



NEW ZEALAND COUNCIL OF TRADE UNIONS

**Submission on the**

**Review of the Minimum Wage  
2005**

21 October 2005

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## 1. Introduction

- 1.1 The New Zealand Council of Trade Unions (CTU) welcomes this opportunity, as the central organisation of workers, to make the annual submission on the minimum wage.
- 1.2 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.
- 1.3 The Government should maintain the momentum on the minimum wage. With economic forecasts of both higher inflation and lower economic growth, there will be pressure from the business community not to increase the minimum wage even though the business community in general has not addressed the low wage issue themselves. It is important that the Government clearly signals that it is crucial for the social and economic development of New Zealand and the building of a modern economy that wages continue to rise, including the minimum wage.
- 1.4 The 35.7% increase in the adult minimum wage over the last 6 years can be contrasted with a 14% increase over ten years from 1990. But all this does is restore the minimum wage to just above 45% of the average wage – a level deemed too low by the Royal Commission on Social Policy. The minimum wage in 1973 was deliberately set at 66% of the average wage<sup>1</sup> but that ratio has significantly declined since then (See Appendix 2).
- 1.5 It is in this context that we note the inclusion in the Confidence and Supply Agreement with NZ First and the Co-operation Agreement with the Green Party that the Government will:  

continue the practice of annually increasing the minimum wage, with a view to it being set at \$12.00 per hour by the end of 2008 if economic conditions permit.
- 1.6 The CTU view is to welcome the commitment to an initial target of \$12.00 an hour. However, as you will see below, we are seeking a decision to move to \$12.00 sooner rather than later. Further we are submitting that the issue of removing the youth rate also needs to be addressed. The target of \$12.00 by 2008 in the above arrangements between Labour, NZ First and the Greens is also subject to the qualification of whether economic circumstances would permit such an increase. We anticipate that some employer groups will continue to

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<sup>1</sup> The ratios are historically noted as a proportion of the weekly wage. I discuss ratios on the basis of hourly rates.

argue that economic conditions would not allow such a move. In addition, they will argue that a significant increase in the minimum wage at the same time as the fourth week's annual leave will be too great a burden. The Government needs to be resolute in the face of such arguments.

- 1.7 This means that it is imperative that the Government takes the initiative in this review for a significant increase rather than wait until 2007 or 2008.
- 1.8 Unemployment is at 3.7%. This is low compared with other OECD countries. It means that key labour market issues are about operational and policy measures that can increase participation further. Although there is still some 78,000 registered unemployed, there are many reports of labour shortages. It is also clear from the strong evidence of employment growth over recent years that the minimum wage is not any where near a level that some would say acts as a disincentive for employers to take on new staff. In fact, those who use the tired old argument that an increase in the minimum wage must mean an increase in unemployment are now discredited. This does not mean that any level of increase in the minimum wage will not impact on employment. But it does show that 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.
- 1.9 The CTU submits 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. The CTU contends 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.
- 1.10 Unions arguing for a fair wage during collective bargaining negotiations have got strong arguments based on the significant profits and high economic growth of the last few years. But unions have also recognised that to achieve a high wage, high skill economy, we need to see increased investment in the component parts of a highly productive economy including skill development, new technology and modern infrastructure. The submission for a higher minimum wage is also made on this basis.
- 1.11 We recognise that alongside a higher minimum wage, we need a strong policy focus on modernising the economy and encouraging a high level of engagement of workers in workplace and industry issues. The CTU is committed to such an approach and at our recent biennial conference we called on employers to meet with unions on an industry

basis to discuss wages and collective bargaining alongside skills and productivity.

- 1.12 However, 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.
- 1.13 The minimum adult wage in Australia is \$AUD484.40 or \$AUD12.75 an hour<sup>2</sup>. Often employees are on this rate for only a very brief period before moving on to a higher award rate. The rate for shop assistants is \$AUD14.30 an hour for those over 21 years.
- 1.14 In New Zealand the \$AUD12.75 equates to \$NZ13.85<sup>3</sup> or 46% higher than the current NZ minimum wage. Although we should not make a direct comparison given purchasing power differences, the wage margin in Australia is a contributing factor to the loss of a vertical slice of the New Zealand labour market.
- 1.15 This submission analyses contemporary labour market conditions and assesses the objectives of the minimum wage in this context. This forms the basis for our recommendations to increase the minimum wage as the most appropriate and least cost way to meet the policy objectives.
- 1.16 The format of this submission includes information and arguments from earlier submissions. This is because it is thought necessary for the full range of issues to be on the official record each year.
- 1.17 We look forward to dialogue on the contents of the submission.
- 1.18 The CTU also makes this submission based on the objectives and criteria as set out by the Government (see Appendix 1).

## **2. Summary of Recommendations**

- 2.1 The recommendation in this submission is that the minimum wage should initially be raised to \$12.00 per hour or \$480 per week. This is equivalent to 56.7% of the average ordinary time hourly rate<sup>4</sup>.
- 2.2 The 1984-1990 Labour Government raised the minimum wage in 3 steps from 1985 so that by 1987 it had reached a level of 52.5% of the average wage. Restoration of that ratio would mean a minimum wage

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<sup>2</sup> Based on 38-hour week.

<sup>3</sup> Exchange rate movements will affect the level of this figure.

<sup>4</sup> We have added 3.2% to the March 2004 figure based on the consensus forecasts to get an approximation for the March 2005 figure given that the applicable time for a new minimum wage would be at that time in all likelihood.

of \$11.12. However, the CTU submits that the Government should set an objective to phase in a minimum wage equivalent to 66% of the average ordinary- time wage. Therefore we are seeking a step this time to \$12.00 which is 57% of the average wage.

- 2.3 For those aged below 18 years, the CTU submits that the lower rate based on age should be removed. We support the continuation of an exemption for trainees but submit that this rate should be at 90% of the minimum wage. In current terms that would be \$8.55. In our submission based on an increase to \$12.00 an hour, the exemption for trainees would be on to a rate of \$10.80 an hour. We submit that it is unfair to pay younger people a lower rate based purely on their age. We accept that a lower rate during training is justified. The only reliable way to assess whether such a lower rate is warranted is where the person is a trainee in training for a work-related qualification greater than 60 credits.
- 2.4 We support the minimum wage applying regardless of age and this includes (with some exceptions) those aged under 16 years of age.
- 2.5 The 2005 Minimum Wage Review needs to take account of the Pay and Employment Equity Taskforce Report. An increase in the minimum wage can make a small but important contribution to reducing the gender pay gap.
- 2.6 Steps need to be taken to re-establish a reliable database on low pay. This may require a Low Pay Commission or Low Pay Unit in the Labour Department.
- 2.7 Also, resources allocated to policing the minimum must be increased, and the government should amend the law so that in the event of an employer being found to be paying less than the minimum wage, the penalty is twice the amount of underpayment, payable to the victim of the underpayment (the worker).
- 2.8 We will support an indexation of the minimum wage to the average wage but only once there is a commitment to lift the ratio to two-thirds.

### **3. Labour Market Conditions**

- 3.1 The CTU submits that contemporary labour market issues include labour and skill shortages, migration, low wages, relatively high participation and relatively low productivity.
- 3.2 We believe that low wages are acting as an impediment to higher labour market participation. The Government identified labour market participation as one of the drivers of the in-work payment and childcare innovations in Budget 2004. But there are limits to the extent a Government could or should subsidise low wages. It is also important to increase in minimum wage.

- 3.3 It is no exaggeration to say that there is a low wage crisis in New Zealand. From 2000 to 2004, the Reserve Bank<sup>5</sup> notes that corporate profits increased by 11% a year. This can be compared with wage rises of just under 2.1% a year in that period. Unit labour costs fell by nearly 1% a year for the last 5 years. In the last year, Director's fees went up by 20.5%.
- 3.4 Executive pay rates (except for one survey in late 2004) have regularly gone up by twice as much as workers' pay.
- 3.5 And 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 other countries where there were significant increases (eg. Australia 28.8%, Canada 39.5%, UK 46.9% and Finland 68.2%).
- 3.6 This has been reinforced by a number of NZ Treasury papers. Our wage levels fell from roughly comparable to Australia in the 1980s to 60% of their level by 2002 according to Treasury<sup>6</sup>.
- 3.7 Today their average wage is nearly 30% higher at NZ\$1082 compared with \$837 here.
- 3.8 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". 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.
- 3.9 Between 1995 and 2002, according to Hall and Scobie<sup>7</sup> from NZ Treasury, 70% of the difference in the growth of labour productivity is explained by a lower growth rate in capital intensity.
- 3.10 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.
- 3.11 It can be clearly demonstrated that the crisis we face on low pay is a legacy from the 1980s and 1990s. The CTU recognises that the annual minimum wage adjustment cannot alone carry the burden of addressing this crisis. But it must play a significant role both directly

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

<sup>6</sup> Melleny Black, Melody Guy and Nathan McLellan. "Productivity in New Zealand 1988 to 2002 New Zealand". NZ Treasury Working Paper 03/06 June 2003.

<sup>7</sup> Hall, Julia and Scobie, Grant. "Capital Shallowness: A Problem for New Zealand?" NZ Treasury Working Paper 05/05 June 2005.

and as a signalling effect. The CTU recognises that collective bargaining and also wage increases through improved investment in skills, infrastructure, modern technology have a role.

- 3.12 The CTU submission is that, although the Government cannot regulate for high wages, there is a requirement for a policy response which stimulates incentives to work in order to attract labour market participation. A significant lift in the minimum wage should therefore be added to the policy initiatives of the Government on labour supply measures. It will have a powerful signalling effect in the labour market.
- 3.13 The CTU has argued for many years that labour productivity is more likely to rise through an investment approach to workers – in terms of skill levels, workplace conditions, and minimum wages. The problem in New Zealand is not a lack of flexibility or that wages are too high. The problem is that wages are far too low.
- 3.14 This year we have at last seen some lift in wages with the latest Labour Cost Index indicating that for those workers who actually got an increase in the June quarter, the average increase was 5%.
- 3.15 There are still many sectors facing persistent labour shortages. For instance, it was estimated back in 2003 that there would be a shortage of 4000 drivers by 2005 and 10,000 by 2010 if current recruitment trends continue. Pay, conditions, and pressures on drivers were highlighted as key factors (Dominion Post, 21 April 2003). Two years later, little has happened to change this situation. In fact the Road Transport Forum is lobbying for the inclusion of heavy truck drivers on the shortages lists used by the NZ Immigration Service.
- 3.16 The Hays July 2005 Forecast noted in respect of the construction sector that:
- Salary increases over the past 12 months have been restrained considering the level of skills shortages prevalent. Following several years of marked increases in salaries, the last financial year saw marginal salary changes, largely in line with inflation. Our survey clearly shows the scarcity of labour has yet to have a significant impact on salaries. Certainly employers are, for the most part, becoming more realistic about the skills shortages, however their focus up to this point has been on benefits or career progression to attract and retain the right person rather than dramatic salary increases.
- 3.17 This is after 5 years of labour shortages and still employers are not responding!
- 3.18 The October 2005 NZIER *Quarterly Survey of Business Opinion* said that although the number of firms reporting increased difficulties finding labour has declined, “widespread difficulty finding skilled and unskilled labour remains”. The National Bank in a recent survey also noted that a net 20 percent of respondents cited a lack of skilled employees as the biggest problem facing small businesses in the September quarter - the most prominent issue now for the past seven consecutive quarters.

- 3.19 As we noted last year, low pay is also contributing to even higher levels of labour market churn. For instance, an Auckland University survey<sup>8</sup> undertaken on behalf of Ministry of Health Quality and Safety project which showed that average pay at \$10.80/hour at that time and that there is 30-40% turnover each year (15,000 of the 45,000 strong workforce). A higher minimum wage would make a real difference to workers in this sector and would also have an impact on the quality of services, which suffer greatly from this turnover.
- 3.20 In some cases, unions report that the overseas owners of a firm require that the minimum market rate is the applicable wage rate – which means that the minimum wage is becoming the market rate. These firms can easily afford to pay more than the minimum wage.
- 3.21 There is a range of policy responses to this situation including the Labour Department Skills Information Action Plan, higher levels of investment in industry training and modern apprenticeships, and immigration initiatives.
- 3.22 However, there are considerable lags between implementation of these measures and real effects in the labour market.
- 3.23 The CTU submits therefore that the Government needs to assess the relationship between labour market participation, minimum wages, current labour market conditions, projected persistence in labour shortages, and policy responses.
- 3.24 The minimum wage of \$9.50 is not acting as a deterrent to employment under current labour market conditions.
- 3.25 In fact, Hyslop and Stillman<sup>9</sup> 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.
- 3.26 This year, Stillman<sup>10</sup> 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).

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<sup>8</sup> See Disability Support Services in New Zealand: The Workforce survey, Final report, 20 August 2004 and related publications.

<sup>9</sup> Hyslop, D. and Stillman, S. (2003) *Youth Minimum Wage Reform and the Labour Market*.

<sup>10</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.

- 3.27 A significant lift in the minimum wage would chart a clear course in terms of productivity enhancement alongside high labour market participation, rather than continued employer reliance on employment creation through low paid jobs with poor levels of physical capital per worker.
- 3.28 The CTU recognises that a minimum wage review cannot bear the burden of addressing all the issues about low pay. But it must be seen as a key lever.

#### **4. The Relationship between the Employment Relations Act, the Minimum Wage, and Employment Standards**

- 4.1 The CTU recognises that the Employment Relations Act provides an opportunity for low paid workers to bargain collectively and improve their wages and conditions. The law as it applies to individual agreements is also a significant improvement in basic rights compared with the Employment Contracts Act.
- 4.2 In previous submissions, the CTU has argued that the minimum wage should not be seen as a primary wage-fixing instrument, but rather as a “safety net”. Despite the promise of the Employment Relations Act, there is a very real need for, not only an adequate minimum wage as a “safety net”, but also a set of employment standards. Such non-wage employment rights form the minimum set of statutory entitlements for those on individual employment agreements (and, of course, by extension the minima that underpin the content of collectively determined conditions).
- 4.3 This in no way detracts from an acknowledgment by the union movement that it has a responsibility to use the mechanisms and opportunities under the Employment Relations Act to assist the plight of the most vulnerable in the labour market.
- 4.4 However, it needs to be clearly acknowledged by Government that the removal of the award system has had a devastating effect on the wage levels of a large proportion of the workforce. Neither the Employment Relations Act (nor the Employment Relations Reform Bill resulting in an amended Act from December 2004) have reinstated the award system. This means that there are two main (non-exclusive) options available to increase pay levels for low-income workers<sup>11</sup>. One is a very significant expansion of collective bargaining including multi-employer agreements. (This has not happened so far). The second is an improved minimum code. The abolition of the award system places tremendous pressure on generic solutions for low-income workers now that the option of industry or occupational agreements on pay and conditions has been removed. As we have already stated, the impact of this change can not be underestimated. It has not only been

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<sup>11</sup> We do not explore tax issues or productivity effects in this section.

detrimental to the workers in many sectors. It has also resulted in widespread under-investment in skill development, labour and skill shortages, emigration (particularly to Australia) and a skewed labour market where wage differentials are exacerbated. In Australia, some 80% of workers are protected by a minimum level of pay and conditions in a state or federal occupational or industry award<sup>12</sup>.

- 4.5 The CTU asserts that the labour market continues to deliver highly disparate outcomes depending on relative bargaining strength. While it is an accepted fact that different outcomes will occur, there is a need to underpin the labour market with a fair minimum wage. That is why we are seeking a commitment from Government to phase in a minimum wage of two-thirds of the average wage.
- 4.6 CTU affiliates are actively engaged in a wages campaign. Increasing the minimum wage is a small, but very important component of this campaign. We are calling on employers to work with unions to establish new pathways for industry-wide wage increases. Unions will continue to bargain for increased wages but the transaction costs and low coverage of enterprise bargaining simply entrenches low wages for many workers.
- 4.7 There is not a one-size fits all approach. But 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; 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.

## **5. The Role and Purpose of the Minimum Wage**

### *5.1 The Purpose of the Review of the Minimum Wage*

- 5.1.1 In previous submissions on the annual review, the CTU has been critical of the way in which the statutory obligation in relation to the review of the minimum wage has been discharged.
- 5.1.2 The review seemed to be conducted in a completely arbitrary way. Neither the Act, nor any Ministerial statement, had a clear definition of the purpose of the minimum wage. There were no published criteria against which the review is to be conducted. Up until 2000 there had been no consultations (other than a ritual right for the central organisations of workers and employers to supply a written submission) and certainly no negotiations during the process of review.

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<sup>12</sup> The CTU recognises that the award system in Australia is currently under a concerted attack from the Federal Government.

- 5.1.3 We therefore welcome the opportunity to discuss our submission with Officials.
- 5.1.4 We also welcome the objectives and criteria in respect of the minimum wage.
- 5.1.5 In order to start the process of defining the purpose of the minimum wage, it is useful to examine its historical origins.

## 5.2 *The Origins Of The Minimum Wage*

- 5.2.1 In its 1994 report on the minimum wage, the Business Roundtable argues that the national award system was in fact a type of minimum wage law, and that minimum wages had in fact therefore applied since the 1890s. The CTU disputes that type of specification. Even under a regime of blanket award coverage, *different* minimum rates of pay were prescribed for different occupations and for different categories of skill. The minimum wage is the “social backstop” wage and should not be confused with the wage that emerged in the past from other forms of bargaining and/or arbitration. Other wage fixing mechanisms have a quite distinct purpose and justification.
- 5.2.2 The *generalised* legal minimum wage in New Zealand had its origins in a response to the conscription of labour as a war measure. The National Service Emergency Regulations 1940 gave the government authority to direct workers into essential industries. However, because of the unusual nature of wartime production, some work was intermittent and other work was not covered by then existing awards.
- 5.2.3 The government of the day accepted that if it was to acquire the authority of conscription, then it had to assume the responsibility for protecting those who were subject to that authority. The original national statutory minimum was set under the NSE regulations, and remained in force until replaced by the authority of the Minimum Wages Act of 1945.
- 5.2.4 In its early stages the minimum wage was a robust and significant discipline on the labour market. In late 1947 it stood at 83 percent of the average wage. Translated into a March 2005 equivalent relative wage that would give a minimum of \$17.57 an hour. This is \$8.07 an hour more than the current rate.

## 6. **Government Obligations on Establishing a Minimum Wage**

- 6.1 The CTU believes that the government has a general obligation to the community to ensure that minimum socially acceptable standards are prescribed and enforced, and that this general obligation extends to the matter of the minimum wage. This is now recognised as an objective of the minimum wage.

6.2 Apart from the general obligations of the government to the workforce, there are at least four formal commitments that establish an explicit obligation on the government to maintain an adequate minimum wage.

6.2.1 *Obligations as a Member of the United Nations*

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.

6.2.2 *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.

6.2.3 *Obligations as a Member of the ILO*

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.

6.2.4 *Obligations under (ratified) ILO Convention 26*

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".

**7. The Minimum Wage and Employment Laws**

7.1 Under previous industrial relations regimes (Industrial Conciliation & Arbitration Act, Industrial Relations Act, and the Labour Relations Act), the minimum wage played the role of industrial safety net. Ideally, no worker at that time should have had to rely on Minimum Wage Act protection. National awards delivered the required protections against exploitation of labour.

7.2 The minimum wage applied where a new, unrepresented occupation emerged outside of award coverage (eg. with the growth of early

childhood work alongside the change in labour force participation by women, or of video shops as a result of the growth of the home rental market).

- 7.3 The framework of law envisaged that in these circumstances, the group would be represented and would gain an award. This did happen with early childhood workers, but the removal of access to arbitration to secure an award did mean that some groups may have had to rely on minimum wage protections for long periods of time.
- 7.4 The Employment Contracts Act introduced a fundamental change in the role of the minimum wage. It dismantled the award system. The minimum wage became the residual protection, and not just a device to cover gaps in award coverage. While the Employment Relations Act promotes collective bargaining and good faith bargaining, it did not reintroduce the award system and relies on a floor of rights to establish processes to deliver bargaining outcomes. The results for low-income workers have been that there is a persistent effect from the Employment Contracts Act that the new law has not significantly altered.
- 7.5 When the minimum wage was increased in 1990, it was increased in the context of a comprehensive wage fixing system, with about 720,000 workers having their minimum pay and conditions of employment determined by an award or a collective agreement. Now, the Victoria University agreements database identifies contracts and agreements covering only 300,700 workers. Collective bargaining coverage in the private sector has fallen from 48% in 1990 to 9% in 2005. The Labour Department (ERS) *ERA Info* reports that their database has 2,356 collective employment agreements that are either current, or have expired but have not yet been replaced by a new collective agreement. These cover 275,609 employees, or 16.91% of wage and salary earners based on the September 2004 Household Labour Force Survey.
- 7.6 These figures mean that less than a fifth of the labour force have minimum entitlements defined in collective contracts/agreements. A vast portion of the workforce has no collectivised wage protection, with the result that the basic burden of social policy in wage fixing has been loaded onto the statutory minimum wage.
- 7.7 After the Minimum Wages Act was passed in 1945, the level was adjusted periodically, and it fluctuated between two thirds and three quarters of the average wage until 1957. It then started to deteriorate in relative terms until it reached 44 percent of the average in 1972.
- 7.8 In 1973, after the report of the Royal Commission on Social Policy, the minimum wage was set at two-thirds of the average wage. After that, it was not adjusted to keep pace with general movements in wages, and particularly in the first half of the 1980's it tended to be increased by

general wage and cost of living orders, but not by the amount of any negotiated pay increases. By 1984, it had declined to a mere 30 percent of the average wage, and it was to all intents and purposes a redundant protection.

- 7.9 The Labour Government boosted the minimum wage in three steps from 1985 to 1987 so that it again had some relevance to the wage structure. In 1987, it reached \$210 per week – 52.5 percent of the then average wage.
- 7.10 The next three adjustments tended to apply the "going rate" in the award round to the minimum. It was increased (rounded off to a neat dollar amount) by seven percent in 1988 and by four percent in 1989. That formula was applied again in 1990, via a "going rate" increase from the award round of 4.5 percent, raising the minimum wage to \$245 per week.
- 7.11 During the 1990s, there have been years when no adjustment was made, and years when minimal adjustments were made. The overall effect was that the minimum wage, even with the adjustments since 1999 has slipped from 52.5 percent of the average wage in 1987 to 45.4 percent now. It is back close to the relative level that existed at the time of the 1972 Royal Commission - a level that was seen then as being too low, and which needed to be raised.
- 7.12 This historical overview has allowed some insights into what the purpose of the minimum wage should be, and what role it should be expected to play in the labour market conditions that apply today.

## **8. Fairness - A Socially Acceptable Level for a Minimum Wage**

- 8.1 In its role as a social standard the minimum wage is a statement of what level of wages society regards as unacceptable. This is now apparent from the objective that refers to a "socially acceptable minimum". In effect, this says that if jobs will only be provided at wages below some level, society would rather not have them. This is a bit like the provision of an unsafe product. There may be jobs in it – but there are social costs that outweigh that benefit. The need for this prohibition on too low a level of wages is that there are some people who for reasons of lack of knowledge or out of desperation will work for sub-standard wages, and others ruthless enough to employ them.
- 8.2 Changes in social policy can accentuate the need for proper protection. In particular, because of the "stand down" period for eligibility for unemployment benefit, circumstances can arise that leave groups of workers particularly exposed to exploitation. (Although the length of the stand down period is now discretionary it is still often an unacceptably long period). By setting minimum standards, the government provides a "safety net" against exploitation in the employment relationship. The

question is how these social standards ought to be set in specific dollar terms.

8.3 Relevant factors include benefit levels, employment-related costs, and trends in the cost of living.

8.4 Average weekly household expenditure was \$888 in 2003/04, up 16.1 percent from \$765 in 2000/01.

8.5 Household spending<sup>13</sup> on average is:

|                        |              |
|------------------------|--------------|
| Rent/mortgage          | 217          |
| Food etc               | 143          |
| Transport              | 142          |
| Running/equipping home | 112          |
| Clothing/footwear      | 31           |
| Other goods            | 99           |
| Other services         | 146          |
| <b>TOTAL</b>           | <b>\$888</b> |

8.6 House prices increased by 22% in the June 2004 year and 14.7% in the last year.

8.7 The net income required to meet the needs of a household mean that those on the current minimum wage and assuming no savings and two incomes, are trying to cope on at least \$128 less than the average household. This assumes two incomes, not one. Even with two incomes, there is a significant gap between the low-income and average household. A more realistic scenario is with one income. A minimum wage household has to survive on \$508 a week less than the average household. A socially acceptable standard requires an increase in the minimum wage in these circumstances.

8.8 Household income from the “couple” rate for the unemployment benefit is \$280.96 after tax, leaving aside other benefit entitlements. If one person works, the main benefit entitlement lapses, and the after tax income on the minimum wage is approximately \$306.00 a week. This is an unacceptably low social standard. It also means that in such circumstances, there is little incentive to undertake paid work once travel and other costs are included.

8.9 The Government is introducing a new “in-work” payment as announced in Budget 2004 and amended in August 2005. This essentially tops up wages depending on income and the number of children. For a number of people therefore, the minimum wage is less directly relevant. However, it also means that the lower the minimum wage the larger the

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<sup>13</sup> Household Economic Survey 2003.

application of in-work payments and the greater the extent of Government subsidy of low wages.

- 8.10 The family tax relief does reward a person with children when they enter paid employment above a certain number of hours. But it also disadvantages those children if the person loses that job or has their hours reduced. So although, the family tax relief is welcome, it creates some harmful distortions and is no substitute for a decent minimum wage.

## **9. Protection for Vulnerable Workers**

- 9.1 In its role of tackling low pay, it has to be acknowledged that the minimum wage will not solve the problem of low pay. A broader approach focused on training, the use of new methods of production, revised grading patterns and so on will be needed to tackle the low pay ghettos in the labour market. But the minimum wage can stimulate reform.
- 9.2 In effect it removes the option of employers to maintain their viability by regular reductions in wage rates, and forces attention on to raising productivity as the instrument of commercial adjustment.
- 9.3 As stated above, the Employment Relations Act does not reintroduce an award system. There is employer resistance to multi-employer collective agreements. There is 9% collective bargaining coverage in the private sector. There is still significant bargaining inequality in segmented labour markets. Therefore vulnerable workers are still heavily reliant on an adequate minimum wage.
- 9.4 The CTU is particularly concerned about the lack of any real response in the pay packet to persistent labour shortages. There has been commentary on labour shortages for over 4 years. Yet wages are not really reacting to the apparently high demand for labour. It could be that there is a long lag. Perhaps a decade or so of low inflation has anchored pay increases at low levels whatever the strength of the labour market. Perhaps household incomes have been rising through employment effects (more jobs, more hours). Perhaps in acute cases, wages have been rising but this is not showing across the whole labour market. Maybe the statistical measures are not picking up dynamic effects of promotion and new job categories. But, the CTU contends that a major reason is the combined effect of low collective bargaining, minimal labour market regulation and employer attitude. We have discussed this above.
- 9.5 The CTU believes that a low wage mentality has been cemented into the labour market. There is no real protection for low paid workers except the minimum wage. The minimum wage has increased by 35.7% since 1999 with no adverse employment effects. Yet the Labour Cost Index shows that private sector wages have increased by only

around 10.5% in that period. CEO salaries have been increasing by 7% a year (see below).

- 9.6 This illustrates that there are very diverse outcomes in the labour market. At the top income end, and perhaps where there are acute skills shortages, there are significant pay increases. At the low pay end, those on the minimum wage have had regulated increases over the last 4 years. But for low paid workers just above the minimum wage there have been only very small increases in pay.
- 9.7 This means that low-paid workers are increasingly reliant on the minimum wage.

## 10. Gender Pay Gap

- 10.1 The 1 March 2004 Report of the Pay and Employment Equity Taskforce noted that increasing the minimum wage would assist with narrowing the gender pay gap. Recommendation III. B3 (e)(iii) specifically recommended that gender equity be included as one of the five factors to be taken into account in the annual review of the minimum wage throughout both the state and private sectors.
- 10.2 Table 1 (below) is derived from Table 10 of the NZ Incomes Survey. The table shows that there are still major disparities in hourly earnings between women and men, Māori, Pacific peoples and Pakeha/European.
- 10.3 The minimum wage makes a vital contribution to reducing the gender pay gap, particularly given the extensive limitations of current equal pay legislation and the absence of any legislation dealing with equal pay for work of equal value, since the 1990 repeal of the Employment Equity Act. The CTU's submission on Part 2 of the Employment Relations Law Reform Bill reiterated these concerns, and our commitment to improving legislation around both equal pay and pay equity. The combined impact of gender and ethnicity pay gaps, makes raising the minimum wage an even more important policy mechanism for Maori and Pacific women.
- 10.4 A 2002 Ministry of Women's Affairs' discussion paper *Next Steps Towards Pay Equity* noted on page 12 that "a recent increase in the Minimum Wage rate is expected to benefit women since women are disproportionately in jobs that pay minimum or very low wages." The more in-depth background paper prepared by the Ministry of Women's Affairs<sup>14</sup> cited international literature demonstrating that "there is ample evidence, for example, that centralised bargaining systems and

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<sup>14</sup> Ministry of Women's Affairs (September 2002) *Next Steps Towards Pay Equity. A background paper on equal pay for work of equal value.*  
<http://www.mwa.govt.nz/pub/NextStepsBackgroundPaper.doc> downloaded 18 October, 2002, p 40

protective interventions such as minimum pay result in narrower gender pay gaps”<sup>15</sup>.

10.5 This has been reinforced by Prue Hyman<sup>16</sup> who has noted that:

Internationally, gender wage gaps tend to be lower the greater the extent of collective and centralised bargaining, the higher the minimum wage and the narrower are overall relativities, all of which are also associated with a smaller proportion of low paid workers. Reverse movements on each of these related four factors will have a differentially adverse impact on lower paid women.

10.6 Additional evidence is presented in Aileen McColgan’s 1997 analysis of minimum wage regulation and women’s wages, which concludes that:

there is little doubt that the implementation of minimum wage regulation, whether by means of the extension of collective agreements, as in the case in Germany and, de facto, in many of the Nordic countries, or a nationally or sectorally determined minimum wage, could have a significant effect on the salaries of the lowest-paid workers (mainly women) and, in turn, on the gender-pay gap.<sup>17</sup>

10.7 Gillian Whitehouse states there is a “need to focus on both absolute and relative measures of earnings (Whitehouse, 2003, p 119).<sup>18</sup> As she then notes “it is only within the context of a concept of wage fairness that the pursuit of eradicating the gender pay gap has meaning and utility. Absolute gender pay equity could after all be achieved in a world of highly unequal and (for some) inadequate wages” (ibid. p 126).

10.8 The Table below shows the extent to which women, Māori and Pacific workers are over-represented amongst those on low pay. It does not undertake the next level of analysis required to determine the level at which the minimum wage should be set if it is to be an effective mechanism for addressing those gender and ethnicity pay gaps. The CTU supports the Pay and Employment Equity Taskforce Recommendation III. B3 (e)(iv), which suggested that the Government should:

commission additional research analysing both the nature of low paid employment and those performing this work; and the economic and social

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<sup>15</sup> Gillian Whitehouse, Di Zetlin and Jill Earnshaw (2001) Prosecuting pay equity: Evolving strategies in Britain and Australia. *Gender, Work and Organisation* 8(4): 365-386; Rubery (1998). Figart and Kahn (1997); Robyn Henderson (2000) A forward looking approach to pay equity. Presentation. NSW Department for Women; R.G. Gregory, R. Anstie, A. Daly and V. Ho (1989) Women's pay in Australia, Great Britain and the United States: The role of laws, regulations and human capital. In Robert Michael, Heidi Hartmann and Brigid O'Farrell (eds) *Pay equity empirical inquiries*. Washington, DC: National Academy Press.

<sup>16</sup> Hyman, Prue (2004) *Low Waged Work and Gender Pay Equity in New Zealand*, Paper for National Advisory Council on the Employment of Women Conference on Pay and Employment Equity for Women, June 2004.

<sup>17</sup> McColgan, Aileen (1997) *Just Wages for Women*. Oxford: Clarendon Press, p 390.

<sup>18</sup> Whitehouse, G (2003) "Gender and Pay Equity: Future Research Directions" in *Asia Pacific Journal of Human Resources*, 41 (1), pp. 116-128

impacts of further increasing the minimum wage in the state sector and/or extending these increases to all workers.

10.9 The Pay and Employment Equity Taskforce was charged with developing a five year plan of action to address pay and employment equity. One of the Taskforce's initial 12 projects explored the link between low pay and the gender pay gap. The project description referred to:

international evidence suggesting that compressing relativities and eliminating low pay (defined as below two thirds of the average wage) is an effective tool in narrowing the gender pay gap.

10.10 It is useful to note that the Taskforce's definition of low pay equates with the minimum wage benchmark set in 1973, after the report of the Royal Commission on Social Policy. It is also in line with the current social standard in Europe.

Table 1

**Average hourly earnings by gender and ethnicity, Income Survey, June 2005**

|                          | Male    | Female         | Average for Males and Females |
|--------------------------|---------|----------------|-------------------------------|
| <b>Pakeha / European</b> | \$22.34 | <b>\$17.87</b> | \$20.14                       |
| <b>Maori</b>             | \$17.28 | <b>\$15.85</b> | \$16.58                       |
| <b>Pacific peoples</b>   | \$15.92 | <b>\$14.35</b> | \$15.20                       |
| <b>Total population</b>  | \$21.16 | <b>\$17.35</b> | \$19.30                       |

|                       | Average hourly rate | Per \$1 earned by Pakeha men | Per \$1 earned by all men <sup>19</sup> |
|-----------------------|---------------------|------------------------------|---|
| <b>Pakeha male</b>    | \$22.34             |                              |   |
| <b>Pakeha female</b>  | \$17.87             | <b>80c</b>                   | 84c                                     |
| <b>Maori male</b>     | \$17.28             | <b>77c</b>                   | 82c                                     |
| <b>Pacific male</b>   | \$15.92             | <b>71c</b>                   | 75c                                     |
| <b>Maori female</b>   | \$15.85             | <b>71c</b>                   | 75c                                     |
| <b>Pacific female</b> | \$14.35             | <b>64c</b>                   | 68c                                     |

10.11 Last year the CTU noted that the Pay and Employment Equity Taskforce's work would be a valuable opportunity to examine the role the minimum wage can play in closing the gender pay gap. Its focus on the public service, health and education sectors would enable government (as employer and funder) to provide a model for changes that could then be extended to the private sector. Given current employment practices and the vital role the minimum wage plays as a safety net, we argued that it would be crucial that government agencies could not simply contract out low paid work to avoid an increased minimum wage. Therefore responsible contractor policies should be developed to ensure all those receiving government funding are also

<sup>19</sup> As a proportion of men's average hourly earnings.

bound by any minimum wage increases recommended by the Taskforce. We also argued that it is vital that the Minimum Wage Review considers the relationship between the Pay and Employment Equity Taskforce's Five-Year Plan of Action and specifically achieving a lift in the minimum wage to two thirds of the average wage.

- 10.12 These challenges remain and should, in part, be addressed through the work of the Pay and Employment Equity Unit. However, given the Unit's focus is primarily confined to the public service, public health and public education sectors, a broader approach is required to also address minimum wage issues within the private sector. The Minimum Wage Review provides such an opportunity.

## **11. Income Distribution**

- 11.1 There is a growing body of research that is now questioning the virtues of widening inequalities as a motor force of personal and economic development. Conventional market theory holds that the threat of poverty is the stick, and the prospects of wealth the carrot that determine how dedicated, applied and productive individual workers become. It also argues that inequality is the consequence of weak growth - that a growing economy dampens inequalities.
- 11.2 Work that has developed out of the sophisticated mathematical modelling pioneered by Paul Romer of the University of California questioned both of these long held "truths". Firstly, in the last decade at least, growth has not led to reducing inequality, but more significantly, rising inequality is seen to be a threat to continued growth. Both the nature and the direction of the growth/inequality link are under question. Much of the reason for the new phenomenon is the impact of low pay on skills formation. Lower paid households have neither the money nor the motivation to acquire tertiary skills, at precisely the time that the macroeconomy needs a more skilled workforce, and organisational change in the microeconomy is also driving decision making down the line and making a broad based skills structure a precondition for the success of the enterprise.
- 11.3 The Growth and Innovation Framework in New Zealand has an overall economic objective to return per capita income to top half of OECD. We cannot get anywhere near the top half of the OECD per capita income if real wages do not rise. In addition, the overall policy framework in respect of GIF is based on sustainable development. That implies a focus on social development, investment in people, and an inclusive economy. This means investing in economic development programmes, modern apprenticeships, tertiary education including industry training. It means encouraging innovation and smart enterprises. But it also means developing a serious policy focus on the features of a sustainable labour market. The minimum wage is a component of such an approach.

- 11.4 The minimum wage can help offset the side effect of the economic deregulation we have experienced leading to an unplanned "drift" of the wage structure, which leaves the lower paid groups behind. This trend was aggravated by the wholesale deregulation of the labour market itself through the Employment Contracts Act and has not recovered through the Employment Relations Act.
- 11.5 A key ratio in relation to income distribution is the relationship between the minimum wage and the average wage.
- 11.6 The "rehabilitation" of the minimum wage in the 1984-1987 period restored it to 52.5 percent of the average wage. The latest measure of the average ordinary-time wage has it at \$20.92 an hour.<sup>20</sup> There is no objective ratio that would reflect principles of equity, but a level that at least preserves some credibility for statutory protection of workers in the absence of an award system, would have it above 50 percent. We are submitting that it should be increased in phases to be set at two-thirds of the average wage.
- 11.7 Due to the labour market conditions that exist and are forecast to continue, there is a strong case for an increase to 57% of the average wage, or \$480 (\$12.00 an hour).
- 11.8 There is of course the problem of having little or no information about paid rates outside of collective agreements. Improved data would allow some assessment of the likely scale of any impact and create a reference point for a social/industrial cost/benefit assessment.
- 11.9 A shift to a \$480 minimum wage would not be inconsistent with a guideline that sought to preserve a suitable relationship between the minimum wage and the average level of wages.
- 11.10 A further consideration is that of general equity in the labour market. A Sheffield Survey of 508 Chief Executives earning from \$175,000 to \$338,425 found that they received a 5.1% increase in salary in 2003/04. Another survey<sup>21</sup> found that the average annual increase in executive salaries from 1997 to 2002 was 7.1%. What is demonstrably clear is that major companies are rewarding their CEOs with significant wage increases in an environment of considerable wage dispersion.
- 11.11 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%. Although tax changes contributed to this dispersion, it is also indicative of wide differentials emerging in remuneration.

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<sup>20</sup> Quarterly Employment Survey.

<sup>21</sup> Preliminary results from Glenn Boyle (VUW) and Helen Roberts (Otago). Dompost 13 October 2004.

## **12. Increasing Work Incentives**

- 12.1 The Card and Kreuger study (see below) is one particular example where a higher minimum wage boosted the participation rate. A New Zealand study indicates at least a coincidence of significantly rising minimum wages and increased hours worked (see Hyslop etc below).
- 12.2 It is also submitted that low wages act as a constraint on skill development. If an employer can access low cost labour, then ensuring that employees are highly trained may not be seen as necessary. However, where wages are fair and reasonable, there would be an incentive for employers to not only invest in workplace and vocational training but to ensure that there are productive workplace relationships.
- 12.3 The CTU submits that (see above) there are particular labour market circumstances of a persistent nature that require a significantly higher level of incentive to attract higher labour market participation.
- 12.4 The CTU is concerned that too many employers see increasing migration rather than higher wages as a way to attract labour.
- 12.5 We are also observing that labour market tests in relation to migration enquiries/applications are increasingly using the minimum wage as the market wage (eg. fishing). This is a serious situation. Of course there should be opportunities for migration to meet labour market pressures. This is not the place for the CTU to express our policy in respect to migration. But in the context of the minimum wage, we believe that an increase in the minimum wage can further increase participation. We are not suggesting it is the only policy lever. But it is one.

## **13. Relationship of the minimum wage to Low Pay**

- 13.1 The Victoria University's Industrial Relations Centre maintains a database on 2593 current collective employment agreements covering 300,700 workers.
- 13.2 Different analyses of the minimum wage clauses are conducted and reported each year.
- 13.3 If we look at minimum rates above \$9.50, the latest update for 2004/2005 identifies that some 22,400 workers in the database are covered by settlements that have a minimum adult rate of up to \$380 per week, and 53,500 workers are covered by settlements that have a minimum adult rate between \$380 and \$420 per week. It is not possible to accurately assess the numbers below \$12 an hour from the data but it appears to be approximately 155,000 workers out of 292,400 in their wages database.

13.4 It is important to note that this shows the number of employees in agreements that have the lowest rate at this level. It does not purport to show the number of workers actually being paid that rate. This means the number of actual employees affected by a rise could be quite small. It would be extremely useful to upgrade the quality of information on low pay, so that this standard can be applied in a more rigorous way in future reviews. That research would need to assess paid rates in relation to the actual minima in agreements.

#### **14. The Youth Minimum Wage**

14.1 A youth minimum wage was introduced with effect from 31 March 1994, and is currently set at \$7.60 per hour.

14.2 The CTU submits that the youth minimum wage should be abolished. It is untenable that workers should be discriminated against solely on the basis of age. If Government is unwilling to eliminate the youth minimum in one year, the elimination should be announced in this review and phased in over no longer than a two year period.

14.3 Issues with the youth minimum are:-

- whether there should be any discrimination of wages based on age
- if so, what relationship should it have to the adult minimum?

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

14.5 In the past, the CTU has noted employer arguments 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.

14.6 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.

14.7 It is acknowledged that considerable progress has been made but it is now time to phase out the youth minimum wage.

14.8 The CTU does however support an exemption for those in training as set out below. We have also developed a close dialogue with the

Mayors Taskforce for Jobs and note their commitment towards increasing the number of young people in employment or training. A higher minimum wage but with a trainee exemption could incidentally be an incentive to increase the number of trainees in formal training agreements.

- 14.9 The Hyslop and Stillman analysis is important in relation to the youth minimum wage. Youth minimum wages are seen as negatively correlated to employment levels. Yet their study shows if anything a positive correlation. The youth minimum wage is also the trainee wage. This suggests that there is an opportunity in the current circumstances to significantly lift the youth minimum wage.
- 14.10 Stillman has also suggested that abolishing the youth minimum wage will not impact negatively on employment.
- 14.11 The CTU, along with Business NZ, is involved in *skillnz* which aims to boost participation in industry training. A low training wage acts 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.

## **15. Exemptions for Trainees**

- 15.1 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.
- 15.2 In recent years, there has been a trend away from rates based on age and service, and towards rates based on skill. However, this trend is highly variable.
- 15.3 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.
- 15.4 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.

- 15.5 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.
- 15.6 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.
- 15.7 The CTU acknowledges that the Government has now partly addressed this issue by requiring that a trainee must not be paid less than the youth minimum wage.
- 15.8 The CTU submitted that it is preferable that no exemption should apply at all. Alternatively, if there is such an exemption then it should be on to a scale that is formally agreed between the appropriate employer and union group, and advised to the Department of Labour. Such a provision is necessary in the interests of protecting trainees, gathering information, reflecting the diverse training circumstances, and ensuring a good faith process in arriving at trainee scales.
- 15.9 The CTU requests that the wages of trainees be specifically examined to ensure that they are not kept on the youth minimum rate for an extended period<sup>22</sup>. The exemption for trainees on to a youth minimum was an improvement. But it does not meet the requirements for proper consideration of a graduated scale for those undertaking training. This policy therefore needs to be reviewed.
- 15.10 Given our submission that there should be no youth minimum wage, we accept that a trainee rate will remain. In our submission, it is important that there is a clear guideline of who therefore is a trainee. We continue with the view that a trainee is someone in training for a work-related qualification greater than 60 credits.

## **16. Workers under 16 years**

- 16.1 The NZCTU is concerned at 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.

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<sup>22</sup> This is subject to submissions made elsewhere in this document on youth minima.

- 16.2 This issue is also related to ILO Conventions 138 and 182 and discussion on a minimum age for employment.
- 16.3 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. It is acknowledged that it is difficult to argue that a 10 year old doing a newspaper delivery for an hour a week must be on the minimum wage, 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.
- 16.4 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.
- 16.5 The NZCTU 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.
- 16.6 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.
- 16.7 Current information shows 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.<sup>23</sup> 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.

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<sup>23</sup> Gasson, Linsell, Gasson & Mundy-McPherson, (2003) "Young People and Work", Dunedin College of Education ,

16.8 Similar levels of employment were found by Caritas<sup>24</sup> 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.

16.9 As previously noted, this year, Stillman<sup>25</sup> said that the impact of eliminating the youth minimum and/or extending the minimum wage to those aged under 16 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).

16.10 For these reasons, the CTU is seeking extension of the minimum wage to those under 16 years.

16.11 We are happy to discuss how exceptions can apply. We recognise that there needs to be broad public acceptance of the practical application of a minimum wage to those aged under 16 years.

## **17. Economic Impacts of the Minimum Wage**

17.1 The relevant issue in a New Zealand context in terms of the economic impact of increases in the minimum wage is that we have seen consistently high levels of employment growth alongside regular increases in the minimum wage.

17.2 There are many studies of the employment effects of raising the minimum wage. These include: the Card and Krueger (1995) study

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<sup>24</sup> Caritas, *ibid.*

<sup>25</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.

which found that increases in the minimum wage have a positive employment effect (because the higher wage increased the participation rate); the Chapple (1997) study which found there is an insignificant effect; the Pacheco (1999) study which again found an insignificant effect, and studies by Maloney which show a negative effect.<sup>26</sup>

- 17.3 Brown, Gilroy and Kohen<sup>27</sup> 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.
- 17.4 In New Zealand, there has also been the Pacheco and Maloney study<sup>28</sup>, 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. No consistent evidence is found that the minimum wage reduces the employment prospects of unqualified females. The authors argue that this result is robust to a variety of alternative specifications.
- 17.5 Of course, it is often difficult to isolate the effects of an increase in the minimum wage. Perhaps the most important recent analysis is that of Hyslop and Stillman<sup>29</sup> which 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.
- 17.6 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. Figures released by the Ministry of Social Development show the number of people on unemployment benefits has fallen by more than 20,200 over the past year and now stand at less than 55,000 — the lowest figure in nearly 20 years. In total there are more than 85,000 fewer people on unemployment benefits than there were five years ago.

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<sup>26</sup> (See for example William Spriggs and Bruce Klein *Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers*, Economic Policy Institute, Washington, 1994, and David Card and Alan Krueger, *Myth and Measurement, The New Economics of the Minimum Wage*, Princeton University Press, Princeton, 1995).

<sup>27</sup> 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.

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

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

- 17.7 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 has to be a massive decrease in the credibility of many previous assertions of the relationship between minimum wages and employment.
- 17.8 The Pacheco paper presents an empirical analysis of the employment effects experienced by females with no school qualifications due to changes in the adult minimum wage in New Zealand. On the whole, very little statistically significant evidence was found of the minimum wage impacting on the employment levels of females with no school qualifications. 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.
- 17.9 A comprehensive literature survey and assessment, augmented by in-house research, has been carried out by the OECD. In its 1998 “Employment Outlook”, the OECD reported on a major study into minimum wages in member countries. The study covered
- if and how minimum wages are set and adjusted;
  - levels of the minima and comparisons with average and mid-range wage rates;
  - which categories of workers are actually paid minimum wages;
  - effects of minimum wages on employment;
  - effects of minimum wages on the distribution of earnings;
  - the interaction of minimum wages with tax and benefit systems and hence the impact on worker welfare.
- 17.10 The OECD study drew on all previous theoretical and practical analyses of minimum wage issues and involved new and complicated analyses by the OECD itself. The conclusion was that increases in the minimum wage can affect teenage employment (but is an extremely small factor compared with other causes of teenage unemployment), and has no effect on those over 25 years.
- 17.11 We accept that there should be consideration of the employment effects of any increase in the minimum wage. But the balance of evidence is that generally there is an insignificant effect. We recognise that any effect will vary depending on the magnitude of the increase,

and the prevailing economic circumstances. We also acknowledge that perceptions can have, at least in the short-run, an effect on hiring decisions.

- 17.12 It is interesting to note that in the United Kingdom recent increases in the minimum wage have not had the effect on employment that employer groups predicted. In fact a survey by Incomes Data Services said employment was continuing to grow in retail, catering and leisure, where the statutory rate had a big influence on wages.
- 17.13 The UK Low Pay Commission in its fourth report stated that between 1999 and 2003 the impact of the NMW (minimum wage) on employment levels - which overall had continued to increase in the UK - was negligible<sup>30</sup>. Indeed, employment growth had been “stronger than average” among those groups and sectors most affected by the NMW. Consideration previously had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric analysis for the third report concluded that “even after controlling for this and other factors the impact of the minimum wage was broadly neutral” The report found that the only exception was amongst young people where employment rates had fallen. After analysing the trends and related research evidence the Commission concluded that these changes in the youth labour market had been “primarily driven by the economic cycle, and that the minimum wage has had at most a minor impact on young people’s employment.”
- 17.14 Dan Finn from University of Portsmouth has noted<sup>31</sup> that the introduction of the NMW also has not had the dire consequences for employment levels predicted by the Conservative Government.
- 17.15 The Low Pay Commission report also discussed the impact on productivity<sup>32</sup>. It noted that the NMW 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. There was, however, evidence that some employers at least had absorbed the additional costs of the NMW 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 NMW, 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.

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<sup>30</sup> 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

<sup>31</sup> Ibid. p.48.

<sup>32</sup> Ibid. 37

17.16 The Industrial Relations Commission in Australia has also considered the impact of minimum wage increases on employment. Last year<sup>33</sup> they observed that:

the limited arguments and materials advanced in this case for the proposition that past safety net adjustments have had a significant effect on employment are unconvincing. We also consider that any potential negative effects must be weighed up against the real benefit of safety net adjustments for the employees who depend on them for an increase in wages.

17.17 The CTU submits that it is significant that recent increases in the minimum wage over a five-year period, including substantial increases in the youth minimum wage, have had no adverse effect on employment and hours worked. In fact, unemployment has fallen to 3.7%. In particular it should be noted that despite increases of between 41% to 69% over 3 years for those aged under 20 years, there was no adverse impact and in fact hours increased for 16-17 year olds.

17.18 This is the most pertinent study for the current labour market. As Manning<sup>34</sup> 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.

The recent empirical analysis does not support a negative employment association with rising minimum wages in a New Zealand context. We submit therefore that there is room for a significant lift in the minimum wage.

## **18. Addressing the Objectives and Criteria**

18.1 In the above sections, we have addressed the objectives of the minimum wage in relation to this year's review. We have discussed fairness in terms of a socially acceptable minimum, protection for vulnerable workers, income distribution, and work incentives.

18.2 The CTU submits that the changes in the minimum wage that we have proposed would produce significant gains to ensure that minimum wages are raised to a socially acceptable standard, that protection is offered to vulnerable workers in the labour market, and that the incomes of people on low pay do not deteriorate relative to those of other workers. We have outlined our views in relation to any possible employment effects. On this basis we do not believe that there are significant losses which in any way outweigh the gains achieved by the suggested improvements in the minimum wage.

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<sup>33</sup> 2004 Safety Net Review, AIRC, page 2.

<sup>34</sup> Manning, A. (2003). *Monopsony in Motion: Imperfect Competition in Labour Markets*, Princeton University Press, page 19.

- 18.3 There are many contributing factors to the desirable objective of lifting real wages for all employees. This includes economic growth, improvements in labour productivity, improved outcomes from collective bargaining, and greater investment in skill development. However to address the specific objectives in relation to fairness, protection, income distribution, and incentivising work, the suggested improvements in the minimum wage are the least cost means of achieving these objectives.
- 18.4 Increasing the minimum wage in the context of the contemporary labour market has been demonstrated (eg. Hyslop and Stillman) to produce gains that are not accompanied by any losses.
- 18.5 It is entirely appropriate that the minimum wage is used as a means of meeting the policy objective of protecting wages for vulnerable workers. The Government has not reintroduced the award system, which could provide an industry and occupational safety net for vulnerable workers. Therefore the minimum wage is the key policy to protect their wages.
- 18.6 The CTU also believes that the increase in the minimum wage would form part of an appropriate mix of measures to meet the broad objectives of government. We have already referred to equity considerations such as pay and employment equity objectives. But also we note that economic transformation based on an economic development programme, partnerships between government and different sectors of the economy and broader society, a focus on economic growth, innovation and skill development - need to be underpinned by a socially acceptable minimum wage.
- 18.7 We are aware of course that to some extent the Working for Families package in the Budget may address issues such as income distribution. However, the in-work payments are linked to the number of children. The CTU submits that this initiative cannot therefore substitute for the increasing the minimum wage as a means of addressing income distribution issues.
- 18.8 A policy approach to achieve an export led, value added, quality economy that lifts real income per capita relies on investment in labour skills and attracting workers to employment in a "decent work" environment. Surely this is part of a sustainable development approach?
- 18.9 Discriminating against young workers, and setting a minimum wage that is only 45% of the average wage is incompatible with both a value-added economic strategy and an inclusive economy. Also lifting the minimum wage would form part of the Government's suite of policy initiatives on labour and skill shortages.

## **19. Issues Raised**

- 19.1 A number of issues were raised in Appendix 3 of the letter from Hon Paul Swain, Minister of Labour, when seeking submissions. These issues are discussed below.
- 19.2 One issue is “what are the gains likely to be from a moderate increase in the minimum wage?” This presupposes a consensus on what a moderate increase is. However, the CTU submits that a lift to \$12 an hour will have a significant impact for low-income workers. It is absolutely clear that wages sitting just above the minimum wage have not been increasing at a rate that economic growth, labour shortages, and employer profitability justifies. It is recognised that the Family Tax Relief package will benefit some of these low-income workers, but only where they have children. The gains from a higher minimum wage will be seen in better health, a greater likelihood of being able to improve accommodation, and all the benefits that flow from a higher standard of living.
- 19.3 Another issue raised concerns about possible negative effects. The CTU submits that recent empirical evidence shows that there are no, or negligible, harmful effects from annual increases in the minimum wage. The CTU recognises that if economic growth slows significantly and/or inflation rises for a sustained period well above 3% and/or unemployment increases, then it is correspondingly more difficult to argue for very substantial increases in the minimum wage. But this relates back to our argument that we have a wages crisis. Therefore the important point is to ensure that the economic development programme that can deliver higher wages in the medium term continues unabated alongside a recognition that wages need to keep rising even if the economy slows for a period.
- 19.4 In respect of the issue about the impact of increases in the youth minimum wage, we have addressed that in our submission.

## **20. Submissions**

- 20.1 The recommendation in this submission is that the minimum wage should initially be raised to \$12.00 per hour or \$480 per week. This is equivalent to 56.7% of the average ordinary time hourly rate (adjusted to allow for a forecast increase by March 2005).
- 20.2 We will support an indexation of the minimum wage to the average wage but only once there is a commitment to lift the ratio to two-thirds.
- 20.3 For those aged below 18 years, the CTU submits that the lower rate based on age should be removed. We support the continuation of an exemption for trainees but submit that this rate should be at 90% of the minimum wage which would be \$10.80 an hour.

- 20.4 We support the minimum wage applying regardless of age and this includes (with some exceptions) those aged under 16 years of age.
- 20.5 The 2005 Minimum Wage Review needs to take account of the recommendations of the Pay and Employment Equity Taskforce. An increase in the minimum wage can make a small but important contribution to reducing the gender pay gap.
- 20.6 Steps need to be taken to re-establish a reliable database on low pay, so that the impacts of the minimum wage on the lower rates in the pay structure, and on young workers, can be considerations in subsequent reviews.
- 20.7 Resources allocated to policing the minimum must be increased, the inspectorate should commence inspection on its own motion, and the inspectorate should instigate a policy of prosecuting employers who breach the minimum wage.
- 20.8 The government should amend the law so that in the event of an employer being found to be paying less than the minimum wage, the penalty is twice the amount of underpayment, payable to the victim of the underpayment (the worker).
- 20.9 The submission reviews local and international evidence on the impact of the minimum wage on employment levels and concludes that at least within the range of adjustment being sought here, the case for raising the minimum can be judged on equity grounds, since it is not likely to have a detrimental effect on employment.
- 20.10 The CTU also submits that the Government must acknowledge the devastating effect on workers of the removal of the award system. The Government needs to properly address the plight of low wage workers by ensuring that the minimum wage is significantly increased. This may require a Low Pay Commission. But, the crucial issue is to build on the acceptance by most (even in business) that our pay rates are too low by ensuring that there is a concerted range of measures that can lift pay rates.
- 20.11 Finally, we note the inclusion in the Confidence and Supply Agreement with NZ First and the Co-operation Agreement with the Green Party 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.
- 20.12 The CTU view is to welcome the commitment to an initial target of \$12.00 an hour. However, we are submitting that there should be an immediate increase to \$12.00 an hour and the issue of removing the youth rate also needs to be addressed. We note also that the Government target of \$12.00 an hour also is subject to the qualification

of whether economic circumstances would permit such an increase. We anticipate that some employer groups will continue to argue that economic conditions would not allow such a move. In addition, they will argue that a significant increase in the minimum wage at the same time as the fourth week's annual leave will be too great a burden. The Government needs to be resolute in the face of such arguments.

20.13 This means that it is imperative that the Government takes the initiative in this review for a significant increase rather than wait until 2007 or 2008.

## Appendix 1

### **OBJECTIVES AND CRITERIA OF THE MINIMUM WAGE**

#### ***Objectives of the Minimum Wage***

- Fairness – to ensure that wages paid are no lower than a socially acceptable minimum
- Protection – to offer wage protection to vulnerable workers.
- Income Distribution – to ensure that incomes of people on low incomes do not deteriorate relative to those of other workers.
- Work incentives – to ensure the incentives to work for people considering work.

#### ***Criteria for assessing changes to the Minimum Wage***

- Do changes in the minimum wage produce gains that are more significant than any losses?
- Is the minimum wage the least cost way of meeting the objectives of the policy?
- Does the level of the minimum wage form part of the most appropriate mix of measures to meet the broader objectives of the government?

## Appendix 2

### Value and Relativity of the Adult Minimum Wage, 1946 To 2004

(selected years until 1981: then each increase in the minimum wage shown.  
Male minimum only until 1970s.)

Sources: Brosnan and Wilkinson (1987) and various Labour Department publications and Prue Hyman *Low Waged Work and Gender Pay Equity in New Zealand*, Paper for National Advisory Council on the Employment of Women Conference on Pay and Employment Equity for Women, June 2004.

| Date and Political Party in Government     | Nominal Hourly (Gross \$/hour) and Weekly (Gross \$/ 40 hour week) Minimum Wages |               | Relativity of minimum wage to average weekly earnings |
|--|--|---------------|---|
|  | <i>hourly</i>  | <i>weekly</i> |   |
| 1946 (L 35-49) Lab                         | 0.26   | 10.50         | 83  |
| 1951 (N 49-57) Nat                         | 0.33   | 13.17         | 67  |
| 1957 (L 57-60) Lab                         | 0.47   | 18.75         | 74  |
| 1963 (N 60-72) Nat                         | 0.51   | 20.33         | 66  |
| 1969 National                              | 0.59   | 23.50         | 56  |
| 1972 (L 72-75) Lab                         | 0.68   | 23.50         | 44  |
| 1975 Labour                                | 1.37   | 54.88         | 60  |
| 1978 (N 75-84) Nat                         | 1.61   | 64.41         | 49  |
| Feb 1981 National                          | 2.00   | 80.16         | 37  |
| Feb 1984 National                          | 2.10   | 84            | 30  |
| Feb 1985 (L 84-90) L                       | 2.50   | 100           | 34  |
| Sep 1985 Labour                            | 4.25   | 170           | 54  |
| Feb 1987 Labour                            | 5.25   | 210           | 53  |
| Feb 1988 Labour                            | 5.625  | 225           | 51  |
| May 1989 Labour                            | 5.875  | 235           | 50  |
| September 1990 Lab<br>no change 91/4 (Nat) | 6.125  | 245           | 47<br>(by 1994 42)                                    |
| March 1995 (Nat 90-99)<br>National         | 6.25   | 250           | 43  |
| March 1996 National                        | 6.375  | 255           | 42  |
| March 1997 no change<br>98/9 National      | 7.00   | 280           | 44<br>(by 1999 41)                                    |
| March 2000 (Lab/All)                       | 7.55   | 302           | 44  |
| Feb 2001 coalition 99                      | 7.70   | 308           | 42  |
| Feb 2002 to 2002)                          | 8.00   | 320           | 44  |
| March 2003 (Lab/Uni)                       | 8.50   | 340           | 47  |
| March 2004 (Lab/Uni)                       | 9.00   | 360           | n.a.  |