts:

Option 1 ($14.75 per hour)

244. Option 1 is the current adult minimum wage rate. This option would erode the 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)

245. 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).

246. 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)

247. 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).

248. 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)**

249. 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).

250. 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)**

251. 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).

252. 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)**

253. 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).

254. 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 $555.7473 million.

255. Table 29 (on the following page) sets out a summary of the impacts of the minimum wage rate options.

Recommendation from MBIE

256. 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.

257. 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.

258. 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 unadjusted 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.

259. 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.

73 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.
<table>
<thead>
<tr>
<th>Minimum wage rate impact measures</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
<th>Option 5</th>
<th>Option 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult minimum wage (hourly rate)</td>
<td>$14.75</td>
<td>$15.00</td>
<td>$15.25</td>
<td>$15.50</td>
<td>$16.05</td>
<td>$19.25</td>
</tr>
<tr>
<td>Adult minimum wage (gross weekly income)</td>
<td>$590</td>
<td>$600</td>
<td>$610</td>
<td>$620</td>
<td>$642</td>
<td>$770</td>
</tr>
<tr>
<td>Percentage increase</td>
<td>N/C</td>
<td>1.7%</td>
<td>3.4%</td>
<td>5.1%</td>
<td>8.8%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Relativity to median wage</td>
<td>64.6%</td>
<td>65.7%</td>
<td>66.8%</td>
<td>67.9%</td>
<td>70.3%</td>
<td>84.3%</td>
</tr>
<tr>
<td>Number of people impacted (rounded up to nearest 100)</td>
<td>74,900</td>
<td>85,500</td>
<td>152,700</td>
<td>173,300</td>
<td>267,200</td>
<td>555,900</td>
</tr>
<tr>
<td>Estimated restraint on employment</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>-2,000</td>
<td>-5,500</td>
<td>-28,000</td>
</tr>
<tr>
<td>Estimated economy-wide increase in wages ($m, annual)</td>
<td>N/C</td>
<td>25</td>
<td>75</td>
<td>132</td>
<td>304</td>
<td>2,379</td>
</tr>
<tr>
<td>Estimated inflationary impact/GDP (percentage points)</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>N/C</td>
<td>0.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Additional annual costs to the government ($m)</td>
<td>N/C</td>
<td>$8.79</td>
<td>$22.82</td>
<td>$37.97</td>
<td>$86.61</td>
<td>$555.74</td>
</tr>
</tbody>
</table>

74 This is calculated on a 40 hour week basis.
75 The median hourly earnings are $22.83 per hour (New Zealand Income Survey, June 2015).
76 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.
77 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.