



NEW ZEALAND COUNCIL OF TRADE UNIONS

CTU Submission

to the

**Transport and Industrial Relations
Committee**

on the

**Minimum Wage (Abolition of Age
Discrimination) Amendment Bill**

21 April 2006

1. Introduction

- 1.1 The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) is the internationally recognised central trade union centre in New Zealand representing 37 affiliated unions with a membership of approximately 350,000.
- 1.2 The CTU supports the Minimum Wage (Abolition of Age Discrimination) Amendment Bill (“the Bill”).

2. Key Points

- 2.1 A youth minimum wage was introduced with effect from 31 March 1994, and is currently set at \$8.20 per hour.
- 2.2 The CTU acknowledges that the Government has, since December 1999, made several important steps in the area of minimum wages. This includes - lifting the adult rate, lowering of the age of application for the adult rate, increasing to 70% and now to 80% of the adult rate for 16/17 year olds, and benchmarking trainees to no less than the youth rate.
- 2.3 The youth minimum wage has been lifted by 95% since 1999. This has not had any significant impact on either employment or educational enrolment.
- 2.4 It is acknowledged that considerable progress has been made but it is now time to phase out the youth minimum wage.
- 2.5 The youth minimum wage if applied to a worker doing 40 hours a week delivers a weekly take-home pay of \$266.00. This is an inadequate wage. It is acknowledged that many 16 and 17 year olds in the workforce are also students and could be living at home. However they face significant transport and other costs, are often on very part time

hours, and therefore earn only a small amount of weekly income in respect of hours worked.

2.6 The CTU therefore supports this Bill.

2.7 We further propose that section 30(2) of the Human Rights Act 1993 is repealed, and that in addition the minimum wage also applies where practicable to those aged under 16 years.

2.8 We support the continuation of an exemption for trainees and argue that a youth rate should not be confused with a trainee rate. A youth rate discriminates on the basis of age. A trainee rate is not based on age but recognises specifically that there is a training component in the job that justifies a lower rate for a period. We do however have concerns about the operation of the trainee rate.

3. CTU Perspective on Youth Minimum Wage

3.1 The CTU agrees that the youth minimum wage should be abolished. It is untenable that workers should be discriminated against solely on the basis of age.

3.2 The overall objectives of the minimum wage are relevant to young people specifically. These are:

- Fairness – to ensure that wages paid are no lower than a socially acceptable minimum
- Protection – to offer wage protection to vulnerable workers so that workers are paid wages that reflect their worth or productivity
- Income Distribution – to ensure that earnings of people on low incomes do not deteriorate relative to those of other workers

- Work Incentives – to increase the incentives to work for people considering work.

3.3 All these principles should apply to 16 and 17 year old workers to ensure fair minimum wage not based on age discrimination, protection in a labour market with low incidence of collective bargaining and in recognition of the vulnerability of young workers when they enter the labour market, the status of young workers as low income earners, and the undoubted incentive to work that a higher youth wage provides.

3.4 We note that the Labour Department in their report for the most recent review of the minimum wage has argued that:

Given where the youth minimum sits in relation to average youth wages (at 75%), as compared with the adult minimum rate relative to the average adult wage (49%) reflected by the percentage of people affected in each case, the Department recommends that the 80% relativity is maintained at this time.¹

3.5 But the reason that the minimum wage is a higher proportion of the average wage for young people than is the adult ratio, is that youth pay rates are so low and that the minimum wage for young people has been increased significantly and on a regular annual basis for the last 6 years.

3.6 There are several other countries where the adult minimum wage applies to those aged 16 and 17 years. These are Canada (except for Alberta, Ontario, and the North West Territories), Greece, Spain and Portugal.

3.7 There are no logical or moral grounds to treat workers differently just because they are young, and in principle anyway, youth minima are objectionable. They are inconsistent with the ILO Convention that outlaws unequal payment for work of equal value. The matter, then, is if and to what extent the work done by younger workers is inherently of

| ¹ Department of Labour. Officials' Report. Minimum Wage Review 2005. paragraphs 113 and 114

lesser value than the work done by adults, and hence legitimately protected by a lesser minimum wage.

- 3.8 While the ILO instruments on minimum wages do not forbid explicitly the fixing of different rates on the basis of age, the Committee of Experts stated in the General Survey of 1992 (para 169) that “the general principles laid down in other instruments, and particularly those contained in the Preamble of the Constitution of the ILO which specifically refers to the application of the principle of Equal Remuneration for Work of Equal Value have to be observed”. Also, it might be argued that the work performed by a worker, irrespective of his/her age, should be the main criteria in determining the wage paid rather than the age.
- 3.9 Moreover, the Minimum Age Recommendation, 1973 (No. 146) stipulates that special attention should be given to the provision of fair remuneration to young people, bearing in mind the principle of equal pay for equal work (Part IV, paragraph 13(1) (a)). Therefore, the fixing of lower rates of minimum wages for young workers, all things being equal, comes up against the general principles contained in the different ILO instruments.
- 3.10 The ILO says that on the other hand, a distinction shall be made between two concepts: young workers who are fully involved in the firm’s activities and perform the same work as their adult counterparts, and those young persons who perform work involving training, such as apprentices/trainees. This distinction is preserved in the Bill under consideration.
- 3.11 Some argue that even if there is no formal training component in a job, young workers are often learning working routines and practices, and that the “learning by working” element should be reflected in a type of “training” rate.

- 3.12 The suggestion is that the work of a young worker is not of equal value to that of an adult with established work habits, and that there should be a type of “discount” off the minimum wage to reflect a “training” wage. We reject this approach.
- 3.13 The youth rate should not be seen as a type of proxy trainee rate. The Act already provides for an exemption for trainees on to a lower rate. We acknowledge that it is the same as the youth rate. But a lower rate for someone explicitly involved in formal training and not based on the age of the trainee is a completely different issue from the fairness of paying a 17 year old with 18 months experience a lower rate than an 18 year old with one week’s experience.
- 3.14 The CTU does however support an exemption for those in training as set out below. A higher minimum wage but with a trainee exemption could incidentally be an incentive to increase the number of trainees in formal training agreements. However this should be on the basis of a genuine interest in ensuring a high quality training environment and not on the sole basis of paying a lower rate of pay.
- 3.15 However, a low training wage also can act as a disincentive to encourage workers to undertake industry training. We discuss below broader issues in relation to the exemption from the adult rate for trainees.
- 3.16 One of the common statements used to justify a lower pay rate for young people is that they are essentially outsiders in the labour market. They are caught in the situation that they cannot get a job without experience, but they can’t get experience without a job. So – in order to get a start in the labour market then they should be paid a lower rate. The value of getting experience is meant to compensate for the lower rate.

- 3.17 This argument might have some validity if the actual experiences of people in the labour market were that the first job then led to much higher paying jobs subsequently. Certainly that is true for some workers. But in many cases, it is low wage sectors that are employing these young workers. There is often little training provided. The low youth rates often accompany casual employment, uncertain hours of work, hierarchical and unpredictable management practices, and discouragement of union involvement. In other words the availability of youth minimum wages entrenches poor employment practices and low wages.
- 3.18 What is noticeable is that a number of significant employers are now recognising that discrimination against such young workers cannot continue. Active union campaigns have assisted this realisation.
- 3.19 This more enlightened approach recognises that it is important for young workers to enter the labour market without the employment status and wages to be based on age discrimination.
- 3.20 It also recognises that we are talking here about minimum wages – not all wages. Above the minimum wage, there may well be pay scales that reflect skill steps, and it would generally be the case that those who have been in the job for a longer period will be paid more by virtue of their skills and experience. But this is different from a minimum wage that discriminates on the basis of age.

4. Lifting Wages in New Zealand

- 4.1 The CTU believes that lifting the minimum wage has a role in lifting wages generally in New Zealand. The CTU believes that a low minimum wage entrenches a low-wage, low-skill, low technology approach to employment. This has resulted in persistently low productivity, relatively low capital per worker, and a labour market which is slow to produce wage increases as a response to high labour

demand. We have argued that regular and reasonable increases in the minimum wage can contribute to a labour market environment which promotes investment in value-adding productivity initiatives and an investment approach to the use of skilled labour.

4.2 Given that this submission is about the youth minimum wage, and not minimum wages in general, we do not go into this matter in significant detail.

4.3 However it is important to note that for the CTU a concerted effort to lift wages must include at least the following components:

- a willingness by employers to share the economic gains they have been accruing;
- a willingness by employers to work towards industry minima to address chronic and persistent labour shortages, low pay and poor reputation in many sectors;
- more widespread collective bargaining and multi-employer agreements;
- a higher level of investment in infrastructure, technology and skills development;
- a genuinely tripartite approach to workplace productivity, and;
- regular increases in the minimum wage.

4.4 We live in a period when throughout many parts of the world there are obscene differences in the wages of executives compared with low-income workers.

4.5 Sharan Burrow, the President of the ICFTU in her 27th July 2005 address to the AFL-CIO Convention in the USA said that company management that pays less than \$2 dollars a day to the poorest of workers in their supply chains or, in their own countries, campaign

against a minimum wage on which a family can live with dignity pay themselves salaries and bonuses that off the Richter scale of decency.

- 4.6 In the USA, for example, while a CEO earned 40 times the average wage of the company's workers in 1980, she or he now earns around 530 times that level.
- 4.7 In New Zealand we regularly see salary increases for executives outstripping in percentage terms the average increase for workers. One survey² found that the average annual increase in executive salaries from 1997 to 2002 was 7.1%.
- 4.8 Last year, Director's fees went up by 20.5%.
- 4.9 From 2000 to 2004, the Reserve Bank³ notes that corporate profits increased by 11% a year. The Labour Cost Index adjusted series shows wage increases of around 2.1%.
- 4.10 And this can be added to major changes in income distribution. For instance a study by Stephens, Waldegrave and Frater found that between 1984 and 1998, the top 10% of households increased their income by 43% but the bottom 50% of households decreased their income by 14%.
- 4.11 We have low wages – and a relatively low minimum wage. It is no exaggeration to say that there is a low wage crisis in New Zealand.
- 4.12 The change in real wages over a longer period from 1980 to 2001 shows an actual fall for New Zealand of 6.5% compared with a range of

² Preliminary results from Glenn Boyle (VUW) and Helen Roberts (Otago). Dompost 13 October 2004.

³ Goh, Khoon (2005). "Developments in the New Zealand corporate sector" Reserve Bank Bulletin, Vol 68. No. 2.

other countries where there were significant increases (e.g. Australia 28.8%, Canada 39.5%, UK 46.9% and Finland 68.2%)⁴.

- 4.13 Recent productivity statistics show a 55.7% increase in labour productivity from 1988 to 2005 in the 'measured sector'. Yet real wages have barely moved in that period.
- 4.14 Higher capital per worker and the preservation of awards are part of the explanation of why our wage levels fell from roughly comparable to Australia in the 1980s to 60% of their level by 2002.⁵
- 4.15 Black, Guy and McLellan have noted 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". In 1978, our capital intensity was about the same as in Australia. By 2002, capital intensity in Australia was more than 50% higher than here.
- 4.16 Between 1995 and 2002, according to Hall and Scobie⁶ from NZ Treasury, 70% of the difference in the growth of labour productivity is explained by a lower growth rate in capital intensity.
- 4.17 In New Zealand, there was a 22% fall in the relative price of labour to capital between 1992-1996. It can be no coincidence that the minimum wage was frozen in 1991, 1992, 1993 and 1994 and increased by only 2% in 1995 and 1996. It fell from 50% of the average wage in 1989 to 42% by 1994.
- 4.18 And of course the Employment Contracts Act in 1991 also explains this shift in the relative price of labour and has now contributed to the much

⁴ Canadian Centre for the Study of Living Standards. "An Index of Labour Market Well-being for OECD countries".

⁵ Melleny Black, Melody Guy and Nathan McLellan. "Productivity in New Zealand 1988 to 2002 New Zealand". NZ Treasury Working Paper 03/06 June 2003.

⁶ Hall, Julia and Scobie, Grant. "Capital Shallowness: A Problem for New Zealand?" NZ Treasury Working Paper 05/05 June 2005.

bigger burden that minimum wages regulated by Government needs to play to address fundamental questions of fairness in the labour market.

- 4.19 Given low collective bargaining density in the private sector (around 9%); the minimum wage now has a vital safety net role. It is also apparent that analysis of market wages for migration purposes is increasingly relying on the minimum wage for temporary migration purposes in some industries. This means that the importance of the minimum wage is growing alongside such policies as working for families which in essence amounts to a form of wage subsidy.
- 4.20 It is in this context that we must examine the minimum wages of 16 and 17 year olds. These workers are now an essential part of the New Zealand labour market. They possess the initiative, energy, and enthusiasm to be excellent workers. They may perform differently at times from someone aged 20 or 30 or 40. But so does a 65 year old sometimes perform differently from a much younger person.
- 4.21 The point is that low and discriminatory wages for 16 and 17 year olds is part of our low wage problem.
- 4.22 The future in New Zealand we are constantly told – does not lie in low wage, low technology sectors. The CTU accepts that we cannot simply legislate for high wages which is why we advocate a suite of policies and practices to lift wages.
- 4.23 But if the Government continues to send a signal to employers that there will be a constant stream of 16 and 17 year olds (not to mention those aged under 16) who can be paid at 20% less than the adult rate, then we are not serious about lifting wages for all workers.
- 4.24 Unions are also taking up the issue of low pay below \$12 an hour and youth rates directly with employers.

4.25 As stated elsewhere, if there is however a training component, then there could be justification for a lower rate. But this needs to be related to formal and recognised training.

5. Ending Age Discrimination in respect of the Minimum Wage and in Employment Agreements

5.1 There are at least four formal commitments that establish an explicit obligation on the government to maintain an adequate minimum wage.

5.2 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 (ICESCR).

5.3 There are also obligations under the Convention on the Elimination of All Forms of Discrimination against Women. 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 would constitute one appropriate measure towards meeting this obligation.

5.4 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. The early development of minimum wage regulation and subsequent expansion since the 1920s are well reflected in a series of International Labour Conventions on minimum wage regulation by the International Labour organisation (ILO): Minimum Wage Fixing Machinery Convention (No. 26) 1928, the

Minimum Wage Fixing Machinery (Agriculture) Convention (No. 99) 1951, and the Minimum Wage Fixing Convention (No. 131) 1970.

- 5.5 The New Zealand government has for example 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".
- 5.6 Young people below the age of 18 are given specific protection under the United Nations Convention on the Rights of the Child (CRC) and Article 2 requires State parties to protect children from any discrimination. Paying lower minimum wages to one group of workers, based solely on their age, is contrary to the principle of non-discrimination.
- 5.7 The Universal Declaration of Human Rights, ICESCR and CEDAW all specifically mention the right to equal pay for work of equal value.
- 5.8 Essentially this means that pay should be based more on the requirements of the job, the skill levels required, and related factors – rather than a discriminatory basis derived from the age, gender or race of the worker.
- 5.9 Section 19 of the New Zealand Bill of Rights Act 1990 provides that everyone has the right to freedom from discrimination on the grounds of discrimination in the Human Rights Act. Under Part 1A of the Human Rights Act, complaints can be made about acts by the legislative, executive or judicial branch of the Government of New Zealand which are inconsistent with the right to freedom from discrimination in section 19 of the Bill of Rights Act.

5.10 However Section 5 of the Bill of Rights Act states that:

“the rights and freedoms contained in this Bill of Rights may be subject only to such reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society”.

5.11 A lower minimum wage for 16 and 17 year olds does not breach the Human Rights Act which in subsection 30(2) of the HRA provides an age exemption to the requirements in subsection 22(1) (b). Subsection 30(2) allows someone not exceeding the age of 20 to be paid at a lower rate than another person employed in the same or substantially similar circumstances. This exception covers all wage rates, not just the minimum wage.

5.12 The CTU is seeking the repeal of section 30(2) of the Human Rights Act 1993.

6. Impact of Increasing the Youth Minimum Wage

6.1 There are several possible effects that an increase in the youth minimum wage could have. These include: higher wages and incomes for 16 and 17 year old workers; changes in the employment opportunities for 16 and 17 year old workers; changes in the rate of 16 and 17 year olds leaving school; impacts on output and productivity.

6.2 These and other possible effects are discussed below.

7. Higher incomes for Young Workers

7.1 The Labour Department has suggested that the benefits of increases to the youth minimum wage are most likely to be felt by the 70% of 16 and 17 year olds who are still at school or in some sort of study. They also note that 64% of 16 and 17 year olds in the workforce are employed in

the retail industry.⁷ The youth minimum wage has a significant impact on the earnings of these workers.

- 7.2 However the DOL also note that for youth, the increase in weekly income from an increase in the minimum wage is likely to be small, because the majority of young people work short hours (32% work fewer than 10 hours per week, 33% work between 10 and 20 hours and 20% are working a fulltime 40-50 hour per week job).
- 7.3 The DOL have commented that increasing the minimum wage can make a small contribution to reducing the gender pay gap. This is because more women than men will have their wages increased as a result of an increase in the minimum wage given that 74% of minimum wage earners recorded in the June 2005 Household Labour Force Income supplement (HLFS IS) are women.
- 7.4 Gail Pacheco has noted the strong empirical link between the poverty status of the household and having a minimum wage earner in the household in New Zealand. In particular, it was found that 51% of workers affected by the minimum wage belonged to the bottom three deciles of the household income distribution.⁸ However Pacheco also argues that the impact of a 10% higher minimum wage showed only a small reduction in the poverty rate. She argues for caution therefore in any increase in the minimum wage due to the risk of negative impacts on employment and the small positive impact on poverty. However her results also show that although the decline in poverty across the full sample is 0.46%, the decline in poverty in affected households is 10.81%, a figure she describes as “reasonably substantial”.
- 7.5 Freeman (1994) found that an increase of 10% in the minimum wage boosted the earnings of a representative minimum wage worker by 8-9

⁷ Department of Labour. Minimum Wage Review 2005: Officials’ Report Paragraph 75, p 20.

⁸ “The Link between Poverty and Minimum Wage Incidence in New Zealand” Pacheco, PhD Conference in Business and Economics, Papers and Proceedings, 2005.

per cent and increases joblessness by 1-2 per cent, concluding that this is a redistribution in workers' interests.

7.6 The UK Low Pay Commission reports illustrate that the prime beneficiaries of successive increases in the national minimum wage have been women, part-time workers, young people, disabled people and some minority ethnic groups, typically employed in low paid sectors and in parts of the country where low pay was more prevalent. The most significant impact has been on those working in elementary occupations, such as waiting staff, bar staff, cleaners and porters, especially in the hotel and restaurant sector where nearly one in four jobs were affected. The two other occupational groups most affected have been sales and customer service (including check-out operators and petrol pump attendants) and personal service occupations (such as hairdressers, care assistants, and playgroup assistants who work with pre-school age children).

7.7 This shows the importance of increases in the minimum wage in addressing the income levels of those disadvantaged in the labour market.

8. Employment Effects

8.1 There are many studies of the impact of the minimum wage on employment levels (see Appendix 1 for a commentary on these studies). In general terms it can be said that:

(a) Many early studies showed a negative employment effect from increases in the minimum wage. The effects were generally concentrated among young workers and were in the order of a negative 1% to 3% impact on employment from a 10% increase in the minimum wage.

- (b) However, Card and Krueger in the USA showed that it was possible for there to be positive employment effects from an increase in the minimum wage.
- (c) A major ILO study suggested that 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.
- (d) The UK Low Pay Commission has shown in successive studies that increases in the minimum wage have not had a damaging effect on employment in general.
- (e) Studies in New Zealand have shown a range of results from Maloney who showed a negative effect on unemployment, to Chapple who showed a negligible impact, to the more recent Hyslop and Stillman analysis which showed an actual increase in employment despite very significant percentage increases in the youth minimum wage.
- (f) Application of the projected impact on employment that employer organisations have argued for years would have meant that a 41% increase in the minimum wage for young people in a two year period would result in up to 12% loss in hours worked. Instead Hyslop and Stillman found the opposite with a 10-15% increase in hours worked. Business New Zealand in their 2003 Submission on the Review of the Minimum Wage quoted from the Maloney study suggesting a 10% increase in the minimum wage would result in around a 3.5% increase in unemployment and noted that “While these studies date from the 1990s, there is nothing to suggest that the situation today is in any way different”. How wrong they were.

- (g) The DOL have concluded that low pay sectors are more vulnerable to minimum wage increases but have not necessarily performed worse than average in terms of employment growth.
- (h) The DOL, in paragraph 76 of its report, said there is a potential substitution of workers aged 16 and 17 by 15 year olds.
- (i) The DOL in its modelling of employment effects⁹ of an increase in the minimum wage used an elasticity of 0.3. They appear to have chosen this as a midpoint between a Hyslop and Stillman elasticity of 0.04 and an outside estimate of the OECD of 0.5. The 0.3 elasticity is therefore a highly debatable estimate and in terms of New Zealand studies appears inflated.

8.2 In some respects some of the debate about employment effects is reminiscent of comments made in respect of equal pay legislation which increased women's pay. The Equal Pay Act 1972 extended the principle of equal pay to the private sector. In fact, women did not receive the same minimum wage as men until 1978. This is despite the fact that New Zealand was the first country to implement a minimum wage in 1894.

8.3 A study¹⁰ of the effect of the UK Equal Pay Act 1970 found that while the legislation was responsible for a considerable improvement in female relative pay levels, female employment actually increased by some 17%.

8.4 In Australia, Gregory and Duncan (1981) tested the employment effects of the equal pay cases of 1969 and 1972. Measured female unemployment appeared to have been remarkably unresponsive to the equal pay decisions. Despite the predictions that women would "price

⁹ See Department of Labour. Minimum Wage Review 2005: Officials' Report Table 5 page 26.

¹⁰ Zalzaba, A. / Tzannatos, Z. 1985: Women and Equal Pay, the Effects of Legislation on Female Employment and Wages in Britain, Basil Blackwell. Oxford.

themselves out of jobs", a boom in female employment followed the equal pay decision.

8.5 The February 2006 Sherwin Chan & Walshe poll showed that 69 percent of Wellington businesses support a lift in the minimum wage to \$12.00 in the next three years, and 85 percent say that the elimination of the youth wage will have no significant effect on their business.

8.6 The Dominion Post editorial of 27th February supported lifting the youth minimum wage to the same level as the adult rate. The editorial noted that:

"The traditional argument for a low minimum wage – or even no minimum wage – is that if pay levels are set too high by state intervention, employers will stop hiring, and many people will not get their first step on the employment ladder. The philosophy seems to be "get a job, and worry about the pay later".

There is evidence that all that produces is a whole lot of low-paying jobs, with little incentive for employers to look at increasing productivity per worker, either through training or capital investment.....

It is also hard to dispute the CTU argument for the abolition of the discrimination against 16 and 17-year-old workers, providing there are exemptions covering those genuinely in training. No one would argue that women should be paid less than men for doing the same job, and it is equally absurd to accept that a 16-year-old should get less than a 19-year-old just because of his birth date".

8.7 In our submission on the minimum wage last year we noted that the number of working-aged New Zealanders on the unemployment benefit has dropped by a record 27% over the last year and by 62% since 1999 when this Government started raising the minimum wage again. At that time the number of people on unemployment benefits had fallen by more than 20,200 in the past year to stand at less than 55,000 — the lowest figure in nearly 20 years. In total there were more than

85,000 fewer people on unemployment benefits than five years previously.

- 8.8 This is a very significant finding. For many years it has been argued that even a small increase in the minimum wage will have adverse employment effects – particularly for young workers. But if such a large increase in the minimum wage for those aged under-20 years is associated with, if anything, an increase in employment, then there is serious doubt as to the credibility of many previous assertions of the relationship between minimum wages and employment.
- 8.9 Pacheco has argued that the fact that we have not seen the negative employment effects of the higher minimum wage in the most recent years is possibly because the good economic growth we have had over this time has masked the impacts of the large increases in the adult and youth minimum wage (i.e. the demand for labour has shifted to the right).
- 8.10 But for years and years we have heard critics of the minimum wage cite the US studies, plus the Maloney study in New Zealand, to argue that an increase in the minimum wage has damaged employment opportunities. Now that we have witnessed a 95% increase in the minimum wage with no discernable impact on employment, it is clearly challenging the credibility of those critics.
- 8.11 As stated above, if the predictions of employer organisations relying on such studies had been right, then we would have seen about a 12% fall in hours worked by 16 and 17 year olds in the two year period of the Hyslop and Stillman study. Instead we saw a 10 -15% increase. This is not a small result. It is a significantly opposite result.
- 8.12 The CTU is not attempting to argue that the increase in hours worked by 16 and 17 year old workers is because there was an increase in the minimum wage although it should not be discounted as part of the

explanation. We are arguing that the recent analysis showing a positive effect between a much higher minimum wage and increasing employment means that any employment effects from a higher minimum wage are likely to be very small compared with other issues that might affect employment levels such as changes in GDP, demographic trends, immigration and so forth.

9. Impact on Education

- 9.1 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 Cruickshank¹¹ criticise their methodology and suggest that they underestimate enrolment rates.
- 9.2 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.
- 9.3 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.
- 9.4 However, if a 5% increase in the minimum wage is modelled as having such an effect, why have we not seen a major impact from the 95% increase in the youth minimum wage since 1999?

¹¹ Pacheco, G.A. and Cruickshank, A.A. *Minimum Wage Effects on Educational Enrolments in New Zealand*.

10. Impact on Output and Productivity

- 10.1 Some have argued that in low wage industries - the easiest place to achieve a “work history” for poorly qualified youth - work is typically unskilled, so that productivity does not necessarily rise with age or experience.
- 10.2 The UK Low Pay Commission report also discussed the impact on productivity¹². It noted that the minimum wage had not had a direct significant effect on productivity, and that the gains in productivity that had commenced before its introduction had been maintained in most low-paying sectors.
- 10.3 There was, however, evidence that some employers at least had absorbed the additional costs of the minimum wage through increased productivity. The report notes a hotel manager saying they had increased pay throughout the organisation by considerably more than was necessary to comply with the national minimum wage, but calculated that the pay bill increase was greatly offset by increased employee effort, morale and commitment and reduced turnover. In a similar example noted in the report, Burger King explained its decision to pay adult rates to its workers from age 18 as making it more competitive in a labour market with very high levels of staff turnover. Other research showed that in the service sector there was evidence of a positive one-off effect on labour productivity following the introduction of the minimum wage.

11. Exemptions for Trainees

- 11.1 Ghellab argues that the key question relating to younger workers is: are they fully involved in the firm’s activities and do they perform the same work as their adult counterparts, or are they involved in training, on-the-

¹² Dan Finn Professor of Social Policy, University of Portsmouth The National Minimum Wage in the United Kingdom <http://iat-info.iatge.de/aktuell/veroeff/2005/gr2005-01.pdf> p. 37

job or formal, such as apprentices? The latter situation is one that is more justifiably subject to lower rates of pay, at least on the basis of principles.

- 11.2 Young workers in New Zealand were previously covered by awards. But the Employment Contracts Act stripped this away and although we have modern apprenticeships and a trainee system the arrangements in respect of remuneration do not compare with the carefully constructed pay scales for apprentices we have only rarely now but were commonplace up until 1992.
- 11.3 Under the award system, youth rates, sometimes called trainee rates, were an area of contention especially in those industries where there was not a formal apprenticeship and therefore no tradesperson rates. In those sectors there was an argument of a “rate for the job” regardless of age. Nevertheless, it was relatively common for there to be youth rates in awards.
- 11.4 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. The *quid pro quo* was that 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.
- 11.5 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.

- 11.6 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 of agreeing on a scale was also lost. Some sectors have however kept a formal process to determine an apprenticeship scale.
- 11.7 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.
- 11.8 The definition of a trainee as someone involved in training for a work-related qualification greater than 60 credits is a minimal requirement.
- 11.9 The CTU has previously submitted that such an exemption 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 in the interests of protecting trainees, gathering information, reflecting the diverse training circumstances, and ensuring a good faith process in arriving at trainee scales.
- 11.10 The CTU has also submitted in the Minimum Wage Review 2005 that the trainee rate should be 90% of the adult minimum wage. A lower rate for trainees could act as a disincentive for employees to undertake formal training.
- 11.11 The Bill simply leaves in place the current arrangement which allows someone involved in training for a work-related qualification greater than 60 credits to be paid at a rate of 80% of the adult minimum wage. The Bill therefore makes a sensible distinction between a 'youth rate' and a 'trainee rate'. The CTU supports this principle. However, we note above that the current exemption on to a rate rather than a scale is not an optimal arrangement.

11.12 In addition, it is possible that once this Bill becomes law, there is a risk that some employers may employ persons on the basis that they enrol in at least 60 credits as a device to pay a rate lower than the adult minimum wage rather than reflecting a genuine training agreement.

12. Workers under 16 years

12.1 Any discussion of the issues in this Bill inevitably moves to a focus on the lack of any minimum wage for persons under the age of sixteen years. It is common practice in New Zealand for children and young people to experience a measure of independence, and to be allowed to earn and manage money for their own benefit. This is accepted as having a positive learning dimension. However since the legislation specifying a minimum wage for work does not apply to persons under the age of 16 years, some children and young people may be exploited.

12.2 International Labour Organisation (ILO) conventions place limitations on the right to work for those children below the age of 16. The most relevant conventions are Conventions 138 and 182. New Zealand has no difficulty in complying with ILO 182 covering the Worst Forms of Child Labour and formally ratified it in June 2001. The 1998 ILO Declaration, however, obliges New Zealand "to realise ... the principles concerning the fundamental rights which are the subject of" *both* Conventions 138 and 182. This obligation is considered to stem "from the very fact of membership" in the ILO.

12.3 NZ has not ratified ILO Convention 138. The CTU has recently been advised by an academic expert that the specific gaps in New Zealand law in terms of Convention 138 are:

- no explicit minimum age for admission to general employment or other work. New Zealand needs to make a declaration in terms of art 2(1) that this minimum age is 16.
- New Zealand has not explicitly regulated the employment or work of children under the age of 13, nor has it restricted such work to "light work". The Convention takes the approach that work by children under the age of 13 in developed countries should generally not take place. However, article 4 of the Convention can be used to make exceptions to this general rule if the State party specifies the particular exceptions it wishes to make, and if the country can justify those exceptions. Article 8 can also be used but it is limited to the entertainment industry.
- the absence of an express restriction on 13 -15 year olds to "light work", and a definition and specification of such work. The Convention requires such work to be designated.
- the absence of an express restriction on 16 - 18 year olds doing work that is likely to jeopardise health, safety, and morals, and specifying what comprises such work. The Convention requires such prohibited work to be designated. Note also that regulations 54 to 61 of the Health & Safety Regulations 1995, which deal with the minimum age for hazardous work (normally 15), will need to be altered to provide for a minimum age of 18 (art 3(1)) unless there are measures or training in place so that young workers are fully protected, in which case the minimum age for admission to such work must be 16 (art 3(3)).
- no specific exceptions made in respect of the above categories. These are provided for under articles 4 (general exceptions) and 8 (exceptions for the entertainment industry). Note, however, that no

exceptions are permitted for unsafe, hazardous, or immoral work that is covered by article 3.

- no permit system for granting exceptions for under-16s for such purposes as participation in artistic performances (art 8)

12.4 UN covenants are also relevant and in October 2003 the CRC Committee recommended that the NZ Government:

“expedite the ongoing process of reviewing and strengthening legislation protecting all persons under the age of 18 who are employed, and encourages the State party to ratify ILO Convention 138”.

12.5 The CTU and Business NZ have been working with the government to address these issues and to identify the possible legislative and other steps necessary to enable New Zealand to ratify ILO 138 and provide the necessary protection for young people under 16 years who are engaged in work.

12.6 Although it is preferable in some respects to regard any work done by those under 16 years to be primarily of either an incidental nature or part of a learning experience, the reality is that many under 16 year olds are working. There are many 14 and 15 year old young people in regular part time work that contributes to their family income in a meaningful way.

12.7 Children are accorded less legal protection in the labour market than adults and are subject to greater degrees of economic exploitation. Employers can legally employ a child for any wage that they are able to negotiate, regardless of how exploitative this wage may be. The Department of Labour has no jurisdiction, under the *Minimum Wage Act 1983*, to prosecute employers who pay exploitative wages to those

under 16 years. Young workers are vulnerable because of their lack of bargaining power and life experience.

12.8 The CTU is concerned that competitive economic pressures in New Zealand may continue to increase the risk of economic exploitation of children and young people and Government monitoring and action is required to ensure protection of children and young people from economic exploitation and harmful work.

12.9 Despite the enactment of the *Employment Relations Act 2000*, many employers are still not complying with their legal obligation to provide workers with written employment agreements recording negotiated terms and conditions. Young workers in particular continue to be offered verbal, 'casual' and independent employment agreements omitting payment for statutory public holidays and annual leave.

12.10 Surveys have shown that part time employment among school-age children and young people is widespread. Employment includes childcare and baby-sitting, delivery work, shop assistance, office work, and farm work.¹³

12.11 A survey by Gasson et al found:

- more than 40 percent of 11 to 14 year olds are estimated to work at least occasionally;
- approximately 25 percent of 15 year olds are in regular part time work;
- nearly 40 percent of 16 year olds and 50 percent of 17 year olds are in employment.

¹³ Gasson, Linsell, Gasson & Mundy-McPherson, (2003.) "Young People and Work", Dunedin College of Education.

12.12 Similar levels of employment were found by Caritas¹⁴ including a number of individual cases which gave particular cause for concern through exploitation or risky work activities:

- schoolchildren working between 10pm and 1am
- children carrying up to 20kg loads of newspapers and pamphlets in the rain
- 12 year olds driving tractors and diggers and forklifts
- children with cuts, burns, dog bites and broken bones from their work
- children who say their best work experiences involve access to machinery, guns and alcohol, in situations where their access to those items would have been illegal.
- 11 and 12 year old cleaners of other people's homes to supplement family income
- one case of a 15-year-old student who reported working 35 hours a week outside school time in a manufacturing job. The wages of less than \$2 an hour were passed over to the family. The student reported bad experiences including the heat of the factory, having no breaks and being beaten.

12.13 Stillman¹⁵ said that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged under 16 years would "have very little effect on youth employment opportunities". (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).

¹⁴ Caritas survey of 5000 schoolchildren (2003)

¹⁵ 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.

12.14 For these reasons, the CTU has been seeking legal protection for young workers under 16 years, and supports the principle of rate for the job and the application of the minimum wage protection.

13. Other Issues

13.1 There is of course a risk that if there is one minimum wage rate, then the main factor for any subsequent annual increase will be based on issues affecting young people in the labour market and therefore over a period the minimum wage could be set at a lower level than would otherwise be the case if there was an adult rate and a youth rate.

13.2 The CTU has previously submitted on the Disabled Persons Employment Promotion (Repeal and Related Matters) Bill and argued that there should not be a blanket exemption from the minimum wage based on disability status.

14. Summary

14.1 The CTU supports this Bill.

14.2 We have proposed some extensions in respect of amendments to the Human Rights Act, application of the minimum wage to those aged below 16 years of age, and a more rigorous process for exemptions for trainees.

14.3 We submit that the evidence shows that lifting the minimum wage has negligible employment impacts and does not significantly affect school enrolment levels.

14.4 But lifting the minimum wage and ending age discrimination on basic pay would have a positive impact for young workers in the labour market and is a significant part of building a high wage, high skill, quality economy.

APPENDIX 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 sector¹⁶.

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 disentangled.

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 have the effect of reducing employment.

The purported negative effects of the minimum wage on employment result from the combination of two elements: a substitution effect as well as a scale effect.

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.

The scale effect results from the fall of sales due to cost increases, leading to a reduction in the use of both factors, capital and labour, including low-skilled labour.

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 how to cost in 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.

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 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

¹⁶ Ghellab, Y. (1998) *Minimum Wages and Youth Unemployment*. ILO.

decline in real wages will produce a drop in both labour productivity and the firms' profits.

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. Akerlof¹⁷ has discussed how alternatively 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.

One study¹⁸ found that the lower the firm's wage is relative to the average wage in the economy, the higher the quit rate. This is relevant in a New Zealand context where the Linked Employer-Employee Data recently released showed 17% worker turnover per quarter over the last 5 years in NZ.

As the ILO has noted¹⁹ 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.

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.

Brown, Gilroy and Kohen²⁰ estimated that from 1954 to 1979, a 10% increase in adult minimum wages (using US data) reduced teenage employment by between 1% and 3%. But subsequent analysis, which carried the data forward into the 1980s, found that the estimated elasticity weakened and by 1990 was close to zero.

The evidence for nine countries presented in the OECD's Employment Outlook 1998 suggests that higher minima adversely affect teenage employment: a 10% increase in the minimum wage is associated with a 1½–3% decline in teenage employment, the effects being essentially the same across countries regardless of whether they have high or low minimum wages.

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 Kreuger

¹⁷ Akerlof, George A. (1984) "Gift Exchange and efficiency – Wage Theory: four views". *The American Economic Review*, Vol. 74, No. 2, p.81

¹⁸ Riveros, L.A., and Bouton, L. 1994, "Common elements of efficiency wage theories: what relevance for developing countries?". *The Journal of Development Studies*, Vol. 30, No. 3, (April) London. Pp 696-716.

¹⁹ Ghellab, Y. (1998) *Minimum Wages and Youth Unemployment*. ILO. p. 8.

²⁰ Charles Brown, Curtis Gilroy and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment", *Journal of Economic Literature* 1982 V20 pp 487-528.

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.

Card and Krueger found that after a raise in the minimum wage in New Jersey employment actually increased by about 13% 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.

The studies conducted by Card and Krueger and Katz and Krueger have not gone unchallenged, since Neumark and Wascher (1992) questioned the relevance of the natural experiments' approach to capture the effects of the minimum wage increase on employment. Their criticisms may be summarised as follows: firstly, they think that the "natural experiment approach" failed to consider lagged effect of minimum wages, and also did not control for the school enrolment rate" knowing that such a variable may have an endogenous impact on teenage employment.

Other work by David Neumark²¹ 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. Overall, Neumark finds 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.

Alison Wellington²² 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.

And 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 negligible²³. Indeed, employment growth had been "stronger than average" among those groups and sectors most affected by the national minimum wage.

Consideration previously had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric

²¹ Neumark, David, 2004, "Living Wages: Protection For or Protection From Low-Wage Workers?," *Industrial and Labor Relations Review*, October, pp. 27-51.

(1992) Public Policy Institute of California

²² Wellington, A. J., 1989, "Effects of the minimum wage on the employment status of youths", *The Journal of Human Resources*, Vol. XXVI, No. 1, pp. 27-46.

²³ Dan Finn Professor of Social Policy, University of Portsmouth The National Minimum Wage in the United Kingdom <http://iat-info.iatge.de/aktuell/veroeff/2005/gr2005-01.pdf> p.36

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.”

Dan Finn from University of Portsmouth has noted²⁴ that the introduction of the national minimum wage also has not had the dire consequences for employment levels predicted by the Conservative Government.

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’.

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 MW increase, at least following its 1990 and 1991 uprating, did not lead to employment contraction (United States).

He states²⁵ that:

“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”.

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

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

A study by Tim Maloney²⁶ of the period 1985 to 1993 showed that a 10 percent increase in the adult minimum wage produced a decline of 3.8

²⁴ Ibid. p. 48.

²⁵ Ghellab, Y. (1998) *Minimum Wages and Youth Unemployment*. ILO.p. 58.

²⁶ Maloney, T., 1995, “Does the adult minimum wage affect employment and unemployment in New Zealand?”, *New Zealand Economic Papers*, Vol. 29, No. 1, June , pp. 1-19.

percent in the employment of young adults. 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.

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".²⁷

In New Zealand, there has also been the Pacheco and Maloney study²⁸ which compares the employment trends of two groups, females with no school or post-school qualifications, and females with school and post-school qualifications. The study tests the hypothesis of disemployment effects associated with changes in the real minimum wage between 1985 and 2000. The only significant finding appears to be that, on average, a 1% rise in the adult minimum wage causes a 14% 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 statistically insignificant from zero.

But it is fair to say that the study which has really caught the attention in New Zealand has been the work of Dean Hyslop and Steve Stillman.

Hyslop and Stillman²⁹ found that a 69% increase in the minimum wage for 18 and 19 year olds in 2001 and a 41% 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. In fact hours of work increased for 16-17 year olds relative to other age groups. Last year, Stillman³⁰ said that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged under 16 years would "have very little effect on youth employment opportunities". (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).

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% increase in unemployment, how can it be that a 41% increase in the minimum wage, instead of producing a 12% drop in employment actually coincided with a 10-15% increase in hours worked?

²⁷ Chapple, Simon (1997) "Do Minimum Wages Have an Adverse Impact on Employment? Evidence from New Zealand". *Labour Market Bulletin* 2: 25-50

²⁸ Pacheco, G and Maloney, T. 1999, *Does the Minimum Wage reduce the employment prospects of unqualified New Zealand women*, Labour Market Bulletin.

²⁹ Hyslop, D. and Stillman, S. (2003) *Youth Minimum Wage Reform and the Labour Market*.

³⁰ 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.

As Manning³¹ 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”.

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 youth minimum wage would have an impact on employment.

³¹ Manning, A. (2003). *Monopsony in Motion: Imperfect Competition in Labour Markets*, Princeton University Press, page 19.