



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission

to the

Minimum Wage Review

2008

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1. Introduction

- 1.1. The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) welcomes the opportunity to make a submission as part of the 2007 minimum wage review. The CTU is the internationally-recognised confederation of trade unions in New Zealand and represents 40 affiliated unions with a membership of over 350,000 workers. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Runanga o Nga Kaimahi Maori o Aotearoa (Te Runanga) the Maori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Maori workers.
- 1.2. The CTU acknowledges that since December 1999 the Government has taken several important steps in the area of minimum wages. These include lifting the adult rate, lowering the age of application for the adult rate, increasing the rate for 16/17 year olds to 70 per cent, and then 80 per cent, of the adult rate, benchmarking the rate for trainees to no less than the youth rate and to limiting the time spent for a 16 or 17 year old on the youth rate to 200 hours or 3 months whichever is the lesser. The minimum wage has increased by 71 per cent since 1999, in striking contrast to the 14 per cent increase over ten years from 1990.
- 1.3. The CTU encourages the Government to continue to build on this excellent progress. In this context we note the inclusion in the Confidence and Supply Agreement with NZ First and the Co-operation Agreement with the Green Party the commitment that the Government will:

“Continue the practice of annually increasing the minimum wage, with a view to it being set at \$12.00 per hour by the end of 2008 if economic conditions permit.”¹
- 1.4. While the CTU acknowledges that the Government delivered on this commitment from 1 April 2008 including the removal of youth rates, we regard a lift beyond this is necessary. Collective bargaining density in those sectors where workers are paid at or near the minimum wage is at 4 per cent, we submit that there is a strong case for a two pronged approach to continue to build on the commitment shown to addressing low pay.
- 1.5. These are that firstly, the Government supports an increase in the minimum wage to a level that is two-thirds of the average wage and secondly that the Employment Relations Act must be significantly amended to genuinely promote industry and multi-employer collective bargaining.
- 1.6. Some employer groups may counter that increases impose unbearable costs on employers. But low wages in New Zealand are now more than a social issue or a debate about the balance of competing interests. Low wages are

¹ “Confidence and Supply Agreement with New Zealand First”, 17 October 2005
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now an intrinsic barrier to the economic transformation of New Zealand. Low wages are embedded in this country. The CTU accepts that for overall wages to rise there will need to be sustained lifts in productivity along with a much stronger distributional impact through collective bargaining than what we have seen in the last 15 years. But the minimum wage represents the wage 'floor'. It needs to rise to \$16.30 to set a clear base. When the new federal minimum wage takes effect on 1 October this year in, the minimum wage in New Zealand will only be 69 per cent of the Australian federal minimum wage. It is time for the New Zealand Government to send an unambiguous signal that low wages will not be tolerated in this country.

2. Executive Summary

- 2.1. The CTU is seeking an increase in the minimum wage based on indexation to 66% of the average wage. At the present time this equates to \$16.30.²
- 2.2. The CTU is seeking the removal of the new entrant rate so that the minimum wage applies fully to those aged 16 years and over.
- 2.3. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support the review of the employment of children and support the ratification of ILO Convention 138. We propose that the review of the employment of children should recommend sectors and occupational categories where the minimum wage should apply regardless of age.
- 2.4. The CTU is seeking either the removal of the trainee rate or a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.
- 2.5. The CTU supports the Minimum Wage and Remuneration Amendment Bill and its underlying principle that no one should earn less than a socially-acceptable minimum for their labour. It addresses a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. According to the ILO, "The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period in time and its ability to meet the different needs of all parties concerned".³ On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective

² This is based on the average ordinary time wage of \$23.63 an hour. Allowing for a 2% increase to the current average wage we are proposing that the minimum wage for 2009 is based on 66.0% of the average ordinary time hourly rate as at June 2008 in the Quarterly Employment Survey .

³ International Labour Organisation, "Minimum Wage Fixing: A Summary of Selected Issues", Briefing Note No. 14, 1998.

at extending protection to non-standard working arrangements like contracting.

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

3. The Minimum Wage is too low in relative terms

- 3.1. The minimum wage is currently 50 per cent of the average hourly wage, a slight improvement on the same time last year when it represented just fewer than 49 per cent of the average hourly wage.⁴ However, this ratio is well short of the 66 per cent recommended in 1973 after the Royal Commission into Social Security and even further behind the ratio of 83 per cent when the minimum wage was first introduced in 1946.
- 3.2. In the context of the award system's removal, the minimum wage is also low compared to minimum wages for workers covered by collective agreements. Currently, the average minimum printed weekly wage in collective agreements surveyed by the Industrial Relations Centre at Victoria University is \$520 – or \$13.00 per hour based on a 40-hour week.⁵
- 3.3. The minimum wage is also low compared to Australia. In Australia the minimum wage from 1 October 2008 will be AUS\$ 14.31 (approximately NZ\$17.34 at 17 September 2008). In light of debates about relative wages across the Tasman, and putting to one side purchasing power parity, Australia's minimum wage will soon be 44 per cent higher than New Zealand's.
- 3.4. This is damaging to the New Zealand economy. Net losses to Australia have now peaked the previous high of 1989 and follow continual increases in outflows since 2001. This represents significant losses of workers to Australia. The net outflow to Australia was 32,300 in the July 2008 year, up 26 percent from 25,500 in the July 2007 year. New Zealand has, continued for the second year in a row to overtake the UK as the largest source country for permanent migrants to Australia. It is time for a significant step to be taken to address this issue and a lift in the minimum wage to \$16.30 would provide that signal.

⁴ Statistics New Zealand, "Quarterly Employment Survey", June 2008

⁵ George Lafferty and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2007/2008", Wellington, 2008

- 3.5. The most effective way to ensure that the minimum wage is set at a reasonable level is to index it to the average wage. As noted by Dowrick and Quiggin⁶ there are sound reasons to index the minimum wage to average or median wages. They state that in order to avoid further widening of inequality, and to avoid the exacerbation of poverty traps, minimum wages need to be indexed not to the Consumer Price Index but to the average or median wage – allowing workers in low-pay occupations to share in the benefits of rising productivity. Indexing is also recognised as a vital mechanism to maintain the value of NZ Superannuation.
- 3.6. The CTU submits that it is time that the New Zealand Government accepted the International Labour Organisation guideline that the minimum wage should be based on the general level of wages and index at approximately two-thirds of the average wage which is not only close to the recommended European Social Standard⁷ but is also the level recommended in 1973 in New Zealand by the Royal Commission into Social Security.
- 3.7. Although there have been significant increases in the minimum wage in recent years, there is also evidence of widening income disparities. One way of reducing this disparity is to adopt indexation at an adequate level.

4. New Entrant Rate

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

⁶ Steve Dowrick and John Quiggin. "A Survey of the Literature on Minimum Wages". Australian National University and University of Queensland, February 2003, pg 6.

⁷ The ILO does not recommend a precise level of the minimum wage. However Recommendation 30 in relation to ILO Convention 26 notes that the minimum wage should be set in relation to the general level of wages in the country. As Peter Brosnan from Griffith University has argued in *Can Australia Afford Low Pay?* that an appropriate guide to level can be found in the European Social Charter 'decency threshold' which suggests 68 per cent of the adult mean wage. Brosnan also suggests that 60 per cent could also be a reasonable level.

eliminating the youth minimum and/or extending the minimum wage to those aged less than 16 years would “have very little effect on youth employment opportunities”.⁸

- 4.5. The CTU also supports the minimum wage applying regardless of age including those aged less than 16 years of age.
- 4.6. More than 40 per cent of 11 to 14-year-olds are estimated to work at least occasionally; approximately 25 per cent of 15-year-olds are in regular part time work; nearly 40 per cent of 16-year-olds and 50 per cent of 17-year-olds are in employment.
- 4.7. Although it might be preferable in some respects to regard any work done by those under 16 years to be primarily of an incidental nature or part of a learning experience the purpose of work should no more determine remuneration for young workers than it does for other workers. Similar arguments were used to justify gender pay rates for the same work prior to the passing of equal pay legislation. The reality of the figures above is that many under 16 year olds are working. There are now many 14 and 15-year-old young people in regular part time work that contribute to their personal or family income in a meaningful way. In such an environment it is vital to secure those workers’ rights and to ensure that adult and other young workers in industries with a high dependence on youth employment are not disadvantaged by the downward pressure on their incomes that comes from the ability to replace them with, albeit with limited duration, lower paid youth workers.
- 4.8. Unions have negotiated arrangements similar to or better than the new statutory new entrant position. However it also remains to be seen just how practical the 200 hours or 3 months qualification periods will be in practice. For instance in the retail sector, some employers are making use of the new entrant qualifying periods whereas other employers are simply paying not less than \$12.00 an hour.
- 4.9. For all of these reasons the CTU submits that the Government should indicate that it intends to completely remove the remaining discrimination against young workers aged 16 and 17 years.
- 4.10. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support the ratification of ILO convention 138 but also the approach by the Government to the ILO to explore how to comply with the Convention within the context of current legislative and policy framework which provides thresholds to entry of young people to work in general and for partial types of work. There is however an urgent need for more data about young people. We don’t know enough about what is happening in this area because of the absence of data.

⁸ Steven Stillman, “The impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform”, Motu Policy Seminar, Thursday 21 July 2005, Wellington.

5. Training Rates

- 5.1. The CTU conditionally accepts the continuation of an exemption for trainees. This should be based on a negotiated sliding scale for trainees which sees the rate payable progressively increased to the minimum wage and it must continue to require 60 credits of training. If this is not accepted we submit that the trainee rate should be abolished.
- 5.2. As discussed below, apprentices were previously on a graduated scale based on hours of training completed. But for those trainees and apprentices there was the *quid pro quo* of higher rates of pay in the future. This is longer assured. Formalised training agreements now tend to be found in more male-dominated occupations where clearer apprenticeship structures exist. The evidence from a 2006 study shows that despite similar starting rates (a median of about \$10.54/hour), once an employee in the male-dominated occupations examined had completed their apprenticeship, their wages jump to a median of \$19/hour whereas the equivalent level for female-dominated roles was only \$12.50/hour.⁹ The prevalence of penal rates and casual loadings in awards also meant that young people who were more likely to be employed outside core working hours and/or on a casual basis had lower hourly rates supplemented by penal rates and casual loadings.
- 5.3. We therefore propose that there should be a maximum length of time that a trainee can remain on a rate lower than the adult minimum wage. We suggest that a period of 12 months is appropriate. In the absence of a negotiated trainee scale, a minimum 60 credits of training and a limited time period, the CTU would support the removal of trainee rates. Some of the arguments for removing youth rates apply here.
- 5.4. Historically, there were exemptions from the Minimum Wage Act for apprentices. This was based on the argument that an apprentice was at an initial learning stage. However, at the end of the apprenticeship, the worker would be paid at a relatively higher qualified tradesperson rate. The lower starting rate was also an inducement to employers to take on apprentices. There are and have been apprenticeship scales that are in excess of the minimum wage. In other cases, it might have been only the first two steps of the scale that were below the minimum wage.
- 5.5. The scale for apprentices was set on the basis of particular time frames/length of service and a scale determined by a series of rates at a progressively increasing percentage of the qualified tradesperson rate.
- 5.6. However, the combined effect of the Industry Training Act 1992 which repealed the Apprenticeship Act 1983, and the Employment Contracts Act 1991, was that the relationship between an apprenticeship scale and a tradesperson rate in an appropriate award was not possible, and the process

⁹ Prepared for the Ministry of Women's Affairs, "Research on wages and costs of education and training" by Jarrod Moyle and Catherine Hendry, Reward Consultants 1 September 2006.

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

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

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

- 6.1. In general, wages in New Zealand are low – in absolute terms, relative to Australia and other OECD countries, and in terms of an economic transformation in New Zealand to a high skill, high wage, and high value economy.

- 6.2. New Zealand's unemployment rate is at 3.9 per cent, the sixth lowest in the OECD¹⁰. There are some 89,000 registered unemployed, and reports of labour shortages are expected by the Labour Department to continue for some time. The most recent Quarterly Survey of Business Opinion did however note an easing in the number of employers saying they are having difficulty finding skilled staff (19% down from 36% in the last survey and 41% this time last year) but this is likely to reflect increased business caution in hiring rather than any loosening in the market for skills.. Firms reporting it was difficult to find unskilled labour went from 33% in the December 2007 survey to 22% in the March 2008 survey. In the latest survey, the rate has changed to a net 6% of firms reporting it had become easier to find unskilled labour¹¹.
- 6.3. Kiwi workers are however yet to see any significant change in their pay packets. In an environment of low and relatively unresponsive wage rates, and in light of the issues around productivity and economic transformation, a low minimum wage is symbolic of an economy with a low-skill, low technology approach to employment.
- 6.4. The OECD records that between 1995 and 2005 the average annual change in real compensation per employee in New Zealand was 1.7 per cent, well below the Australian average of 2.2 per cent but above the OECD average of 1.2 per cent.
- 6.5. The CTU estimates the wage gap with Australia to be around 30 per cent. With variations in the exchange rate and depending on which wage figures are compared, there are numerous figures circulating. For instance, comparing the full time adult rate in Australia with the average weekly wage in New Zealand at current exchange rates showed a difference close to 50 per cent. However, if we compare the New Zealand average weekly wage with the Australian all employees rate of \$AUD890.90, the difference is more like 15 per cent.
- 6.6. The wage gap with Australia grew by 50.3 per cent from (June) 1990 to 1999 but has not increased at all between 2000 to 2008. In fact if we include the 2008 figures to date the wage gap with Australia has shrunk by about 2.5 percent since 2000. But the damage has been done. We are in catch-up mode and there is a long way to go.
- 6.7. The change in real wages over a longer period from 1980 to 2001 shows an actual fall for New Zealand of 6.5 per cent compared with a range of other countries where there were significant increases (e.g. Australia 28.8 per cent, Canada 39.5 per cent, UK 46.9 per cent and Finland 68.2 per cent).¹²

¹⁰ Statistics New Zealand, "Household Labour Force Survey", June 2008.

¹¹ NZIER Quarterly Survey of Business Opinion, June 2008 quarter.

¹² Canadian Centre for the Study of Living Standards, "An Index of Labour Market Well-being for OECD countries", Ottawa, 2003.

- 6.8. An international comparison using purchasing power parities also indicates that incomes are low in New Zealand compared with a range of other developed economies.

Incomes compared by country, according to the World Economic Forum Gender Gap Index 2007. Annual income PPP (purchasing power parity), in US\$.		
Country	Average income male	Average income female
New Zealand	\$27,711	\$19,264
Australia	\$35,832	\$24,966
Canada	\$38,374	\$24,277
United Kingdom	\$37,506	\$24,448
United States	\$49,075	\$30,581

- 6.9. The sluggish nature of wage levels has been in striking contrast to corporate profits. From 2000 to 2004 a study by the Reserve Bank notes that corporate profits increased by 11 per cent a year.¹³ A study by Helen Roberts at Otago University found that between 1997 and 2002, CEO pay grew 5.3 per cent per year.¹⁴
- 6.10. One survey¹⁵ showed that whereas in 2000, a CEO could expect to earn eight times as much as the pay of the average worker, by 2006, the average CEO pay-packet was 19 times the average wage.
- 6.11. Statistics New Zealand's last Census shows that around two thirds of New Zealand's salary and income earners earn less than \$35,000 a year. Proportionately, the income band with the biggest increase between 2001 and 2006 was the \$50,001–\$70,000 band.
- 6.12. The median annual personal income from all sources for people who were aged 15 years and over and living in New Zealand on census night was \$24,400 in 2006, compared with \$18,500 in 2001.

¹⁰ Khoon Goh, "Developments in the New Zealand corporate sector", Reserve Bank Bulletin, Vol 68 - No. 2, 2005

¹⁴ Helen Roberts, "Growth in CEO Pay, Change in Shareholder Wealth and CEO Involvement in the Pay-Setting Process", paper presented by at the Accounting & Finance Association of Australia and New Zealand Doctoral Colloquium, Melbourne, 2005.

¹⁵ See <http://www.neon.org.nz/newsarchive/nzlwe/>

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

7. Raising the minimum wage does not increase unemployment

- 7.1. A 71 per cent increase in the minimum wage since 1999 has not been a disincentive for employers to take on new staff. There have been considerable periods during this time where rising labour force participation and falling unemployment demonstrated workers were not being priced out of the labour market and the tired old argument that an increase in the minimum wage must mean an increase in unemployment is now discredited.
- 7.2. While labour productivity increased by 2.5 percent in the measured sector from 1988 to 2006, real wages barely increased in this period.¹⁶ This divergence illustrates that, from both an employment and productivity perspective, there are good grounds for a substantial increase beyond the current \$12.00 an hour.
- 7.3. Increases in the minimum wage will have some impact on employment. But a much more sophisticated analysis of economic conditions and labour market characteristics is required rather than an outdated formula that purports to show a statistical relationship between minimum wage increases and unemployment.
- 7.4. For example, a Treasury working paper in 2004 found that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.¹⁷ In fact, hours of work increased for 16 and 17-year-olds relative to other age groups.

¹⁶ Statistics New Zealand, "Productivity Information Paper 1988-2005", 2006.

¹⁷ Dean Hyslop and Steven Stillman, "Youth Minimum Wage Reform and the Labour Market", NZ Treasury Working Paper 04/03, March 2004.

- 7.5. Youcef Ghellab¹⁸ of the ILO has concluded whether a minimum wage has a negative or a positive effect depends on many factors such as, its relative level, the structure of the labour market and the country concerned”.
- 7.6. For a more complete assessment of the literature in relation to the impact of wage increases see Appendix 1.

8. Labour participation rates and social policy

- 8.1. Rather than unemployment, rising minimum wages can contribute to improving labour force participation. Rising labour participation rates have been a recent feature of the New Zealand economy. In December 1999 the Labour Force Participation Rate was 65.4 per cent. In June 2008 it was 68.3 per cent. In this context the CTU believes that low wages act as an impediment to higher labour market participation.
- 8.2. The Government has identified labour market participation as a key part of its social development policy. In general there has been a move in emphasis of social policy towards a benefit system that supports work. This follows from Government policy – “Labour believes the benefit system should provide security for those who need it and *lead to work opportunities for those who can take them.*” (emphasis added) ¹⁹ Taken in tandem with its impact on participation rates, the minimum wage plays an important role in social inclusion, attempts to alleviate poverty and improving work life balance.
- 8.3. The CTU supported the repeal of the Disabled Person in Employment Protection Act which removes blanket exemptions to disabled people who are working in what was previously known as sheltered employment. This is an issue of human rights and removing that exemption ensures equality of employment and human rights for disabled people. The repeal of the Act is also supports and gives a strong signal to increasing employment opportunities and the need to ensure decent work and equality of opportunity for disabled people. The CTU recommend there to be some tracking by the DOL of the impact of this change and the wider area of employment of disabled people.
- 8.4. There has been the development of a range of social policies to assist labour market participation. These include early childhood education funding and paid parental leave. However the policy intent of these initiatives is undermined if workers are discouraged from labour market participation by a low minimum wage.
- 8.5. Establishment of an acceptable minimum wage level, that enables people to participate in society and have a reasonable quality of life, is a means of

¹⁸ Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998, p.58.

¹⁹ New Zealand Labour Party, “Social Development Policy”, 2005.

redressing the unfair disadvantage and marginalisation that some social groups face in the labour market face - for example migrants and disabled people.

9. The minimum wage is an important safety net

- 9.1. It was estimated²⁰ that 102,400 workers would be affected by the last increase of the minimum wage to \$12 an hour. Those aged 16 and 17 years would be included in these figures. The number of workers impacted has been increasing with progressive increases to the minimum wage in recent years. This is in part due to the absence of collective bargaining amongst low paid workers and shows the importance of increases to the minimum wage for many low paid workers.
- 9.2. It needs to be clearly acknowledged by the Government that the removal of the award system in 1991 has had a devastating effect on the wage levels of a large proportion of the workforce. In 1990 – the year before the Employment Contracts Act (ECA) removed national awards – almost half of the private sector workforce was covered by collective bargaining. The promotion of collective bargaining by the Employment Relations Act is important, but it has not reinstated the award system. Given the very weak measures in the Employment Relations Act to support industry or occupational agreements on pay and conditions, the abolition of the award system places much greater emphasis on universal policy tools like the minimum wage.
- 9.3. Under the award system the minimum wage was primarily a device to cover gaps in award coverage. Since the introduction of the Employment Contracts Act, and still so under the Employment Relations Act, the minimum wage now sets fundamentals of socially acceptable employment across a majority of the workforce.
- 9.4. While collective bargaining is an important protection for workers, part of the legacy of the Employment Contracts Act is that collective bargaining coverage in New Zealand has fallen significantly – in the private sector it has fallen from 48 per cent in 1990 to 9 per cent today²¹. It is true that many workers not covered by union bargaining do also receive the flow-on benefits in terms of equivalent wages and conditions. Unions estimate that 20-40% of the private sector workforce directly benefit from union negotiations without belonging to the union. But this is not the same as the security of a collective agreement. Without collective coverage, the majority of workers in the private sector rely on legislative minima.

²⁰ Minimum Wage Review Cabinet Paper December 2007.

²¹ George Lafferty and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2007/2008", Wellington, 2008.

- 9.5. This is an important point. After 8 years of an employment law which specifically promotes collective bargaining, only 9% of private sector workers are protected by such agreements. In the last year we note that there was an increase in private sector workers covered by collective bargaining from 133,000 to 150,000 and this is likely to increase the percentage covered. There is clearly a compelling case for review of the Employment Relations Act to address this situation. However, this submission on the review of the minimum wage has to be made on the basis of the current wage-fixing environment where the wage floor for nearly 90 percent of private sector workers is the minimum wage.
- 9.6. Colm McLaughlin²² has also expressed doubts about whether the appropriate institutional structures are in place to enable sectors caught in a low-wage, low-skills equilibrium to move in a ‘high road’ direction. He notes that the combined density rate in retail, restaurants and hotels is below 4 percent and he observed antiunion employer attitudes in his interviews with industry associations. He repeats how one union official described the ERA as “the ECA with access rights for unions”. Consequently, low-paid workers, particularly those in small workplaces, remain dependent on employment legislation to improve their position. McLaughlin further notes that this attitude is reflected in aggregate data, which shows that wage increases in these sectors continue to fall behind the rest of the economy despite the skill shortages. Data for 2005, for instance, showed that the smallest average increases in sectoral wages were in hospitality and retail, the two lowest paying sectors in the economy, with increases below inflation.
- 9.7. In many cases, collective agreements provide for rates well above the minimum wage. However, in some collective agreements there are printed rates only marginally above and in fact below the minimum wage. The Victoria University of Wellington Employment Agreements survey for 2007 found the average printed minimum in collectives categorised as from the “agriculture” sector to be \$426 per week, some \$54 per week below the minimum wage. In collectives categorised as “other retail” the average minimum was only \$451. Others also sit below the weekly minimum wage rate: “other manufacturing” at \$470; “Government/defence” at \$467; “Community services” at \$468; and “textile manufacturing” at \$478.²³ While these are not always paid rates and would have been agreed prior to the 2008 minimum wage adjustment – they underline the large number of workers affected by minimum rates.
- 9.8. We know the characteristics of those that are affected most by increases in the minimum wage²⁴ - they are aged under 25 years, female, married female,

²² McLaughlin, Colm (2007), *The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark, New Zealand and Ireland*. Centre for Business Research, University of Cambridge Working Paper No. 342.

²³ George Lafferty and Peter Kiely, “Employment Agreements: Bargaining Trends & Employment Law Update 2007/2008”, Wellington, 2008.

²⁴ Jason Timmins (2007) *Minimum wage workers: Who are they?* Department of Labour, PANZ Conference, 3 July 2007.

part time, those studying, and workers in services related occupations, as well as the retail and hospitality industry. The Minimum Wage and Remuneration Amendment Bill would if passed provide for minimum wages to a further and important group of workers currently outside coverage of minimum wage provisions.

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

10. Implications for productivity

- 10.1. Employers may point to higher inflation or slowing economic growth to challenge the case for further increases in the minimum wage. But the argument about increasing wages in New Zealand – and, as part of that, the minimum wage – is bigger than the short-term economic climate. Higher wages are a key part of New Zealand’s economic transformation. To date employers have failed to address the issue of low wages in this context.
- 10.2. Compared with Australia, the relative price of labour to capital in New Zealand has fallen dramatically. In a 2003 Treasury paper, Hall and Scobie found that from being equivalent with Australia in the 1980s, the relative cost of labour to capital in New Zealand had fallen by 60 per cent.²⁵ The paper notes that, “with labour relatively cheaper in relation to capital than in Australia, it appears that New Zealand firms have opted for a lower level of capital intensity”.
- 10.3. By 2002, capital intensity in Australia was more than 50 per cent higher than New Zealand. From this Hall and Scobie find that between 1995 and 2002, 70 per cent of the difference in the growth of labour productivity in New Zealand is explained by a lower growth rate in capital intensity.
- 10.4. The International Monetary Fund²⁶ has estimated that in 1999 average labour productivity in market sectors in New Zealand was only 73% of the Australian level, down from 82% in 1988. So productivity in relation to Australia was higher when there was the award system for wages in New Zealand.

²⁵ Julia Hall and Grant Scobie, “Capital Shallowness: A Problem for New Zealand?” NZ Treasury Working Paper 05/05, June 2005

²⁶ International Monetary Fund (IMF) (2002) “New Zealand: Selected Issues.” *IMF Country Report* No 02/72 Prepared by K Kochhar, M Cerisola, R Cardarelli and K Ueda, Washington.

- 10.5. In terms of productivity, this clearly shows that the problem in New Zealand is not a lack of labour market flexibility or that wages are too high. The problem is that wages are far too low and that firms are investing in more workers rather than more capital.
- 10.6. The evidence in New Zealand points to low wages having a negative impact on productivity. Low pay discourages investment in capital and skills, and locks many New Zealand firms into low targets for efficiency and harms economic transformation.
- 10.7. In addition, the growing pressure for increased temporary migration in the New Zealand economy, and the downward pressure this creates on wages, only underlines many employers blinkered view of labour productivity.
- 10.8. In its own right, low pay worsens the performance of labour. Low pay is commonly associated with high levels of labour market churn. For instance, an Auckland University survey undertaken on behalf of a Ministry of Health Quality and Safety project showed that average pay of \$10.80 per hour correlated with staff turnover of 30-40 per cent each year.²⁷
- 10.9. There is a more general issue about the effect of high labour churn on productivity. In a labour market of some 2.1 million people, there are 700,000 workers each year that start a new job. Some do it more than once a year meaning that someone starts a new job on 1.2 million occasions a year. While a certain level of labour turnover is indicative of a dynamic labour market, this high level of churn must be impacting negatively on firm performance and overall labour productivity.
- 10.10. While the minimum wage is only one policy lever, a significant lift in the minimum wage would chart a clear course in terms of productivity enhancement alongside high labour market participation, rather than continued employer reliance on employment creation through low paid jobs with poor levels of physical capital per worker. The minimum wage can stimulate reform by reducing employers' ability to reduce wage rates to maintain their viability, and focus attention on raising productivity as the instrument of commercial adjustment.
- 10.11. We also note²⁸ that an increase in the minimum wage can be associated with a small, but statistically significant, increase in average productivity in low-wage industries compared with other industries.

²⁷ Ministry of Health, "Disability Support Services in New Zealand: The Workforce Survey – Final Report", August 2004.

²⁸ See - <http://www.oecd.org/dataoecd/27/20/38797288.pdf> *Assessing the Impact of Labour Market Policies on Productivity: a Difference-in-Differences Approach*, Andrea Bassanini and Danielle Venn, OECD SOCIAL, EMPLOYMENT AND MIGRATION WORKING PAPERS NO. 54.

11. Social justice

- 11.1. According to the Social Report 2008, “paid work has an important role in social wellbeing. It provides people with incomes to meet their basic needs and to contribute to their material comfort, and gives them options for how they live their lives. Paid work is also important for the social contact and sense of self-worth or satisfaction it can give people”. The key point is that good jobs, not just jobs *per se*, are important.
- 11.2. Given its role as a safety net, there is a fundamental principle that underpins the idea of a minimum wage. That is, if a job will only be provided at a wage below some particular level, society would rather not have that job. The principle can be compared to principles around product safety. There may be firms able to profit from the sale of a dangerous product, but there are social costs that outweigh any benefit from that profit. Poverty and desperation can push people to work for sub-standard wages, and some profit-driven enterprises will be willing to employ them. But, as a society, we have to question the real value of that opportunity.
- 11.3. As the Ministry of Social development has noted²⁹, in the economically developed nations, poverty is now almost universally conceptualised in relative rather than “absolute” or subsistence terms. It is defined and assessed vis-à-vis the living standards of the society in question. Poverty is understood as *exclusion from the minimum acceptable way of life in one's own society because of inadequate resources*.
- 11.4. Low paid workers have been facing steadily rising living costs. Adjusting the figures from the Household Economic Survey for the year to July 2007 shows, the average weekly net expenditure is likely to be \$994 to July 2008. This meant that two people working full time on the minimum wage would still be \$34 a week short of meeting average average household expenditure in New Zealand.
- 11.5. For low wage workers, secure rental accommodation, let alone home ownership, has become increasingly unrealistic. There are over 450,000 renters in New Zealand, 145,000 of them in Auckland. From just under \$250 in 2003, the average weekly rental for a 3-bedroom house in New Zealand has risen to \$323 in March 2008.³⁰ This represents nearly 70 per cent of the before-tax minimum weekly wage. Following recent annual trends, mean New Zealand rents for new tenancies increased in the year to March 2008 by 5.4 percent.
- 11.6. The CTU maintains that the provision of regular wage increases and a greater supply of affordable housing are two vital ingredients in tackling the high cost of home ownership. The significant gap between the rates at which

²⁹ See <http://www.msd.govt.nz/documents/publications/msd/journal/issue22/22-pages19-54.doc> *Working for Families: The Impact on Child Poverty*, Bryan Perry, Ministry of Social Development.

³⁰ Department of Building and Housing, “Building and Housing Trends: January-March 2008”.

house prices and wages are raising worries many workers – particularly those trying to enter the housing market for the first time.

- 11.7. REINZ figures show that the median house price in August was \$340,000, down 2.2 percent for the year, after a period of consistent and high increases (eg. 12.9% last year). Just six years ago the median house price was \$185,000. Quotable Value reported a 2.2 percent decline in national property values over the year to July. Wizard Home Loans Affordability report shows it took 74.2% of the median take-home pay to service a mortgage on a median house in August down from a peak in November 2007 of 83.8%. While this is the best level since January 2007, housing affordability remains much worse than the 40-50% levels seen in 2002-04.
- 11.8. The internationally accepted standard for housing affordability is that median house prices should not exceed three times median household incomes. The 2008 Demographia Survey found that the median house price in Australia and New Zealand was 6.3 times the median household income, compared with 4.7 times in Ireland, 5.5 in the United Kingdom, 3.6 in the United States and 3.1 in Canada. Within New Zealand, the median house price in Auckland was 6.9 times median household income, Christchurch 6.6 times and Wellington 5.6. The home ownership rate has been falling. It was 73.8 per cent in 1991, 67.8 per cent in 2001, and 66.9 per cent in 2006.
- 11.9. In the three years from 2004 to 2006, house prices increased by 38.5 per cent while at the same time wages went up by 8.7 per cent, meaning that house prices are outstripping wages by 4 to 1.
- 11.10. By mid-2006 the outstanding debt of households had increased around 5 times in dollar terms since 1990 and household debt as a proportion of annual disposable income has gone from around 74 per cent in 1992 to 100 per cent in 2000 to 160 per cent by 2008.
- 11.11. A study by Stephens, Waldegrave and Frater in 2000 found that between 1984 and 1998, the top 10 per cent of households in New Zealand increased their income by 43 per cent, but the bottom 50 per cent of households saw their income decrease by 14 per cent.³¹ In this economic climate, increased participation in the labour market is still seeing some workers left behind.
- 11.12. According to the New Zealand Living Standards study the proportion of New Zealanders living in serious hardship grew between 2000 and 2004 by 3 per cent. When income source is taken into account the trend is more alarming. For those on low income who receive their income from the market (predominantly wages), the percentage experiencing severe hardship rose from 7 per cent in 2000 to 12 per cent in 2004. These figures suggest that, at

³¹ Robert Stephens, Charles Waldegrave and Paul Frater, "Below the Line: An Analysis of Income Poverty in New Zealand, 1984 - 1998" Victoria University of Wellington Graduate School of Business and Government Management (GSBGM) Working Paper 2/00, 2000.

current levels of low pay, employment is not necessarily a way to avoid severe poverty.

- 11.13. Equally, the Social Report 2008 notes that New Zealand, with a ranking of 34, has higher income inequality than the OECD median (30) and ranks 23rd out of 30 countries in its 2004 comparison.³²
- 11.14. In 2008, the equivalised disposable income of a household at the 80th percentile was 2.6 times larger than the income of a household at the 20th percentile, a slight decrease from 2.7 times larger in 2004. In 1988, the ratio was 2.4. Income inequality rose between 1988 and 1991, and then plateaued, to 1994. The recent small decline in income equality has followed a period of gradual increases.
- 11.15. Since 1988, incomes of those in the bottom 20 percent of all incomes have only increased a little, once adjustments for inflation are made, whereas those in the top 20 percent of incomes have climbed by more than a third. Incomes for the middle 60 percent have climbed more overall for those closer to the top 20 percent than for those closer to the bottom 20 percent.
- 11.16. Between 1998 and 2001, changes in average incomes were uniformly low for all income groups. Between 2001 and 2004, average incomes grew most for those with incomes in the middle 60 percent and less for those with incomes in the top 20 percent after inflation is taken into account. On average, there was relatively little change for those with incomes in the lowest 20 percent after adjusting for inflation. From 2004 to 2007, incomes for households in the low to middle income range grew strongly, whereas incomes for the top 40 percent grew by 2 percent to 4 percent in real terms. This led to the decline in the 80:20 percentile ratio from 2004-2007.
- 11.17. Looking back further at the sequence of changes around income distribution, between 1984 and 1994 incomes fell all along the distribution³³. In the 10 years after 1994 real incomes rose again, but more quickly for middle and high-income groups than at the bottom end who did not fully recover to 1984 levels. By 2004 the top 20 per cent of households were getting 40 per cent of the pie of national household income, five times the 8 per cent share of the bottom quintile. Meanwhile New Zealand's Gini coefficient is higher than the OECD average, indicating more inequality. The rate at which it has increased since the mid-1980s is the highest among the 20 countries the report compares us with and more than three times that of Canada, Australia or the United States.

³² Ministry of Social Development, "The Social Report 2008: Indicators of Social Wellbeing in New Zealand", Wellington, 2008.

³³ Brian Fallow, "Poor get poorer ... and poorer" NZ Herald, July 26, 2007.

- 11.18. As noted by Statistics NZ³⁴, in 2004, the richest 10 per cent of New Zealanders owned more than half the country's total wealth, having increased their "share" from 48 per cent in 2001 to 52%. The richer half of New Zealanders own 95% of our country's wealth (up from 93% in the previous survey) and so the poorer half now own just 5%.
- 11.19. These figures on income and wealth disparities are relevant to the issue of the level of increase in the minimum wage. There is clear evidence³⁵ for the US, UK, Australia, New Zealand and several European countries that changes in the level of minimum wages are directly inversely correlated with the level of wage inequality. Where the real value of minimum wages has been allowed to fall, overall wage inequality has risen: the more minimum wages have fallen, the more inequality has risen.
- 11.20. The CTU supports economic transformation to a high wage, high skill and high quality economy. We also note the stated objective to return per capita income to the top half of OECD. We cannot get anywhere near the top half of the OECD per capita income if a significant number of workers continue to be left behind by low wages. Equally if that growth is going to be truly sustainable, it needs to acknowledge the social dimension and the costs of income inequality and poverty.
- 11.21. There is also an important argument that an increase to the minimum wage supports the important social objective of improving work life balance opportunities for New Zealand workers. New Zealand has a confirmed long hours' work culture driven in part by low wages. Recent analysis of census data by Dr Lindy Fursman found nearly half of all workers (42%) reported that they work 40-49 hours a week, and 23 per cent work 50 hours or more a week.³⁶
- 11.22. The Employment Relations (Flexible Working Arrangements) Amendment Act came into force in July this year. This new right to ask for flexibility and the fact that many New Zealand businesses and government departments have already introduced more flexibility into working arrangements to support caring, voluntary responsibilities and access to leisure activities will be of some assistance to New Zealand workers., The evaluation of this legislation in two years time will be important in determining whether the provisions are as available to those more likely to access provisions now; professional and managerial workers, as they are to low paid workers.
- 11.23. Many New Zealand workers have not had access to flexibility enabling them to achieve work life balance. For example Families and Work Institute

³⁴ Statistics NZ, *Wealth Disparities in New Zealand*, Jit Cheung, Standard of Living Business Unit, Statistics New Zealand, Social Policy, Research and Evaluation Conference 2007.

³⁵ See Sue Richardson and Lauren Miller-Lewis, *Low Wage Jobs and Pathways to Better Outcomes*, New Zealand Treasury Working Paper 02/29, Dec 2002, Pg 7.

³⁶ Department of Labour, "Working long hours in New Zealand: a profile of long hours workers using data from the 2006 census", March 2008.

research in 2004 confirmed that low income workers are less likely to be able to change their starting and finishing hours.³⁷ This has important social costs for families who don't have the flexibility to provide for family and caring needs.

- 11.24. While there has been a fall in poverty rates, and for the first time in 20 years there was a closing of the gap in income inequality, New Zealand has disturbingly high rates of child poverty. The latest figures show 170,000 or 16 percent of children live in households with incomes below the restrictive 50 percent of median income poverty line, after taking account of housing costs.
- 11.25. Wages levels are a critical component of the response to eliminating child poverty. Higher minimum wage levels will have an impact, along with the Working for Families package, on reducing the rates of poverty among New Zealand children. More than 40 percent of children of sole parents who have part-time work live in poverty. Increasing the wages in precarious part-time work may also contribute to a reduction in child poverty.
- 11.26. The recently released report A Fair Go for Children supported that action to address child poverty in New Zealand, among a raft of other measures, include increasing the minimum wage. Child Poverty Action Group New Zealand states that an adequate minimum wage and secure work hours are needed "for our poorest children's life chances to improve".

12. Gender Pay Gap

- 12.1. The gender pay gap remains significant and an increase in the minimum wage continues to be one of a number of mechanisms, to close the pay gap between women and men and contribute to other government policy, such as the Government's Action Plan for Women and Choices for Living, Caring and Working – a ten year plan to improve the caring and employment choices available to parents and carers. .
- 12.2. The CTU supports consideration of the impact on the gender pay gap in application of the assessment criteria for the review of the minimum wage. This does not however in our view go far enough and should focus on the ability of the minimum wage to play a role in reducing the gender pay gap between men and women in the New Zealand workforce. This would explicitly recognise that minimum wage policy and pay and employment equity policy have a connection; that assessing options to change the minimum wage in relation to their contribution to closing the gender pay gap; and, along with improved collective bargaining and other initiatives for a more concerted effort to close the gender pay gap which is persisting at around 13

³⁷ Jodie Levin-Epstein, "Getting Punched: The Job and Family Clock", Center for Law and Social Policy, July 2006.

per cent. Women are overrepresented among low level earning workers and increases in the minimum wage are effective in closing the gender pay gap.

- 12.3. The CTU strongly supports the work of the Pay and Employment Equity Unit and other initiatives to reduce the gender pay gap. The initiatives so far have only just begun to go beyond the core public sector, public health and education sectors. Proposals for pay and employment equity requirements in sectors where work is funded by Government through outsourced contracts, along with minimum wage adjustments, are imperatives for reducing the gender pay gap given the absence of legislation for equal work of equal value. In the tables below data from the New Zealand Income Survey, June 2007, underlines the extent to which women, Māori and Pacific workers are over-represented amongst those on low pay. It does not show what level of minimum wage would best address the relevant pay gaps, but it does place in sharp focus the relative importance of the minimum wage for these groups.

	Male	Female	Both
Pakeha	\$24.60	\$20.15	\$22.43
Maori	\$17.99	\$17.15	\$17.58
Pacific peoples	\$17.37	\$17.34	\$17.35
Total population	\$23.21	\$19.50	\$21.41

	Average	Per \$1 earned by Pakeha men	Per \$1 earned by all men ³⁸
Pakeha male	\$24.60		
Pakeha female	\$20.15	82c	87c
Maori male	\$17.99	73c	78c
Pacific male	\$17.37	71c	75c
Pacific female	\$17.34	70c	75c
Maori female	\$17.15	70c	74c

- 12.4. Low pay and the gender pay gap result in lower lifetime earnings and reduced economic security for women on average compared with men.³⁹ It flows on to retirement savings as lower paid women will be less able to afford savings, have contributions at a lower rate than their male counterparts and therefore be less likely to attract member tax credits, and employer contributions to retirement savings. The persistent gender pay gap is unacceptable and discriminatory. An increase in the minimum wage is an

³⁸ As a proportion of men’s average hourly earnings.

³⁹ Prue Hyman, “Significant increases in the minimum wage: a strategy for gender pay equity”, Women’s Studies Association (NZ) Conference, Wellington, November 2004.

intentional measure to reduce the gender pay gap across the whole workforce.

- 12.5. The Pay and Employment Equity Taskforce Report identified that an increase in the minimum wage can make a small but important contribution to reducing the gender pay gap. Dixon reinforced this view stating that recent increases in the real value of the adult minimum wage may have had a positive impact in helping to reduce the gender pay gap (even if circumstantial evidence suggests that impact, if accurately estimated, was probably quite small.⁴⁰
- 12.6. The minimum wage has a particularly important role in protecting low-income women workers. For those aged 25-64 years, 49.5 per cent of the labour force is female, but 72.6 per cent of those on the minimum wage are female⁴¹.
- 12.7. The gender pay gap remains stubbornly unchanged. The 2005 Income Survey found it had increased by 4 per cent before the 2006 survey saw it start to close again. While workers had received overall increases, women workers still do not get an equal share of these increases. And in 2007, the gender pay gap widened by another 1 per cent to 14 per cent.
- 12.8. Census figures show that in 2006, the median annual personal income from all sources for people who were aged 15 years and over and living in New Zealand on census night was \$31,500 for men and \$19,100 for women. In 2006, three-quarters of people (75 per cent) whose personal income was over \$70,000 a year were men. Nearly two-thirds of people (63 per cent) whose personal income was between \$1 and \$5,000 a year were women.
- 12.9. This situation was exacerbated in the 1990s as noted by Harbridge and Thickett⁴². They say that wage re-alignment that occurred in the early 1990s under the early years of the Employment Contracts Act saw women more likely than men to adjust down in real wage terms. Having been "adjusted downwards" women have since attracted similar if not identical wage movement as have men. The "gender gap" adjusted sharply by 1995, and has remained at that level since. Both genders have been affected, but women more so than men.
- 12.10. The Census showed that 31.9 % of all those working full-time (30 hours or more per week), earned less than \$30,000. For part time workers incomes are obviously lower on average. As well as being predominately female, part time work is disproportionately low paid and often offers little by way of

⁴⁰ Sylvia Dixon, "Understanding Reduction in the Gender Wage Differential 1997-2003", paper presented at NZ conference on pay and employment equity for women, June 2004.

⁴¹ Jason Timmins (2007) *Minimum wage workers: Who are they?* Department of Labour, PANZ Conference, 3 July 2007.

⁴² Raymond Harbridge, Glen Thickett. "Gender and enterprise bargaining in New Zealand: Revisiting the equity issue." *New Zealand Journal of Industrial Relations*. Wellington: Feb 2003. Vol. 28, Iss. 1. Pg 88.

training opportunities.⁴³ A minimum wage increase therefore also benefits women in part time work, given that women are more likely than men to work in part time employment.

- 12.11. Increases in the minimum wage therefore support economic and social objectives as they increase economic independence, impact positively on retirement incomes and strengthen incentives to work.
- 12.12. It is a major concern to the CTU, however, that in low paid sectors the minimum wage has become a primary wage-fixing instrument. Women are heavily clustered in the service sector and “care givers”, which was a new occupational category in the 2001 census, is now the sixth most common occupation for women.⁴⁴
- 12.13. Collective bargaining is effective in increasing wage levels of low paid workers. In her 2004 study, Hyman reported that high levels of female unionisation and centralised bargaining are strongly associated with lower wage differential generally and a lower pay gap.⁴⁵ Hyman reported on Whitehouse’s study of 13 OECD countries that showed that collective approaches to equality in the labour market are more effective than those based on individual liberalism.
- 12.14. But there are difficulties in increasing collective bargaining rates in some low paid sectors because of high part time employment rates, high levels of casualised workers and high turnover. Therefore the minimum wage offers essential protection. Workers in low paid work continue to depend on increases in the minimum wage for any wage increase.
- 12.15. In the core public sector, education and health sectors, where low paid work has been contracted out, there had for some time been minimal pay increases for workers other than increases in the minimum wage. Women, ethnic minorities and Maori and Pacific women are heavily over-represented in these workforces. Given contracting out practices, the CTU recommends the further development of responsible contracting policies that will ensure that those receiving government funding are bound by requirements which ensure compliance with good employment obligations and equal employment policies.
- 12.16. In collective bargaining this year there have been some major successes in lifting the wages of low paid workers in sectors where there are chronic low wages and the minimum wage is not only the starting point wage but also workers have difficulty progressing beyond it and it is used as the standard wage level. The Service and Food Workers Union DHB MECA lifted the

⁴³ Prue Hyman, “Significant increases in the minimum wage: a strategy for gender pay equity”, Women’s Studies Association (NZ) Conference, Wellington, November 2004.

⁴⁴ Anne Else and Barbara Bishop, “Occupational Patterns for Employed New Zealand Women An analysis of the 2001 Census Data”, Ministry of Women’s Affairs, 2003.

⁴⁵ Prue Hyman, “Significant increases in the minimum wage: a strategy for gender pay equity”, Women’s Studies Association (NZ) Conference, Wellington, November 2004.

minimum wage rates for low-paid workers working in DHBs or for contractors to a minimum wage of \$14.25. An initiative in 2007 for a rise in low paid workers wages in the aged care sector, above minimum wage rates saw a starting rate of \$12.55 applied. Thousands of women workers in this sector who have years of work experience and skills have had to rely on the minimum wage for increases in wages. Very high turnover in these areas is linked to low wage rates. This also shows the importance of Government as an employer taking a lead in demonstrating the need to lift low pay rates.

- 12.17. Some studies have drawn attention to the fact that the greater the wage dispersion is, the higher the pay gap is likely to be, due to the concentration of women amongst low earners. This point is captured by the "swimming upstream" metaphor used to explain how a widening dispersion of wages reduced the expected contraction of the gender pay gap in the US at a time when women's earnings rose rapidly (Blau and Kahn, 1997). A corollary is that mechanisms that reduce wage dispersion, such as increases in the minimum wage, tend to narrow the pay gap as disproportionately more women than men are paid at or near the minimum wage."
- 12.18. New Zealand has a commitment to reduce the gender pay gap under international conventions. The Convention for the Elimination of Discrimination against Women, (CEDAW) to which New Zealand is a party, states that the right to equal opportunities in employment and equal remuneration is a key element of equality between men and women. ILO Convention 100, which New Zealand has ratified, also enshrines the principle of equal pay for work of equal value.
- 12.19. The CTU supports the need for more research about the nature of low paid employment and, in particular, supports the Pay and Employment Equity Task Force recommendation 111.B3 (e) (iv) that the Government should commission additional research on the nature of low paid employment and those performing this work and the economic impacts of this. This could be linked to the work of a Low Pay Unit.

13. International commitments – UN & ILO

- 13.1. There are a number of international instruments to which New Zealand is a signatory that underline the need to continue to significantly increase the minimum wage.
- 13.2. The New Zealand government is a member of the United Nations Organisation, and as such, has an obligation to ensure "the right to just and favourable remuneration". This is embodied in article 23(2) of The Universal Declaration of Human Rights and article 7 of the UN International Covenant on Economic Social and Cultural Rights.
- 13.3. As noted above, New Zealand has ratified the CEDAW convention. Article 11 (1) (d) obliges all governments who are parties to the convention to "take all

appropriate measures” to ensure “...the right to equal remuneration”. Since women are disproportionately concentrated in low pay and minimum wage paid jobs, any increase in the minimum wage would constitute one appropriate measure towards meeting this obligation.

- 13.4. The New Zealand government is a member of the International Labour Organisation. The Declaration of Philadelphia (1944) redefined the aim and purpose of the ILO, and included an identification of the guarantee of adequate wages as a task of governments.
- 13.5. The New Zealand government has ratified ILO Convention 26. Convention 26 obliges the government to create minimum wage fixing machinery where “no arrangements exist for the effective regulation of wages ... and wages are exceptionally low”. Recommendation 30, which is a guide to convention 26, states that minimum wages should be set according to the “general level of wages prevailing in the country”.
- 13.6. Taken together these international commitments underline the need for continued rises in the minimum wage.

14. Circumventing the minimum wage – enforcement is key

- 14.1. This year’s 6.7 per cent increase in the minimum wage has helped bring about pay increases in a number of sectors. However, it is important that such increases are enforced.
- 14.2. For example, we noted last year, in the case of three lower North Island clothing companies that paid on or just slightly above the minimum wage, the March 2006 75-cent-an-hour increase was accompanied by a nasty shock when workers received a note from their boss advising them that, from then on, their skill payment or their service pay would be rolled into their hourly rate. The effect of this was that, rather than the expected \$30.00-a-week increase, they were going to get nothing extra. There were also cases this year where employers tried to argue that they would not increase pay to reach the minimum wage because of an allowance.
- 14.3. These instances illustrate the importance of accurate and effective enforcement of the minimum wage by the Labour Department.

15. Increase in relation to the objective, assessment criteria and factors

- 15.1. In this section, we briefly discuss our proposals in terms of the new objective of the minimum wage:

“to set a wage floor that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts.”

- 15.2. Underlying this the assessment criteria focus on firstly, “the extent to which any change to the minimum wage would produce gains that are more significant than any losses” and secondly; “consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment related interventions, and would meet the broader objectives of government.”
- 15.3. The gains (or losses) from any increase in the minimum wage are considered against six key factors:
- 15.3.1. consistency with the principles of fairness, protection, income distribution and work incentives
- 15.3.2. comparison against international/OECD benchmarks
- 15.3.3. comparison of the level of the minimum wage, and any proposals to change that level, against other benchmarks (benefit rates, the minimum rate of wage averaged across collective agreements, the producers price index, median wages, and average wages).
- 15.3.4. Consideration of forecast social and economic impacts relevant to changing the level of the minimum wage including the positive and negative impacts on those most likely to be low paid⁴⁶, the net effects after corresponding withdrawal of social assistance and impacts on the gender pay gap.
- 15.3.5. Consideration of the forecast labour market/economic conditions and impacts (together with a range of possible economic conditions) relevant to changing the minimum wage⁴⁷.
- 15.3.6. Potential impacts on the rate of non-compliance.
- 15.4. We will consider each of these six factors in turn.
- 15.5. *Consistency with principles:* Measures of living standards in New Zealand indicate a significant proportion of the population continue to experience hardship and disparity of income distribution. The CTU believes an increase in the minimum wage to \$16.30 would on balance meet the principle of fairness through improving the relativity with the average wage and achieving a minimum rate that internationally stand up as adequate. In terms of

⁴⁶ This includes women, new migrants, Maori, Pacific people, part-time workers, temporary workers, those with a disability, and young people, including any (dis)incentive effects for young people to choose low paid employment or additional education and training.

⁴⁷ Including earnings and wage bill, employment and unemployment, labour productivity, the number of employees and the hours they work, industry sectors and Gross Domestic Product and inflation.

protection, sustained downward pressure on wages in many low-paid sectors of the economy alongside a low density of collective bargaining is causing “market” wages to converge with the minimum wage. These sectors of the economy often employ a disproportionate number of women, Maori, Pacific and temporary migrant workers.

- 15.6. In terms of income distribution the minimum wage continues to sit at around 50 per cent of the average ordinary time wage. In 1973 there was a commitment to set the minimum wage at two-thirds of the average wage. Persistent and growing disparities in income distribution continue to see New Zealand with higher income inequality than the OECD median. We know that two thirds of New Zealand’s salary and income earners earn less than \$35,000 a year. A lift in the minimum wage to \$16.30 an hour would be a very significant step in addressing income disparity through raising the income of those most vulnerable to low pay. Finally, in terms of the principle to provide work incentives; significant increases in the minimum wage have occurred alongside significant and steady increases in labour force participation. A lift in the minimum wage to \$16.30 would increase the incentive to work. We do not believe it would have an adverse effect on school leaving rates. In fact, Timmins⁴⁸ has shown that one of the characteristics of those on the minimum wage is that they are studying. For instance, it was found that whereas 39.9 per cent of those aged 16-24 years were studying, of those on or near the minimum wage, the proportion was 58.7 per cent. Higher wages may in fact enable students to replace work time with study time.
- 15.7. *International/OECD benchmarks:* From 1 October 2008 the purchasing power parity of the Australian Federal Minimum Wage rate will be 30% higher than the New Zealand rate. In real terms it is 40% higher. With record numbers of New Zealanders leaving for Australia in pursuit of higher wages. It is time for a significant step to be taken and a lift in the minimum wage to \$16.30 would provide such an important signal.
- 15.8. *Other income benchmarks:* The relative rate of the minimum wage to the average wage shows that workers on low pay have lost relativity with the rest of the economy. The minimum printed weekly wage in surveyed collective agreements in 2007 was \$520 – up only \$15/week on the minimum for 2006. More agreements however showed minimum rates near or below the minimum wage this year than the previous year.
- 15.9. *Forecast social and economic impacts:* With significant increases in food and petrol costs this year, the lowest paid are more vulnerable than ever. Many of these will be in receipt of Working for Families income supplements. We do not however regard Working for Families as a substitute for decent pay. This is very welcome assistance, however it does operate as a subsidy for

⁴⁸ Jason Timmins (2007) *Minimum wage workers: Who are they?* Department of Labour, PANZ Conference, 3 July 2007.

employers paying low wages and it is targeted at the needs of families rather than the value contributed to enterprises by individual work. The minimum wage provides both a safety net for workers who may previously have benefited from collectively bargained rates and for society as the accepted minima below which society would rather not have the job. Improving the minimum wage also improves incentives for firm investment in skills and capital, rather than focusing on more workers. In this respect low wages can, alongside other economic factors pose a barrier to growth. Women are over-represented amongst the lowest paid and so can disproportionately benefit from improvements to the minimum wage. As such, improving the relativity of the minimum wage to the average wage will contribute to reducing the gender pay gap.

- 15.10. Consideration has also been given to any perceived impact on education enrolments. Hyslop and Stillman (2004) have found that there has been a small negative effect on education enrolment from the impact of rises in the minimum wage. Pacheco and Cruickshank⁴⁹ criticise their methodology and suggest that they underestimate enrolment rates.
- 15.11. Gail Pacheco⁵⁰ has also said that “theoretically if the minimum wage reduces enrolment in education and consequently productivity of the workforce in the long run, assuming other things are held constant, you would theoretically expect slower economic growth.” But this is a theoretical construct and would have to show causality over the long run. Empirically, it is hard to see that a higher minimum wage is impacting on enrolment.
- 15.12. Pacheco and Cruickshank have developed an analysis which shows that although changes to minimum wages appear to have an insignificant impact on the enrolment levels of the aggregate group of 16-24 year olds, they have a statistically significant negative effect on teenagers, aged 16-19. To put these results into context, the magnitude of the significant declines in enrolment rates for teenagers in the preferred scenario in their analysis, would have amounted to 2,506 students nationally in 2004, out of a total enrolment of 238,940 students.
- 15.13. However, if a small increase in the minimum wage is modelled as having such an effect, why have we not seen a major impact from the 186% increase in the youth minimum wage since 1999?
- 15.14. It is unlikely that increasing the youth minimum wage will lead to a mass exodus from school. Many people on the minimum wage are studying – therefore a higher minimum wage could mean they could work fewer hours and have more time for studying.

⁴⁹ Pacheco, G.A. and Cruickshank, A.A. *Minimum Wage Effects on Educational Enrolments in New Zealand*.

⁵⁰ <http://www.scoop.co.nz/stories/BU0709/S00575.htm>

- 15.15. *Forecast labour market and economic conditions:* Unemployment has reached record lows in New Zealand and although recent increases have swelled the unemployed, skill and labour shortages are predicted to be features of the New Zealand labour market for some time to come. Increases to the minimum wage will have contributed to the growth in labour force participation and ensuring incentives to remain in work are strong.
- 15.16. There is distinctly limited evidence of macro-level costs from an increase in the minimum wage to \$16.30 in terms of unemployment. At the same time there are important positive spin-offs for the economy from incentivising investment in skill development and new technology. It is of course recognised that an increase to \$16.30 an hour is a significant increase and that employers will strongly object. But in fact a pay jolt is exactly what this country needs.
- 15.17. There are now many studies that show that increasing the minimum wage has little, no or even a positive impact on employment levels. These include: Card and Krueger (1995), Chapple (1997), Pacheco and Maloney (1999) and Hyslop and Stillman (2004).⁵¹ For a more comprehensive consideration see Appendix 1.
- 15.18. Economic circumstances are worsening at this time during a period of financial crisis. This does affect the cost of capital for firms and trading conditions. However it also impacts on workers already affected by relatively high mortgage interest rates and high food prices. But the minimum wage is not just economically relevant in the short-run. It is about the longer-term wage track for New Zealand as we promote high skill, high value production of goods and services.
- 15.19. *Non-compliance:* Adjustments to the minimum wage always pose some enforcement challenges as organisations adjust to the new rate. Removing the new entrant and trainee rates as proposed by the CTU would simplify the minimum wage provisions. The CTU see no additional barriers or concerns for enforcement in its proposals.

16. Is the Minimum Wage the best way to protect the lowest paid?

- 16.1. In this section, we consider whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment related interventions, and would meet

⁵¹ David Card and Alan Krueger, "Myth and Measurement, The New Economics of the Minimum Wage", Princeton University Press, 1995; Simon Chapple, 'Do minimum wages have an adverse impact on employment? Evidence from New Zealand', Labour Market Bulletin, Department of Labour, 1997; Gail A Pacheco and Tim Maloney, 'Does the minimum wage reduce the employment prospects of unqualified New Zealand women?' Labour Market Bulletin, No, Department of Labour 1999; Dean Hyslop and Steven Stillman, "Youth Minimum Wage Reform and the Labour Market", NZ Treasury Working Paper 04/03, March 2004.

the broader objectives of government. The CTU has noted in our introduction that a significant increase in the minimum wage is an important, but not the only component, of a strategy to lift low pay. We have also stressed the importance of amendments to the Employment Relations Act to address the issue of extremely low collective bargaining coverage and specifically to promote multi-employer and industry collective bargaining. We also recognise that lifting the value of jobs so that pay increases become a vital aspect of investment in skills, promotion of firm best-practice and efforts to lift labour productivity. However, the fact that there is a mix of ways to address low pay should not overshadow the fact that a significant increase in the minimum wage is a direct way to lift the wages of those on the lowest paid rates in this country.

- 16.2. The CTU believes that the minimum wage plays an important role in broader government policy in a number of ways. It increases social justice and is an important tool in encouraging participation in the labour market. For young people in particular, removal of penalties associated with youth would enhance human rights. As the government attempts to promote economic transformation in New Zealand, the minimum wage has an increasingly important role in providing an employer incentive to increase labour productivity, improve skills in the workforce and improve the ratio of capital to labour to increase overall productivity. As discussed above, it is also recognised that the Government is considering a number of ways that low pay can be addressed. These include responsible contractor policy, pay equity, investment in skills, improvements in labour productivity, a decent work programme of action and so forth. But the minimum wage remains an effective way to lift pay rates to build a solid base for a high wage, high skill, and high value economy. The annual review provides a clear opportunity for the government to send a strong signal about pay levels as well as genuinely assist those struggling to afford food, housing and other costs.

17. Observed impacts from changes to the minimum wage

- 17.1. In this and the following sections we respond to the questions in the consultation documents the first of which asks about observable impacts from minimum wage adjustments. During the period from 2000 to now New Zealand has seen significant growth in labour market participation, record low unemployment rates and an increasing number of workers seeing improvements to their take home pay from minimum wage adjustments. Just 20,500 workers were expected to benefit from changes in 2000 while 140,000 will have directly experienced gains from the 2008 increase. While improvements in take-home pay are important, the reality that such a significant number of workers in New Zealand receive minimum wages is of concern.

- 17.2. Ordinary time hourly wages were up in the year to June 2008 by 5.3%⁵² but food prices alone rose 10.6% in the year to August 2008 and housing costs continue to absorb a significant proportion of wages. The reality for low wage workers is that improvements to the minimum wage rate are largely only allowing them to maintain consistent relativity with average wage growth, but the minimum wage remains overall too low.
- 17.3. The minimum wage must be set at a level to promote investment to increase the value of our goods and services through greater investment by firms in skill development and better use of technology, not in increasing the number of workers. For New Zealand to lift to a high wage, high skill economy we must avoid locking workers into low wages.
- 18. What proportion of the people we represent are directly affected by the Minimum Wage?**
- 18.1. The CTU has not at this stage conducted a formal survey. It is likely that the 102,400 workers who were directly affected by the minimum wage rise this year would have been union members. However, union density is low in some sectors covered by the minimum wage.
- 18.2. In many respects, union advocacy on the minimum wage is in recognition of our role as an advocate for all workers to be on a decent minimum code.
- 19. What are the gains from a moderate increase in the minimum wage rates for our members/workers/business?**
- 19.1. The CTU considers increases are necessary to ensure an adequate 'floor' is maintained for low paid workers. This not only ensures an adequate earned income from workers' labour but ensures that poor business practices are not supported. Moderate increases to the minimum wage are important to improve the wage relativity with Australia in particular and to improve incentives for business investment. This is also good for workers; enhanced opportunity for skill development, the potential for more satisfying work and reduced pressure to work long hours and improve work life balance all contribute to higher productivity and improved quality of life.
- 19.2. There are also costs to workers who would be affected should the minimum wage increase be small or remain unchanged. Aside from losing relativity with current wages, we know that the labour to capital price in New Zealand is low and that this is not due to the high cost of labour or labour market

⁵² Statistics New Zealand, Quarterly Employment Survey, June 2008.

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

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

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

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

21.1. The minimum wage is an essential mechanism in improving the pay gap for Maori and Pacific Island workers.

21.2. For instance, whereas 5.1 per cent of the labour force are Pacific Island workers, when it comes to those on the minimum wage 10.4 per cent are Pacific Island workers. Like women, Maori and Pacific Island workers are over-represented in low pay sectors of the economy such as agriculture, retail and related trades, accommodation, catering sector, aged care, cleaning services. Maori and Pacific peoples are also over-represented amongst part-time workers. They feel the negative impact of employers attempting to circumvent government legislation, such as reduced hours of work and layoffs. Low pay results in lower life time earnings and reduced economic security. This is unacceptable and discriminatory and intentional measures must be taken to reduce the impact of this effect.

21.3. The NZ Incomes Survey 2007 showed that whereas a Pākeha female earns 82 cents for every dollar earned by a Pākeha male, for Māori and Pacific females they only earn 70 cents for every dollar earned by a Pākeha male. This is clear evidence of the multiple effects that impact on Māori and Pacific Island women. Lifting the minimum wage is an effective way of addressing these major disparities.

22. Other issues

22.1. There are a number of other issues aside from the rate of the minimum wage the CTU has commented on in this submission. The CTU is concerned at the lack of research on both the extent to which trainees are paid less than the adult minimum wage and more generally on the nature of low pay in New Zealand. We have for some time identified the need for such research and the establishment of a Low Pay Unit which can over time ensure adequate information is routinely available to assist with the annual review of the minimum wage, and consideration of other policy interventions.

- 22.2. The CTU supports the Minimum Wage and Remuneration Amendment Bill. It is important to ensure that no one should earn less than a socially acceptable minimum for their labour. To this end we wish to continue to have dialogue in respect of the minimum wage for those aged under 16 years of age.
- 22.3. Finally, the CTU considers that an explicit factor in the review of the minimum wage is the reduction of the gender pay gap. The impact of any changes to the minimum wage on the gender pay gap is insufficient in our view.

23. Summary of Recommendations

- 23.1. The CTU is seeking an increase in the minimum wage based on indexation to 66% of the average wage. At the present time this equates to \$16.30.
- 23.2. The CTU is seeking the removal of the new entrant rate so that the minimum wage applies fully to those aged 16 years and over.
- 23.3. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We support the review of the employment of children and support the ratification of ILO Convention 138. We propose that the review of the employment of children should recommend sectors and occupational categories where the minimum wage should apply regardless of age.
- 23.4. The CTU is seeking either the removal of the trainee rate or a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.
- 23.5. The CTU supports the Minimum Wage and Remuneration Amendment Bill and its underlying principle that no one should earn less than a socially-acceptable minimum for their labour. It addresses a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. According to the ILO, “The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period in time and its ability to meet the different needs of all parties concerned”.⁵³ On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective at extending protection to non-standard working arrangements like contracting.

⁵³ International Labour Organisation, “Minimum Wage Fixing: A Summary of Selected Issues”, Briefing Note No. 14, 1998

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

24. Conclusion

- 24.1. The CTU has put forward a comprehensive submission making a clear case for a significant increase in the minimum wage for the review in 2008.
- 24.2. The CTU looks forward to the opportunity for further dialogue on the contents of this submission.

25. Appendix 1

- 25.1. The overall effects of a minimum wage on total employment depends on a number of factors, including the elasticity of labour supply to wages and to demand for labour, the reservation wages of those who do not find work in the sector covered by the minimum wage, and the relative size of this covered sector.⁵⁴
- 25.2. The main empirical difficulty is to isolate the wage effects from other exogenous influences. For example, if the demand curve for labour is itself shifting, this is an additional influence on employment which has to be separated out.
- 25.3. Traditional economic theory would say that an increase in the minimum wage that leads to an increase in wages which does not correspond to an increase in productivity would reduce employment.
- 25.4. The purported negative effects of the minimum wage on employment result from the combination of two elements: a substitution effect and a scale effect.
- 25.5. The substitution effect means that firms could decide to use more capital than labour as the latter becomes more expensive and, secondly, they could substitute skilled-labour for unskilled-labour.
- 25.6. The scale effect is the result of a fall in sales due to cost increases, leading to a reduction in the use of both factors, capital and labour, including low-skilled labour.
- 25.7. A basic market model treats wages like any price and labour like any other commodity. It ignores the social or human dimension of selling and buying labour. Apart from common market problems such as asymmetric information about the “market” and the cost of negative externalities, there are other ways in which the labour market operates not related to wages (prices) e.g. quantity adjustments. The literature on why the labour market is different from other markets include explanations such as quantity-constrained models, Human Capital Theory, Search Theory, Bargaining Theory, insider/outsider models, segmented labour markets, internal labour markets, and efficiency wages.
- 25.8. Efficiency Wage Theory is based on the supposition that higher real wages can, through various mechanisms, result in higher labour productivity. Wages above the average would increase incentives to work and lead to better economic performance, through lower absenteeism and better adaptation of

⁵⁴ Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998.
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workers. It suggests that, in the absence of any wages regulation, and if unemployment is high and supply of labour abundant, wages can fall dramatically, leading to poverty among workers. It suggests that such a decline in real wages will produce a drop in both labour productivity and the firms' profits.

- 25.9. Turnover has been one of the most important principles of efficiency wage theory. In general, low-wages are associated with high turnover, and the latter is itself associated with the loss of firm-specific skills and hence a decline in labour productivity. Alternatively, Akerlof has discussed how labour productivity may rise as a result of additional efforts made by workers if they regard their wage as a "fair wage" and also how higher wages with which the firm may attract the most skilled workers.⁵⁵
- 25.10. One study found that the lower the firm's wage is relative to the average wage in the economy, the higher the quit rate.⁵⁶ This is relevant in a New Zealand context where the Linked Employer-Employee Data recently released by Statistics New Zealand showed 17% worker turnover per quarter over the last five years in NZ.
- 25.11. As the ILO has noted the conventional view that the introduction of a minimum wage that raises the wages of a fraction of workers above what they would, otherwise, have received, would automatically reduce the employment prospects of that particular category of workers, is far from being a dominant view.⁵⁷
- 25.12. The standard view was reinforced in the United States in a number of studies conducted in the 1970's which found that there was a significant negative link between the minimum wage and youth employment, such that a 10 per cent increase in the Federal Minimum Wage would lead to a decline in the employment rate ranging from 1 to 3 per cent.
- 25.13. Brown, Gilroy and Kohen⁵⁸ estimated that from 1954 to 1979, a 10% increase in adult minimum wages (using US data) reduced teenage employment by between 1 per cent and 3 per cent. But subsequent analysis, which carried the data forward into the 1980s, found that the estimated elasticity weakened and by 1990 the reduction in employment was close to zero.
- 25.14. The evidence for nine countries presented in the OECD's Employment Outlook 1998 suggests that higher minima adversely affect teenage employment: a 10 per cent increase in the minimum wage is associated with

⁵⁵ George A. Akerlof, "Gift Exchange and efficiency – Wage Theory: four views", The American Economic Review, Vol. 74 – No. 2, 1984, p.81.

⁵⁶ Luis A. Riveros and Lawrence Bouton, "Common elements of efficiency wage theories: what relevance for developing countries?", The Journal of Development Studies, Vol. 30 – No. 3, April 1994, p696-716

⁵⁷ Youcef Ghellab, "Minimum Wages and Youth Unemployment", ILO, 1998, p. 8.

⁵⁸ Charles Brown, Curtis Gilroy and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment", Journal of Economic Literature V20, 1982, p 487-528.

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

- 25.15. But when in 1992, New Jersey increased the state minimum wage to \$5.05 an hour (applicable to both the public and private sectors), Card and Krueger used this opportunity to study the comparative effects of that raise on fast-food restaurants and low-wage employment in New Jersey and Pennsylvania, where the minimum wage remained at the federal level of \$4.25 an hour. Their data demonstrated that a modest increase in wages did not appear to cause any significant harm to employment. In some cases, a rise in the minimum wage even resulted in a slight increase in employment.
- 25.16. Card and Krueger found that after a raise in the minimum wage in New Jersey employment actually increased by about 13 per cent relative to stores in nearby eastern Pennsylvania that continued to pay a lower rate. It was suggested that stores paying low wages often were plagued by high turnover and job vacancy rates and that the higher minimum wage may have ameliorated such problems and led to an increase in employment.
- 25.17. The studies conducted by Card and Krueger and Katz and Krueger have not gone unchallenged. Neumark and Wascher (1992) questioned whether the “natural experiment” approach failed to consider lagged effect of minimum wages, and also suggested it did not control for the school enrolment rate, knowing that such a variable may have an endogenous impact on teenage employment.
- 25.18. Other work by David Neumark finds small but significant negative effects of living wages on the employment of low-wage workers, and positive effects on the wages of workers who remain in the labor force.⁵⁹ Overall, Neumark found that passing a living wage law does tend to reduce the amount of poverty in a city, but this benefit comes at the cost of some jobs.
- 25.19. Alison Wellington⁶⁰ found that the disemployment effects of the minimum wage were rather insignificant, since a 10 per cent increase in the minimum wage was estimated to reduce teenage (16-20 year olds) employment by less than 1 per cent.
- 25.20. In the United Kingdom, the Low Pay Commission in its fourth report stated that between 1999 and 2003 the impact of the national minimum wage on employment levels - which overall had continued to increase in the UK - was negligible.⁶¹ Indeed, employment growth had been “stronger than average”

⁵⁹ David Neumark, “Living Wages: Protection For or Protection from Low-Wage Workers?” *Industrial and Labor Relations Review*, October 2004, p 27-51.

⁶⁰ Alison J. Wellington, “Effects of the minimum wage on the employment status of youths”, *The Journal of Human Resources*, Vol. XXVI, No. 1, 1991, p27-46.

⁶¹ Dan Finn, “The National Minimum Wage in the United Kingdom”, *Institut Arbeit und Technik*, Gelsenkirchen 2005, p36.

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

- 25.21. Previously consideration had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric analysis for the third report concluded that “even after controlling for this and other factors the impact of the minimum wage was broadly neutral.” The report found that the only exception was amongst young people where employment rates had fallen. After analysing the trends and related research evidence the Commission concluded that these changes in the youth labour market had been “primarily driven by the economic cycle, and that the minimum wage has had at most a minor impact on young people’s employment.”
- 25.22. Dan Finn from University of Portsmouth has noted that the introduction of the national minimum wage also has not had the dire consequences for employment levels predicted by the Conservative Government.⁶²
- 25.23. Professor Mark Stewart in a study entitled “The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low Wage Workers” found that the evidence suggests zero, or if anything small positive employment effects for adult men, young men and young women’.
- 25.24. Youcef Ghellab of the ILO has concluded that there is no consensus among economists, at least in three countries, namely Netherlands, the United States and the United Kingdom as regards the minimum wage effects employment. The studies concluding that the minimum wage has caused job-losses have been challenged by other studies suggesting that: (a) the minimum wage had no negative impact on youth employment (Netherlands); (b) there is no evidence that the activities of the minimum wage councils acted as a restraint on employment in Britain in the 1980s (United Kingdom); (c) the Federal Minimum Wage increase, at least following its 1990 and 1991 uprating, did not lead to employment contraction (United States).
- 25.25. Ghellab states:
- “All in all, it seems fair to conclude that the existing evidence supports both positions in the debate. Whether a minimum wage has a negative or a positive effect depends on many factors such as, its relative level, the structure of the labour market and the country concerned”.*⁶³
- 25.26. This is a significant point in relation to New Zealand. We can learn a lot from overseas studies. However, while there will be some factors which will be relatively common to labour markets across many different countries, there will be vital country-specific elements.

⁶² Ibid, p48.

⁶³ Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998, p.58.
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- 25.27. It is therefore important to look at New Zealand studies about the impact of the minimum wage.
- 25.28. A study by Tim Maloney of the period 1985 to 1993 showed that a 10 percent increase in the adult minimum wage produced a decline of 3.8 percent in the employment of young adults.⁶⁴ This is broadly consistent with evidence from the United States. Maloney found that employers started to reduce the employment of young adults and then started hiring teenagers not then covered by a minimum wage. So it was a substitution.
- 25.29. Simon Chapple found some evidence that was consistent with Maloney's estimates, but his overall assessment was that increases in the real minimum wage showed minimal impact on employment rates. Chapple suggests that "conclusions regarding significant negative employment effects from real minimum wages increases are strikingly non-robust".⁶⁵
- 25.30. Gail Pacheco and Tim Maloney compared the employment trends of two groups, females with no school or post-school qualifications, and females with school and post-school qualifications.⁶⁶ The study tested the hypothesis of disemployment effects associated with changes in the real minimum wage between 1985 and 2000. The only significant finding appeared to be that, on average, a 1 per cent rise in the adult minimum wage causes a 14 per cent fall, two quarters later, in the employment ratio of females with no qualifications. However, most importantly, the long run employment impact of the minimum wage on this particular labour market group was found to be effectively zero.
- 25.31. Dean Hyslop and Steve Stillman found that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.⁶⁷ In fact hours of work increased for 16-17 year olds relative to other age groups. In 2005, Stillman said that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged less than 16 years would "have very little effect on youth employment opportunities".⁶⁸ (He did however qualify that comment by saying this may rely somewhat on weak compliance and also advocated exemptions for family-owned businesses, farms, and child minding).

⁶⁴ Tim Maloney, "Does the adult minimum wage affect employment and unemployment in New Zealand?" *New Zealand Economic Papers*, Vol. 29, No. 1, June 1995, p1-19.

⁶⁵ Simon Chapple, 'Do minimum wages have an adverse impact on employment? Evidence from New Zealand', *Labour Market Bulletin*, Department of Labour, 1997.

⁶⁶ Gail A and Tim Maloney, 'Does the minimum wage reduce the employment prospects of unqualified New Zealand women?' *Labour Market Bulletin*, No, Department of Labour 1999. See also Gail Pacheco (2008) "Changing role of Minimum Wage in New Zealand", *New Zealand Journal of Employment Relations*, Vol 32 (3), pp.2-17.

⁶⁷ Dean Hyslop and Steven Stillman, "Youth Minimum Wage Reform and the Labour Market", NZ Treasury Working Paper 04/03, March 2004.

⁶⁸ Steve Stillman (2005) "The Impact of Minimum Wages on the New Zealand Labour Market: Lessons from the 2001 Youth Minimum Wage Reform", *Motu Forum* Thursday 21st July 2005, Wellington.

25.32. Given that many of the studies quoted overseas and the often used Maloney study in New Zealand have argued that a 10% increase in the minimum wage would result in up to a 3 per cent increase in unemployment, how can it be that a 41 per cent increase in the minimum wage coincided with a 10-15 per cent increase in hours worked?

25.33. As Manning has noted:

*“The impact of the minimum wages on employment should primarily be an empirical study and the results of these empirical studies should be used to inform policy”.*⁶⁹

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

⁶⁹ Alan Manning, “Monopsony in Motion: Imperfect Competition in Labour Markets”, Princeton University Press, 2003, p19.