



NEW ZEALAND COUNCIL OF TRADE UNIONS

*Te Kauae Kaimahi*

**Submission**  
to the  
**Minimum Wage Review**  
**2006**

6 October 2006

## 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 2006 minimum wage review.
- 1.2. The CTU is the internationally-recognised confederation of trade unions in New Zealand and, with a membership of 350,000 workers, is New Zealand's largest democratic organisation.
- 1.3. 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, and benchmarking the rate for trainees to no less than the youth rate. The 46.4 per cent increase in the adult minimum wage over the last six-and-a-half years is in striking contrast to the 14 per cent increase over ten years from 1990.
- 1.4. 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.”<sup>1</sup>*
- 1.5. While the CTU welcomes this commitment, we would like to see the \$12.00 rate introduced immediately, rather than waiting until the end of 2008, and believe that economic conditions exist now to permit that increase without delay.
- 1.6. It is vital that New Zealand introduces a \$12.00 minimum wage in order to tackle poverty, encourage social justice and promote a sense of fairness.
- 1.7. 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 now an intrinsic barrier to the economic transformation of New Zealand. Business groups' fixation with labour costs has blinded them to the inescapable necessity for more training, more investment and improving productivity so New Zealand can truly become a high skill, high value economy.

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<sup>1</sup> “Confidence and Supply Agreement with New Zealand First”, 17 October 2005

## **2. The Minimum Wage is too low in relative terms**

- 2.1. The minimum wage is currently just under 47 per cent of the average hourly wage, an improvement on the same time last year when it represented just over 45 per cent of the average hourly wage.<sup>2</sup> 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.
- 2.2. 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 \$501 – or \$12.53 per hour based on a 40-hour week.<sup>3</sup>
- 2.3. The minimum wage is also low compared to Australia. In Australia the current minimum wage is AUS\$ 12.75<sup>4</sup> (approximately NZ\$ 15.40<sup>5</sup>). In light of debates about relative wages across the Tasman, and putting to one side purchasing power parity, Australia's minimum wage is 50 per cent higher than New Zealand's. Even within the Australian context the Australian minimum wage is just over 49 per cent of the Australian average hourly ordinary time wage – a ratio not seen in New Zealand since 1989.
- 2.4. An immediate increase in the minimum wage to \$12.00 would improve the ratio of the minimum wage to the average wage to just under 55 per cent, an excellent first step towards reaching the ratio of 66 per cent set back in 1973.

## **3. A low minimum wage is symptomatic of low wages in general**

- 3.1. 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, high value economy.
- 3.2. New Zealand's unemployment rate is at 3.6 per cent, the second lowest in the OECD<sup>6</sup>. Although there are still some 79,000 registered unemployed, there are also many reports of labour shortages. The Quarterly Survey of Business Opinion still finds 25 per cent of employers have difficulty finding skilled staff and 4 per cent have difficulty finding unskilled staff. Furthermore

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<sup>2</sup> Statistics New Zealand, "Quarterly Employment Survey", June 2006

<sup>3</sup> Leda Blackwood, Goldie Feinberg-Danieli, George Lafferty and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2005/2006", Wellington, 2006

<sup>4</sup> Under the new regime introduced by the Workplace Relations Amendment (WorkChoices) Act 2005, the Australian Fair Pay Commission is expected to announce its first determination on the Federal Minimum Wage on 30 November 2006.

<sup>5</sup> Based on RBNZ average exchange rate for August 2006

<sup>6</sup> Statistics New Zealand, "Household Labour Force Survey", June 2006

labour shortages are still the main constraint on expansion for 15 per cent of firms.<sup>7</sup>

- 3.3. Yet, despite these figures, the CTU has yet to see any real change in the pay packets of Kiwi workers. In an environment of low and 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.
- 3.4. The OECD records that between 1993 and 2003 the average annual change in real compensation per employee in New Zealand was 0.7 per cent, well below the OECD average of 1.1 per cent and the Australian average of 1.3 per cent.<sup>8</sup>
- 3.5. 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).<sup>9</sup>
- 3.6. The sluggish nature of wage levels is 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.<sup>10</sup> A study by Helen Roberts at Otago University found that between 1997 and 2002, CEO pay grew 5.3 per cent per year.<sup>11</sup>
- 3.7. In this context, regular increases in the minimum wage promote investment in skill development. Such increases must sit alongside union collective bargaining and wider programmes to invest in new technology and infrastructure and engage workers in workplace and industry issues. But the symbolic and flow-on effect of minimum wage increases can play a vital role.
- 3.8. As well as underscoring the need for increased minimum wages, low wages underscore 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.

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<sup>7</sup> Department of Labour, "Skills in the Labour Market", August 2006

<sup>8</sup> OECD, "Employment Outlook" 2006

<sup>9</sup> Canadian Centre for the Study of Living Standards, "An Index of Labour Market Well-being for OECD countries", Ottawa, 2003

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

<sup>11</sup> 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

#### **4. Raising the minimum wage does not increase unemployment**

- 4.1. A 46 per cent increase in the minimum wage since 1999 has not been a disincentive for employers to take on new staff. Rising labour force participation and falling unemployment show workers are 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.
- 4.2. While labour productivity in New Zealand between 1998 and 2005 increased 2.6 per cent per annum, real wages have barely increased in this period.<sup>12</sup> This divergence illustrates that, from both an employment and productivity perspective, there are good grounds for an immediate increase to \$12.00.
- 4.3. 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.
- 4.4. 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.<sup>13</sup> In fact, hours of work increased for 16 and 17-year-olds relative to other age groups.
- 4.5. For a more complete assessment of the literature in relation to the impact of wage increases see Appendix 1.

#### **5. Labour participation rates and social policy**

- 5.1. 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 2006 it was 68.8 per cent. In this context the CTU believes that low wages act as an impediment to higher labour market participation.
- 5.2. 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*

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<sup>12</sup> Statistics New Zealand, “Productivity Information Paper 1998-2005”, 2006

<sup>13</sup> Dean Hyslop and Steven Stillman, “Youth Minimum Wage Reform and the Labour Market”, NZ Treasury Working Paper 04/03, March 2004

*can take them.*” (emphasis added) <sup>14</sup> 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.

## **6. The minimum wage is an important safety net**

- 6.1. 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. The promotion of collective bargaining by the Employment Relations Act is important, but it has not reinstated the award system. With the option of industry or occupational agreements on pay and conditions removed, the abolition of the award system places much greater emphasis on universal policy tools like the minimum wage.
- 6.2. 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.
- 6.3. While collective bargaining is an important protection for workers. As part of the legacy of the Employment Contracts Act, 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 today<sup>15</sup>. Without collective coverage, the majority of workers in the private sector rely on legislative minima.
- 6.4. Even in some collective agreements there are printed rates only marginally above the minimum wage. The Victoria University of Wellington Employment Agreements survey for 2005 found the average printed minimum in collectives categorised as from the “other retailing” sector to be \$413 per week, just \$3 per week above the minimum wage. In collectives categorised as “agriculture” the average minimum was only \$425<sup>16</sup>. While these are not paid rates – they underline the large number of workers affected by minimum rates.
- 6.5. 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.
- 6.6. 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

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<sup>14</sup> New Zealand Labour Party, “Social Development Policy”, 2005

<sup>15</sup> Leda Blackwood, Goldie Feinberg-Danieli, George Lafferty and Peter Kiely, “Employment Agreements: Bargaining Trends & Employment Law Update 2005/2006”, Wellington, 2006

<sup>16</sup> *ibid*

enforced and that it is returned to a socially acceptable level of 66 per cent of the average wage as soon as possible.

## **7. Implications for productivity**

- 7.1. 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.
- 7.2. 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.<sup>17</sup> 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”.
- 7.3. 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.
- 7.4. 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.
- 7.5. 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.
- 7.6. 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.<sup>18</sup>
- 7.7. 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

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<sup>17</sup> Julia Hall and Grant Scobie, “Capital Shallowness: A Problem for New Zealand?” NZ Treasury Working Paper 05/05, June 2005

<sup>18</sup> Ministry of Health, “Disability Support Services in New Zealand: The Workforce Survey – Final Report”, August 2004

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.

## **8. Social justice**

- 8.1. According to the Social Report 2006, "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.
- 8.2. 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.
- 8.3. On this basis the CTU would like to see a return to the 1973 commitment that the minimum wage is set at two-thirds of the average wage.
- 8.4. Between 1984 and 1987 the Labour Government made three increases to the minimum wage so it reached a level of 52.5 per cent of the average ordinary time wage. Since that time the ratio has not returned to 50 per cent.
- 8.5. This decline is in the context of steadily rising living costs. Adjusting the figures from the Household Economic Survey for inflation, the average household spends approximately \$949 per week in 2006. This means that two people working full time on the minimum wage would still be \$129 a week short of meeting average household expenditure in New Zealand.<sup>19</sup> In fact a household on one full-time minimum weekly wage would be \$8 short of affording just the food, clothing and shelter component of average household expenditure.
- 8.6. For low wage workers, secure rental accommodation, let alone home ownership, has become increasingly unrealistic. From just under \$250 in 2003, the average weekly rental for a 3-bedroom house in New Zealand has

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<sup>19</sup> Statistics New Zealand , "Household Economic Survey", 2004 (Adjusted for inflation using the Consumer Price Index)

risen to \$287 in 2006.<sup>20</sup> This represents 70 per cent of the before-tax minimum weekly wage. With an average sale price for a house in New Zealand in the year to August 2006 of \$340,473, this represents almost 16 times the gross annual minimum wage.

- 8.7. 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.<sup>21</sup> In this economic climate, increased participation in the labour market is still seeing some workers left behind.
- 8.8. 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 current levels of low pay, employment is not necessarily a way to avoid severe poverty.
- 8.9. Equally, The Social Report 2006 notes that income inequality is rising in New Zealand: “Most of the observed increase in income inequality has been due to a larger overall rise in incomes for those in the top 20 percent of incomes than for those in the bottom 20 percent of incomes.”<sup>22</sup>
- 8.10. The Growth and Innovation Framework in New Zealand has an overall economic 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.
- 8.11. 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. Recent Department of Labour research found over half of all workers reported that they work 40-49 hours a week, almost 20 per cent work longer and 14 per cent work between 50-59 hours.<sup>23</sup>

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<sup>20</sup> Department of Building and Housing, “Building and Housing Trends: January – March 2006”,

<sup>21</sup> 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

<sup>22</sup> Ministry of Social Development, “The Social Report 2006: Indicators of Social Wellbeing in New Zealand”, Wellington, 2006

<sup>23</sup> Department of Labour, “Work life balance in New Zealand: A snapshot of employee and employer attitudes and experiences”, 2006

- 8.12. There are many New Zealand businesses and government departments that have introduced more flexibility into working arrangements or are trialling more flexible working arrangements to support caring, voluntary responsibilities and access to leisure activities. But these opportunities are more likely to be for professional and managerial workers and are less likely to be accessible to low paid workers.
- 8.13. Thus, many New Zealand workers do not have access to flexibility enabling them to achieve work life balance. For example Families and Work Institute research in 2004 confirmed that low income workers are less likely to be able to change their starting and finishing hours.<sup>24</sup> This has important social costs for families who don't have the flexibility to provide for family and caring needs.

**9. Gender Pay Gap**

- 9.1. 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.
- 9.2. In the tables below data from the New Zealand Income Survey, June 2006, 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.

	<b>Male</b>	<b>Female</b>	<b>Both</b>
<b>Pakeha</b>	\$22.57	\$19.17	\$20.91
<b>Maori</b>	\$18.08	\$16.57	\$17.31
<b>Pacific peoples</b>	\$16.57	\$16.16	\$16.38
<b>Total population</b>	\$21.46	\$18.55	\$20.04

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<sup>24</sup> Jodie Levin-Epstein, "Getting Punched: The Job and Family Clock", Center for Law and Social Policy, July 2006

	Average	Per \$1 earned by Pakeha men	Per \$1 earned by all men <sup>25</sup>
<b>Pakeha male</b>	\$22.57		
<b>Pakeha female</b>	\$19.17	85c	89c
<b>Maori male</b>	\$18.08	80c	84c
<b>Pacific male</b>	\$16.57	73c	77c
<b>Maori female</b>	\$16.57	73c	77c
<b>Pacific female</b>	\$16.16	72c	75c

- 9.3. Low pay and the gender pay gap result in lower lifetime earnings and reduced economic security for women on average compared with men.<sup>26</sup> This is unacceptable and discriminatory. An increase in the minimum wage is an intentional measure to reduce the gender pay gap across the whole workforce.
- 9.4. 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.<sup>27</sup>
- 9.5. When the minimum wage finally crossed the \$10 mark this year, 91,000 workers got a pay rise, 61,000 of whom were women.
- 9.6. The CTU strongly supports the work of the Pay and Employment Equity Unit and other current initiatives to reduce the gender pay gap. But the current initiatives are confined to the core public sector, public health and education sectors. Given that these initiatives do not extend to large sectors of the workforce where women are employed, and the absence of legislation for equal pay for work of equal value, the minimum wage is an important contributor in reducing the gender pay gap.
- 9.7. 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.
- 9.8. A minimum wage increase also benefits women in part time work, given that women are more likely than men to work in part time employment. As well as

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<sup>25</sup> As a proportion of men’s average hourly earnings

<sup>26</sup> Prue Hyman, “Significant increases in the minimum wage : a strategy for gender pay equity” , Women’s Studies Association (NZ) Conference, Wellington, November 2004

<sup>27</sup> 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

being predominately female, part time work is disproportionably low paid and often offers little by way of training opportunities.<sup>28</sup>

- 9.9. 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.
- 9.10. It is a major concern to the CTU, however, that in low paid sectors the minimum wage has become a primary wage-fixing instrument. In recent negotiations in the aged and disability sector, for a workforce that was predominantly women, over 50 per cent of the workforce were on wages between the minimum wage and \$10.99 an hour. 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.<sup>29</sup>
- 9.11. The CTU supports the concerns of its affiliated unions who represent caregivers. Caregivers, who have decades of work experience and who are predominately women, are still paid \$11 an hour or less.
- 9.12. 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.<sup>30</sup> 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.
- 9.13. 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.
- 9.14. In the core public sector, education and health sectors, where low paid work has been contracted out, there have been minimal pay increases for workers other than increases in the minimal wage. Women, ethnic minorities and Maori and Pacific women are heavily over-represented in these workforces. Given contracting out practices, the CTU recommends the 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.

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<sup>28</sup> Prue Hyman, “Significant increases in the minimum wage : a strategy for gender pay equity” , Women’s Studies Association (NZ) Conference, Wellington, November 2004

<sup>29</sup> 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

<sup>30</sup> Prue Hyman, “Significant increases in the minimum wage : a strategy for gender pay equity” , Women’s Studies Association (NZ) Conference, Wellington, November 2004

- 9.15. 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.
- 9.16. 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.

## **10. International commitments – UN & ILO**

- 10.1. 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.
- 10.2. 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.
- 10.3. 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.
- 10.4. 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.
- 10.5. 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".
- 10.6. Taken together these international commitments underline the need for continued rises in the minimum wage.

**11. Circumventing the minimum wage – the importance of enforcement**

- 11.1. This year's 7.9 per cent increase in the minimum wage has helped bring about higher than usual pay increases in a number of sectors. However, in many cases that increase has not been passed on without a fight.
- 11.2. For example, in the CMT (Cut, Make and Trim) sector of the clothing industry, most companies pay around the minimum wage. In the case of three lower North Island plants that paid on or just slightly above the minimum wage, March's 75-cent-an-hour increase was accompanied by a nasty shock when workers received a note from their boss advising them that, from now 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.
- 11.3. The employers had received advice from the Department of Labour (DOL) that such action was lawful because it was the total remuneration that counted towards meeting the minimum wage obligations.
- 11.4. The advice was wrong and the DOL has been obliged to change its stand to ensure that employers do not meet one set of legal obligations such as paying the minimum wage by breaching another set. The service pay and the skill payments were separate contractual requirements in the respective collective agreements. As such they were separate from the hourly rate and had to be added on. A collective employment agreement is a legally enforceable agreement under the Employment Relations Act and as such cannot be unilaterally varied by an employer.
- 11.5. Had these workers not been union members and covered by a collective agreement they would not have received the increase. Their experience highlights the need to inform workers about their rights and police the activity of employers.

**12. CTU response to Questions posed by the Review**

- 12.1. The CTU believes that objectives of fairness, protection, income distribution and work incentives all support an increase in the minimum wage and that \$12.00 represents a reasonable and effective level of increase to see all four objectives advanced.
- 12.2. The CTU also believes that a \$12.00 minimum wage would produce gains well in advance of any costs – costs which appear increasingly difficult to validate. The CTU also recognises that the minimum wage plays an important part in wider government policy about economic transformation.

**13. Increase in relation to the 4 objectives**

- 13.1. In terms of fairness, the CTU believes an increase in the minimum wage to \$12.00 is more than warranted. Measures of living standards in New Zealand indicate a significant proportion of the population are experiencing hardship and disparity of income distribution continues to expand. The relative rate of the minimum wage to the average wage shows that workers on low pay have lost touch with the rest of the economy.
- 13.2. In terms of protection, sustained downward pressure on wages in many low-paid sectors of the economy 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.
- 13.3. In terms of income distribution the minimum wage continues to sit at less than 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.
- 13.4. In terms of work incentives, significant increases in the minimum wage have correlated with steady increases in labour force participation.

**14. Criteria for assessing an increase**

- 14.1. Gains from an increase in the minimum wage to \$12.00 clearly outweigh any costs. The benefits in terms of the four criteria above – fairness, protection, income distribution and work incentives are significant. In contrast there is distinctly limited evidence of macro-level costs in terms of unemployment. At the same time there are important positive spin-offs for the economy in terms of incentive to invest in skill development and new technology.
- 14.2. 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).<sup>31</sup> For a more comprehensive consideration see Appendix 1.
- 14.3. In terms of the cost effectiveness, the limited effectiveness of policy to date means that more should still be invested in this area. Currently there are sectors of the economy which are not benefiting from the relatively strong growth in New Zealand. Depressed wages in these areas are not being

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<sup>31</sup> 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 Malone, ‘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

affected by improved economic performance. Equally, the necessary changes to the mindsets of employers and firms appear impossible to make, without making use of all available policy levers.

- 14.4. The CTU believes that the minimum wage plays a vital role in broader government policy in a number of ways. Fundamentally, it is a key part of social justice and an important tool in encouraging participation in the labour market. 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.

## **15. View on Government's goal**

- 15.1. The CTU supports the intent of the Government's goal to increase the minimum wage to \$12.00. However the CTU believes the change should be now rather than in 2008. Equally, the CTU believes that current economic conditions are right to allow that increase now.

## **16. Youth Minimum Rates**

- 16.1. The CTU believes the youth minimum rate should be removed immediately. It is simply unfair to reward young workers less for the same work as an employee 18 years or older.
- 16.2. There are no logical or moral grounds to treat workers differently just because they are young. This practice is inconsistent with the ILO Convention that outlaws unequal payment for work of equal value.
- 16.3. The only way to sustain the argument for youth rates is to assume that work done by younger workers is inherently of lesser value than the work done by adults. There is no evidence to support this.
- 16.4. In the Victoria University of Wellington Employment Agreement study only 12 per cent of employees in New Zealand are covered by a collective with youth rates in the document. In the last year BP and Postie Plus have removed youth rates and Restaurant Brands has agreed to phase them out.
- 16.5. More alarmingly, in terms of enforcement, the same Victoria University study found 240 collective agreements with youth rates below the minimum – in fact the average rate across all agreements with youth rates was \$7.74 – 46 cents less than the legal minimum. This indifferent attitude to youth rates underscores the danger they present to the rights of young workers.
- 16.6. 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

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”.<sup>32</sup>

- 16.7. The CTU also supports the minimum wage applying regardless of age including those aged under 16 years of age.
- 16.8. 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 and 40 per cent of 16-year-olds and 50 per cent of 17-year-olds are in employment.
- 16.9. 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 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 family income in a meaningful way. In such an environment it is vital to secure those workers' rights.

## **17. The Minimum Wage, the NZ Bill of Rights Act and the Human Rights Act.**

- 17.1. A recent legal opinion (February 2006) from the Ministry of Justice to the Attorney General relating to Sue Bradford's Minimum Wage (Abolition of Age Discrimination) Amendment Bill and its consistency with the Human Rights Act and the New Zealand Bill of Rights Act has major ramifications for any attempt to establish minimum wages based on age by regulation under the Minimum Wage Act.
- 17.2. The legal advice relies on case law from New Zealand Court of Appeal v Attorney General [2002] 1 NZLR 58 which held that regulations that were inconsistent with the New Zealand Bill of Rights Act were *ultra vires* and invalid because the empowering statute did not explicitly authorise the making of regulations that were inconsistent with that Act.
- 17.3. The advice to the Attorney General is that "the principal Act [being the Minimum Wage Act] does not authorise the Governor General to make orders that discriminate in a way that is prohibited by the Bill of Rights Act." Therefore, relying on section 4 (1) (a) of the Bill of Rights Act; that "classes of workers" may be "defined in the order by reference to age" does not give such authority to the Governor General to discriminate on the basis of age. The reason being that section 6 of the New Zealand Bill of Rights Act states "Whenever an enactment can be given meaning that is consistent with the rights and freedoms contained in this Bill of Rights, that meaning shall be preferred to any other meaning."

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<sup>32</sup> 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.

- 17.4. This means that while a private company may be able to discriminate on the basis of age for the payment of wages under section (30) (2) of the Human Rights Act, which states; "Nothing in section 22 (1) (b) shall prevent payment of a person employed in the same or substantially similar circumstances where the lower rate is paid on the basis that the first mentioned person has not attained a particular age, not exceeding 20 years of age," the same does not apply to the "legislative, executive, or judicial branches of the government of New Zealand" (see New Zealand Bill of Rights Act section 3).
- 17.5. The legal advice to the Attorney General is clear. The Minimum Wage Act (the empowering statute) does not explicitly authorise the making of regulations by the crown (such as rates of pay that discriminate on the basis of age) that are inconsistent with the Bill of Rights Act. Therefore any regulations that attempt to do this could be held to be *ultra vires*.
- 17.6. This is the first time that new regulations under the Minimum Wage Act have been considered since the publishing of the legal opinion referred to above. The CTU strongly urges the Government to take this legal opinion into account when considering the drafting of minimum wage regulations based on age. It is our view that, based on this legal opinion, no regulation can be drafted that discriminates on the basis of age.
- 17.7. If the Government, after reading the legal opinion is still of a mind to draft regulations that discriminate on the basis of age, then the CTU asks that it be given the right to make further legal submissions on this point before a final decision is made.

## **18. Training Rates**

- 18.1. The CTU does support the continuation of an exemption for trainees. But the level should be raised to 90 per cent and it must continue to require 60 credits of training.
- 18.2. However the CTU's support is qualified. It was relatively common for there to be youth rates under the award system. But for those trainees and apprentices there was the *quid pro quo* of higher rates of pay in the future.

## **19. Proportion directly affected and gains to workers**

- 19.1. There are a significant number of workers who fall outside the coverage of collective agreements. As such they are even more reliant on the minimum wage to provide a fundamental floor to their employment experience.

**20. Negative impacts**

- 20.1. The CTU accepts that increased wage costs under a \$12.00 minimum wage will affect some employers. However, the nature of income distribution in New Zealand means that some redistribution of wealth is warranted on social justice grounds. Equally, employers' reliance on the depression of relative wages to maintain competitive advantage is unsustainable in the long term. There are some employers who have so far proven incapable of looking for other strategies.

**21. Specific issues in relation to Maori and Pacific Island workers**

- 21.1. The minimum wage is an essential mechanism in improving the pay gap for Maori and Pacific Island workers.
- 21.2. 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.

**22. Summary of Recommendations**

- 22.1. Rather than waiting until the end of 2008, the minimum wage should be raised to \$12.00 immediately. However, this still only represents 54.9 per cent of the average ordinary time hourly rate.
- 22.2. There should be a phased rise in the minimum wage to a level that is 66 per cent of the average ordinary time hourly rate and that ratio should be maintained.
- 22.3. Youth rates should be removed immediately.
- 22.4. Training rates should be increased to 90 per cent of the adult minimum wage.
- 22.5. There should be a government agency charged with gathering more information about low pay in New Zealand.
- 22.6. That, as well as the minimum wage, responsible contractor policies represent an important tool in addressing low wages.
- 22.7. More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

**23. Conclusion**

- 23.1. The CTU looks forward to the opportunity for further dialogue on the contents of this submission.

## 24. Appendix 1

- 24.1. 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.<sup>33</sup>
- 24.2. 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.
- 24.3. 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.
- 24.4. The purported negative effects of the minimum wage on employment result from the combination of two elements: a substitution effect and a scale effect.
- 24.5. 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.
- 24.6. 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.
- 24.7. 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.
- 24.8. 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 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

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<sup>33</sup> Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998

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

- 24.9. 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.<sup>34</sup>
- 24.10. One study found that the lower the firm's wage is relative to the average wage in the economy, the higher the quit rate.<sup>35</sup> 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.
- 24.11. 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.<sup>36</sup>
- 24.12. 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.
- 24.13. Brown, Gilroy and Kohen<sup>37</sup> 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.
- 24.14. 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 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.

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<sup>34</sup> George A. Akerlof, "Gift Exchange and efficiency – Wage Theory: four views", *The American Economic Review*, Vol. 74 – No. 2, 1984, p.81

<sup>35</sup> 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

<sup>36</sup> Youcef Ghellab, "Minimum Wages and Youth Unemployment", ILO, 1998, p. 8.

<sup>37</sup> 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.

- 24.15. 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.
- 24.16. 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.
- 24.17. 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.
- 24.18. 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.<sup>38</sup> 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.
- 24.19. Alison Wellington<sup>39</sup> 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.
- 24.20. 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.<sup>40</sup> Indeed, employment growth had been “stronger than average” among those groups and sectors most affected by the national minimum wage.
- 24.21. Previously consideration had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric

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<sup>38</sup> David Neumark, “Living Wages: Protection For or Protection From Low-Wage Workers?”, *Industrial and Labor Relations Review*, October 2004, p 27-51

<sup>39</sup> 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.

<sup>40</sup> Dan Finn, “The National Minimum Wage in the United Kingdom”, *Institut Arbeit und Technik*, Gelsenkirchen 2005, p36

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.”

- 24.22. 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.<sup>41</sup>
- 24.23. 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’.
- 24.24. 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).
- 24.25. 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”.*<sup>42</sup>
- 24.26. 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.
- 24.27. It is therefore important to look at New Zealand studies about the impact of the minimum wage.
- 24.28. 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

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<sup>41</sup> Ibid, p48

<sup>42</sup> Youcef Ghellab, “Minimum Wages and Youth Unemployment”, ILO, 1998, p.58

employment of young adults.<sup>43</sup> 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.

- 24.29. 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”.<sup>44</sup>
- 24.30. 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.<sup>45</sup> 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.
- 24.31. Most recently and most significantly, 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.<sup>46</sup> 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 under 16 years would “have very little effect on youth employment opportunities”.<sup>47</sup> (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).
- 24.32. 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

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<sup>43</sup> 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.

<sup>44</sup> Simon Chapple, 'Do minimum wages have an adverse impact on employment? Evidence from New Zealand', Labour Market Bulletin, Department of Labour, 1997

<sup>45</sup> Gail A Pacheco and Tim Malone, 'Does the minimum wage reduce the employment prospects of unqualified New Zealand women?' Labour Market Bulletin, No, Department of Labour 1999

<sup>46</sup> Dean Hyslop and Steven Stillman, “Youth Minimum Wage Reform and the Labour Market”, NZ Treasury Working Paper 04/03, March 2004

<sup>47</sup> 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.

be that a 41 per cent increase in the minimum wage coincided with a 10-15 per cent increase in hours worked?

24.33. 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”.*<sup>48</sup>

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.

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<sup>48</sup> Alan Manning, “Monopsony in Motion: Imperfect Competition in Labour Markets”, Princeton University Press, 2003, p19