NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission

to the

Minimum Wage Review

2011

21 October 2011

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1.3. The CTU is seeking the removal of the new entrant rate so that the minimum wage applies fully to those aged 16 years and over.

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[1] We are proposing that the minimum wage for 2011 is based on 66.0 percent of the average ordinary time hourly rate at 31 March 2012. The average ordinary time wage as at June 2011 in the Quarterly Employment Survey was $26.21 an hour and we allow for a 2.1 percent increase (Treasury CPI forecast) to take it to the end of March 2012.

1.4. The CTU is seeking ongoing dialogue in respect to the minimum wage for those aged less than 16 years. We would support a review of the employment of children and additional protective mechanisms for children and young people in work, including a process to enable the ratification of ILO Convention 138. One of the outcomes of such a review should be to ensure that the minimum wage applies regardless of age.

1.5. The CTU is seeking either the removal of the trainee rate or a negotiated trainee scale that applies for up to 12 months only and continues to require 60 credits of training as the basis for a lower rate. We also propose that the Labour Department undertakes research on the extent to which trainees are paid less than the (adult) minimum wage.

1.6. There is a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective at extending protection to non-standard working arrangements like contracting.

1.7. There should be a government agency charged with gathering more information about low pay in New Zealand. This agency should also collect and publish information on ethnic, migrant and gender aspects of low pay.

1.8. More thorough enforcement and stronger penalties should be used to ensure comprehensive adherence to the minimum wage.

1.9. The CTU would support a mechanism for indexing the minimum wage to the average wage once it has reached a reasonable level.

2. Introduction

2.1. The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) welcomes the opportunity to make a submission as part of the 2011 minimum wage review. The CTU is the internationally-recognised confederation of trade unions in New Zealand and represents 39 affiliated unions with a membership of over 330,000 workers. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Nga Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

2.2. New Zealand workers have low wages by the standards of developed countries. The problems this is causing are well known. Three actions are vital in lifting the low wage levels in New Zealand.

2.3. Firstly, the minimum wage must be lifted significantly, and this submission makes this case. It represents the wage ‘floor’.

2.4. Secondly, we need strong increases in productivity so that higher wages can be sustained and continue to be improved. This is a wider policy issue in which the union movement has been actively involved, to which we would like to see a new commitment from government, and which we have discussed elsewhere.

2.5. Thirdly we need to ensure that productivity is passed on to workers in their wages. This has not been the case in recent years. The most important step to do this is to strengthen collective bargaining. We discuss this further below.

2.6. As an immediate matter, many low income wage earners are facing wages falling behind rising costs. The New Zealand Income Survey for the year to June 2011 showed falling living standards, with median pay rates increasing by only 1.9 percent compared to 5.3 percent CPI inflation and earnings showing a rise largely because of longer hours being worked and more people in the lower 50 percent of the income spectrum falling out of the workforce. Similarly, the Labour Cost Index for wages and salaries rose only 1.9 percent in the year to June, compared to 5.3 percent inflation. Low income workers faced steeply rising costs in the past year due in large part to government charges and policy changes including the increase in GST. Yet they received only a 2.0 percent increase in the minimum wage, gained the least from the October tax changes, and were hit harder than higher income people by the increase in GST. We calculate that a worker on the minimum wage would have gained a net $4 a week from the tax changes while a person on four times the minimum wage ($106,080) will gain over ten times that amount – $43. The CPI is expected to increase between 2.1 and 3.1 percent (Reserve Bank and Treasury forecasts respectively) in the year to March 2012, but low income households are likely to experience greater price increases as we detail below.

2.7. Between 1999 and 2008, several important steps were taken in the area of minimum wages. These included lifting the adult rate, lowering the age of application for the adult rate, increasing the rate for 16/17 year olds from 70 per cent to eventually 100 per cent of the adult rate, benchmarking the rate for trainees, first to no less than the youth rate and then to 80 percent of the adult rate, and limiting the time spent for a 16 or 17 year old on the new entrants rate to 200 hours or 3 months, whichever is the lesser. The minimum wage has increased by 86 per cent since 1999, in striking contrast to the 14 per cent increase over ten years from 1990. But of that 86 percent only 8.3 percent has occurred since 2008, against CPI inflation of 9.0 percent.

2.8. The CTU strongly encourages the Government to resume building on previous progress. While we acknowledge that the Government increased the rate from $12.00 to $12.50 from 1 April 2009, to $12.75 from 1 April 2010, and to $13.00 from 1 April 2011, these were only modest increases compared with prior years since 2000 and we regard a lift beyond this as necessary.

2.9. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2012 we estimate this to be $17.66[2]) to set a clear base. However a possible alternative, as an interim step on the way to this level, is to increase the minimum wage to $15.00 from 1 April 2012 and move to the 66 percent benchmark in April 2013.

2.10. Some employer groups may counter that increases impose unbearable costs on employers. But low wages in New Zealand have for some time now been more than a social issue or a debate about the balance of competing interests. Low wages are now an intrinsic barrier to economic development in New Zealand.

2.11. We also present the now strong international evidence that rises in the minimum wage do not increase unemployment.

2.12. Some may also counter that there are additions to the minimum wage such as Working For Families and the accommodation supplement which are available to low income people. However they are available only to some: not all have families, or are eligible for other benefits. In any case, it must be asked how far this can be taken as a substitute for adequate market incomes without meeting high political resistance, and whether we want to in effect subsidise wages, thereby encouraging employers to base their business on low wages as they did in the 1990s, with no incentives to invest in increasing productivity or raising skill levels.

2.13. The minimum wage in New Zealand currently stands at only 65 per cent of the Australian federal minimum wage[3] and only 53 percent for casual workers, given that the Australian minimum wage has a 22 percent loading for such workers. The New Zealand minimum wage is even further behind Australia's system of minimum wages under its Modern Award and National Minimum Wage Order system. It is well past time for the New Zealand Government to send an unambiguous signal that low wages will not be tolerated in this country.

2.14. In this submission we address in sections 3-12 what we consider are the most important issues in considering the level of the minimum wage. In section 14 we directly address the criteria for the review, though largely refer to the above sections which contain the detail required. The two appendices firstly give a review of research literature on the effect of the minimum wage, and secondly directly respond to the questionnaire provided for this review.

[2] We are proposing that the minimum wage for 2011 is based on 66.0 percent of the average ordinary time hourly rate at 31 March 2012. The average ordinary time wage as at June 2011 in the Quarterly Employment Survey was $26.21 an hour and we allow for a 2.1 percent increase (Treasury CPI forecast) to take it to the end of March 2012.

[3] Calculated at an exchange rate of A$0.77 to NZ$1.00.

3. The Minimum Wage is too low in relative terms

3.1. The minimum wage is currently 50 per cent of the average hourly wage.[4] This is low by several measures.

3.2. The minimum wage is low compared to minimum wages for workers covered by collective agreements. Currently, the average minimum printed weekly wage in collective agreements surveyed by the Industrial Relations Centre at Victoria University is $599 – or $14.98 per hour based on a 40-hour week.[5] This is $79 higher than the current weekly minimum wage. In 2010 the average was $576 and the weekly minimum wage was $510 – a gap of $66.

3.3. In historical terms, the ratio is well short of the 66 per cent it reached in April 1973 and even further behind the ratio of 83 per cent when the minimum wage was first introduced in 1946.

3.4. The minimum wage affects many workers, and not only those actually on the minimum wage itself, but it is still significantly lower than the wage many low paid workers receive. According to the New Zealand Income Survey for the year to June 2011, half of male part-time wage and salary workers (61,600 people) receive less than $15.00 an hour, and the equivalent level for women (161,900 people) is $16.00. From an occupational view point, half of all sales workers (90,600 people) receive less than $15.00, half of labourers (108,600 people) receive less than $15.00, and half of community and personal service workers (92,800 people) receive less than $16.00.

3.5. As detailed above, incomes have also fallen behind rising costs, shown by a number of measures. Low income workers have faced steeply rising costs, yet gained the least from the October 2010 tax changes. The tax cuts greatly favoured high income earners, increasing the difference in take home pay between someone on $30,000 a year and someone on $150,000 a year by $135 per week. On top of that, they were hit harder than higher income people by the increase in GST. Research for the Tax Working Group in 2009[6] indicates that an equivalised household income near to that of the minimum wage would, following the GST increase, be paying approximately 13 percent of its income on GST, compared to around 8 percent for the median household and 5 percent for the highest disposable income decile. The 2.5 percentage point increase in GST implied an increased cost equivalent to approximately 2.2 percent of their income, compared to 0.9 percent for the highest income decile.

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[4] Statistics New Zealand , "Quarterly Employment Survey", June data.

[5] Stephen Blumenfeld, Sue Ryall and Peter Kiely, "Employment Agreements: Bargaining Trends & Employment Law Update 2010/2011", Industrial Relations Centre, Victoria University of Wellington, Wellington, 2011, p.30.

[6] "Changing the rate of GST: fiscal, efficiency, and equity considerations", Tax Working Group, 2009. Paper prepared by the Policy Advice Division of Inland Revenue and by The Treasury. Available at www.victoria.ac.nz/sacl/cagtr/twg/Publications/GST_paper.pdf.

3.6. In addition, price rises in general affect households unequally. Household expenditure patterns from the 2010 Household Expenditure Survey (HES) show that the higher the income of a household, the more relief it has had from the fall in interest rates over the past three years because home ownership and debt is much more common in high income than low income households. Including interest payments in a price index constructed from the HES shows that over the three years June 2008 to 2010, low income households (those in the bottom three deciles of household income) experienced prices increasing 2.0 percentage points faster than high income households (those in the top three deciles): by 8.1 percent compared to 6.1 percent). Even without interest payments, low income households' prices rose faster – by 9.4 percent compared to 8.8 percent over that period[7].

3.7. The minimum wage is also low compared to Australia. In Australia the national adult minimum wage was raised to A$15.51 as of 1 July 2011[8]. This is approximately NZ$20.07 or 54 percent higher than the New Zealand minimum wage in a straight exchange rate conversion (1 July 2011). In purchasing power parity terms, it is 28 percent higher[9].

3.8. However the difference is much greater in reality. Firstly, Australia has a loading of 22 percent on the minimum wage for casual workers not covered by an award or agreement. The casual loading is particularly significant in that many people on the minimum wage are likely to be casual workers. For those people, the Australian national minimum wage is 88 percent higher on straight exchange rate conversion and 56 percent higher in purchasing power terms.

3.9. Secondly, the Australian minimum wage system is not a single wage as it is in New Zealand. In effect it is a skill-based minimum wage scale, based on their system of Modern Awards which according to the Australian government covers 96 percent of private sector employment; it also covers the majority of public sector workers (the main exceptions being some State and local government employees). In principle, all jobs are evaluated into skill classifications (some with sub-classifications), each of which has its own minimum wage, though existing awards are in transition to the new system. The table below is taken from the Manufacturing and Associated Industries and Occupations Award 2010, with New Zealand dollar equivalents added (the 2011 wage review has not yet concluded). The lowest skill classification is C14 and its minimum wage is the same as the (2010) national minimum wage.

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[7] For further details see "Do price rises hit people on low incomes harder?", *CTU Economic Bulletin* 126, July 2011, available at http://union.org.nz/economicbulletin126.

[8] See http://www.fwa.gov.au/index.cfm?pagename=minnatorders

[9] Using OECD Comparative Price Levels for August 2011.

Manufacturing and Associated Industries and Occupations Award 2010

Classification level	Minimum weekly wage	Minimum hourly wage				
	$A	$A	$NZ[10]	*Above NZ by*	$NZ PPP[11]	*Above NZ by*
C14	569.90	15.00	19.74	*55%*	17.65	*38%*
C13	586.50	15.43	20.30	*59%*	18.15	*42%*
C12	609.00	16.03	21.09	*65%*	18.86	*48%*
C11	629.90	16.58	21.82	*71%*	19.51	*53%*
C10	663.60	17.46	22.97	*80%*	20.54	*61%*
C9	684.50	18.01	23.70	*86%*	21.19	*66%*
C8	705.30	18.56	24.42	*92%*	21.84	*71%*
C7	724.20	19.06	25.08	*97%*	22.42	*76%*
C6	760.90	20.02	26.34	*107%*	23.55	*85%*
C5	776.40	20.43	26.88	*111%*	24.04	*89%*
C4	797.20	20.98	27.61	*117%*	24.68	*94%*
C3	838.90	22.08	29.05	*128%*	25.98	*104%*
C2(a)	859.80	22.63	29.78	*134%*	26.62	*109%*
C2(b)	897.50	23.62	31.08	*144%*	27.79	*118%*

3.10. Australia's minimum wage is therefore considerably higher than New Zealand's in whatever terms it is compared. It can be more than double what a New Zealand worker would receive.

3.11. The Award system has a surprisingly pervasive effect in wage determination, reaching about 80 percent of employees according to one study[12], which also concludes that "much turns on the level at which minimum award rates are set". It is likely that it has played a significant, if indirect, role in maintaining wage levels in Australia through significant changes in the economy.

3.12. The wage gap with Australia is damaging to the New Zealand economy. Net outflows of people to Australia peaked in the year to December 2008 at 35,400 and until then there had been continual increases in outflows since 2001. This represents significant losses of workers to Australia. The net outflow to Australia was 32,727 in the year to August 2011, only 553 from the peak for August years of 33,280 in 2008. The net loss of those with New Zealand citizenship was even higher: 33,151. New Zealand continues to be

[10] Calculated at a straight exchange rate conversion of A$0.76 to NZ$1.00.

[11] Purchasing Power Parity at August 2010 and 2010 Minimum Wage.

[12] "The significance of minimum wages for the broader wage-setting environment: understanding the role and reach of Australian awards", by John Buchanan and Gillian Considine, in: "2008 Minimum Wage Research Forum Proceedings, Volume 1", October 2008, Australian Fair Pay Commission.

the largest source country for permanent migrants to Australia, exceeding the UK. It is time for a significant step to be taken to address this issue and a lift in the minimum wage to $17.66 would provide that signal.

3.13. Migration from New Zealand to Australia is not only by high income workers: it is across the wage and occupational spectrum In fact one study suggests it is more attractive to lower income and lower skilled workers. For example Dr James Newell[13] using 2006 Census data found that “New Zealand-born workers are 4.3 per cent of all machinery operators and drivers in Australia, and 3.4 per cent of all labourers, but only 2.4 per cent of professionals” although there were some professional categories (including geologists, geophysicists, psychiatrists, anaesthetists and nurses) in which the New Zealand proportion was higher than the average 2.8 per cent of employed people born in New Zealand. “The percentage of NZ-born workers was more than the average in machinery operators and drivers, labourers and technicians and trades workers, at 2.9 per cent. But they were under-represented in all other groups, including managers, community and personal service workers and clerical and administrative workers (all 2.7 per cent), professionals (2.4 per cent) and sales workers (2.3 per cent)”.

3.14. Similarly, Richard Manning and Ram SriRamaratnam[14], using arrival and departure information, found that “The PLT [Permanent and Long-Term] flow data between Australia and New Zealand indicates that New Zealand experienced an outflow of migrants at all different skill groups in each of the past 15 years”. The balance this study finds is somewhat different from Newell’s, but still shows emigration to Australia is across all skill levels: “The largest and most significant outflow of permanent and long-term migrants to Australia has been at the highly skilled, skilled and semi-skilled levels, with significantly less migrants categorised at the elementary skilled level departing to Australia. The outflow of migrants from New Zealand to Australia was even higher at the skilled and semi-skilled levels compared to the highly skilled level during the late 1990s. While the level of skilled migrant outflow has dropped off a little since 2000, the semi-skilled migrants has kept up or exceeded the highly skilled category of migrants”.

3.15. Clearly, the government’s goal, if it still exists, of income parity with Australia by 2025 must pay as much attention to low income workers as to anyone else.

3.16. The most effective way to ensure that the minimum wage is set at a reasonable level is to index it to the average wage. As noted by Dowrick and

[13] Reported in the New Zealand Herald, 2 December 2009, p.A1, “Study confirms Oz 'myth' on unskilled Kiwis”.

[14] “Employment by skills in New Zealand and migrants’ share in its recent growth: trans-Tasman and wider comparisons”, by Richard Manning and Ram SriRamaratnam, Department of Labour, paper presented to the New Zealand Association of Economists conference, June 2010, available at http://www.nzae.org.nz/conferences/2010/programme.html.

Quiggin[15] there are sound reasons to index the minimum wage to average or median wages. They state that in order to avoid further widening of inequality, and to avoid the exacerbation of poverty traps, minimum wages need to be indexed not to the Consumer Price Index but to the average or median wage – allowing workers in low-pay occupations to share in the benefits of rising productivity. Indexing is also recognised as a vital mechanism to maintain the value of NZ Superannuation.

3.17. Herr, Kazandziska and Mahnkopf-Praprotnik[16] in an analysis of the theory of minimum wage, put forward the following principles:

a. Minimum wages must affect a sufficient number of employees – they must be "in touch" with the existing wage structure in a country.

b. They should be adjusted frequently, usually annually.

c. They should increase at least according to trend productivity growth plus the target inflation rate of the central bank. Otherwise they cannot help to establish a wage anchor against deflation efficiently.

d. They should increase at least in line with average wages because this is the only possibility to prevent an increase in the wage gap. As long as low wages are considered to be too low in comparison to average wages, minimum wages should increase faster than average wages.

3.18. The CTU submits that it is time that the New Zealand Government accepted the International Labour Organisation guideline that the minimum wage should be based on the general level of wages and index it at approximately two-thirds of the average wage which is close to the recommended European Social Standard[17]. In October 2008, the European Parliament passed a resolution on "promoting social inclusion and combating poverty, including child poverty, in the EU". Among other measures, it "Calls on the Council to agree an EU target for minimum wages (statutory, collective agreements at national, regional or sectoral level) to provide for remuneration of at least 60 percent of the relevant (national, sectoral, etc.)

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

[16] Hansjörg Herr, Mika Kazandziska and Silke Mahnkopf-Praprotnik, "The Theoretical Debate about Minimum Wages" Working Paper No. 6, Global Labour University Working Papers. Berlin: Global Labour University, p.24. Retrieved from http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_115075.pdf

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

average wage and, further, to agree a timetable for achieving that target in all Member States."[18]

3.19. Although there were significant increases in the minimum wage early in this century and increases ranging from modest to inadequate over the last three years, there is also evidence of widening income disparities. One way of reducing this disparity is to adopt indexation at an adequate level.

3.20. We therefore propose a goal of setting the minimum wage at 66 percent of the ordinary time average wage, to be reached within two years. At 1 April 2012, we calculate that would be $17.66, based on the average ordinary time wage of $26.21 at 30 June 2011, and estimated inflation of 2.1 percent between then and 1 April 2012 (using Treasury Budget forecasts). As an immediate step towards that, the minimum wage should be raised to $15.00 as from 1 April 2012.

4. The Minimum Wage is an important safety net

4.1. The Department of Labour (DOL) estimated[19] that 53,000 workers (including 11,700 16-17 year olds) would be directly affected by the 2010 increase of the minimum wage to $13.00 an hour. The number of workers impacted increased with progressive increases to the minimum wage until the last two years. The recent fall has been due to the relatively low level of the increase.

4.2. However the New Zealand Income Survey for June 2011 showed 65,800 15-19 year olds in part-time work, with a median hourly wage exactly equal to the current minimum wage: $13.00. This shows that the majority of young part-time workers are on the minimum wage and would benefit from an increase. In addition, many young full time workers (whose median wage was $13.70 in June 2011) and older workers are also on the minimum wage.

4.3. In June 2010, 78,800 15-19 year old part time workers had a median hourly wage of $12.75, again equal to the then current minimum wage. In fact the median for the whole 15-19 year old workforce of 112,100 was $12.75. That means at least 56,000 workers were affected by the 2010 increase in the minimum wage, and certainly more than that when adult workers are added. It is unclear why the DOL estimate is so much lower. Hyslop and Stillman[20] conclude that use of the new entrant wage is minimal, but even if it was not and there was appreciable use of the minimum trainee wage, they would still almost certainly move along with the adult minimum.

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[18] European Parliament resolution of 9 October 2008 on promoting social inclusion and combating poverty, including child poverty, in the EU (2008/2034(INI)), available at http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P6-TA-2008-0467&language=EN.

[19] Minimum Wage Review Regulatory Impact Statement 2010.

[20] "The Impact of the 2008 Youth Minimum Wage Reform", Department of Labour, 2011.

4.4. The number of workers affected by any increase is therefore likely to be significantly higher than the number estimated last year.

4.5. It needs to be clearly acknowledged by the Government that the removal of the award system in 1991 has had a devastating effect on the wage levels of a large proportion of the workforce. In 1990 – the year before the Employment Contracts Act (ECA) removed national awards – almost half of the private sector workforce was covered by collective bargaining. The promotion of collective bargaining by the Employment Relations Act is important, but it has not reinstated the award system. Given the very weak measures in the Employment Relations Act to support industry or occupational agreements on pay and conditions, the abolition of the award system places much greater emphasis on universal policy tools like the minimum wage.

4.6. Under the award system the minimum wage was primarily a device to cover gaps in award coverage. Since the introduction of the Employment Contracts Act, and still so under the Employment Relations Act, the minimum wage now sets fundamentals of socially acceptable employment across a majority of the workforce. While the CTU considers that there are better employment relations regimes that should be adopted, the status quo, which has been further weakened by the present government, is a choice that governments have made, and they should not shirk from their resulting responsibility to set and maintain the minimum wage at meaningful level as we have described above.

4.7. Colm McLaughlin[21] notes that low-paid workers, particularly those in small workplaces, remain dependent on employment legislation to improve their position.

4.8. We know from a 2007 study[22] (though it is time for this to be updated) the characteristics of those who are affected most by increases in the minimum wage – they are aged under 25 years, female, married female, part time, those studying, and workers in services related occupations, as well as the retail and hospitality industry. Part time workers from Māori, Pacific, Asian, Middle Eastern, Latin American, and African ethnic groups (a total of 120,800 people) all have median wages under $15.00 and are therefore likely to have large numbers on or very near the minimum wage. The Minimum Wage and Remuneration Amendment Bill would if passed have provided for minimum wages to a further and important group of workers currently outside coverage of minimum wage provisions.

[21] "The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark, New Zealand and Ireland", by Colm McLaughlin, 2007, Centre for Business Research, University of Cambridge Working Paper No. 342.

[22] "Minimum wage workers: Who are they?" by Jason Timmins, Department of Labour 2007, PANZ Conference, 3 July 2007.

4.9. In this context, even more stress will be placed on low income, casual and part time employment opportunities if the next government implements the recommendations of the Welfare Working Group to force more people into the workforce. While we support the creation of an environment in which welfare beneficiaries are able to move back into work easily, their move must have a high degree of choice so that it matches their and their dependants' needs, and it must lead to improved financial and social conditions, not worse. It requires an economy in which there is low unemployment and a variety of work opportunities which both allow for flexibility in personal circumstances and decent wages and working conditions.

4.10. Given that many of beneficiaries will have young dependent children, or may have health problems or disabilities, their job choices will be greatly constrained. While it should not be assumed that all beneficiaries are low skilled, the Department of Labour has found that "People on benefits tend to have lower job related skills when compared to individuals not on a benefit"[23]. But in any case, their circumstances dictate that the impact of pushing more of them into work will be primarily on the low wage end of the labour market.

4.11. The current high rate of unemployment will not help the outcome, but even assuming unemployment falls over several years, given the target of moving 100,000 people from welfare benefits into the workforce over 10 years, the cumulative effect will be a major shock to an employed workforce of 2.2 million people and even greater to the part of the labour market it is likely to impact.

4.12. Without countervailing action, this will tend to force down wage rates and encourage poor employer practices to take advantage of these workers who have no choice but to take whatever work is offered that minimally suits their circumstances in the view of the authorities enforcing welfare benefit conditions. The harsh welfare cuts and employment law changes in the early 1990s were accompanied by a minimum wage which fell both against the average wage and in real terms for most of the decade and did not pass its March 1990 real value or its relativity with the average wage again until June 2000. There was no minimum wage for young workers until a very low youth rate was introduced in 1994. While labour market participation rates rose, unemployment was little lower than or above the high current rate for the whole decade and the real average ordinary time wage was unchanged from 1990 to 1996. While welfare benefit conditions and the minimum wage were only one part of this picture, the risks are clear.

4.13. The minimum wage is one aspect of minimum conditions which will come under severe stress, and the importance of enforcing and improving these conditions will become even greater to prevent such "welfare" policies

[23] "Labour Market Dynamics and Future Challenges: An Issues Paper for the Welfare Working Group", Robert Haig, Department of Labour, available at http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working papers/DoL-paper-on-labour-markets.pdf.

becoming a licence for employers to exploit workers in this situation, and for general levels of wages and conditions to be forced down. Without such conditions such as this, it is difficult to see society's "welfare" being improved. It would be a road map for continuing down the path of a low wage economy rather than one based on high skills and wages.

4.14. The Welfare Working Group's report contends[24] that:

> Better employment outcomes would lift household incomes leading to improved outcomes for people and their children who are at risk of welfare dependency. It would lead to better economic outcomes as firms find it easier to recruit and reduced fiscal costs by upwards of $1 billion per year for taxpayers.

4.15. If however they are forced into employment which is low wage and with poor conditions, the leap of logic from "more employment" to "improved outcomes" simply will not follow. Without good employment protections they may well add to the existing army of working poor, associated with low incomes and insecurity. Working conditions and wage rates of other workers will be damaged in the process.

4.16. The social outcomes from poor jobs can be damaging as from unemployment and long periods out of the workforce. Paul Dalziel[25] quotes the Marmot Review of Health Inequalities in England as follows:

> Insecure and poor quality employment is also associated with increased risks of poor physical and mental health. There is a graded relationship between a person's status at work and how much control and support they have there. These factors, in turn, have biological effects and are related to increased risk of ill-health. Work is good – and unemployment bad – for physical and mental health, but the quality of work matters. Getting people off benefits and into low paid, insecure and health-damaging work is not a desirable option.

4.17. Similarly, Dalziel quotes a wider literature review by Roopali Johri for the Department of Labour:

> Workers' income can suffer from poor quality employment, as can their health (both at work, as well as outside of it), their training prospects and hence their productivity, [and] their ability to influence decisions about their job such as their working hours. Accepting any job does not

[24] "Reducing Long Term Benefit Dependency: Recommendations", February 2011, Welfare Working Group, p.60.

[25] "Welfare and Social Sector Policy and Reform: Options and Alternatives", Paul Dalziel, Professor of Economics, AERU Research Unit, Lincoln University, 20 June 2011, p.18. Available at http://welfarejustice.org.nz/dox/DALZIEL%20Welfare%20Paper%20FINAL.doc. It is quoting "Fair Society, Healthy Lives: A Strategic Review of Health Inequalities in England Post-2010", M. Marmot et al, 2010; London: The Marmot Review, available at www.marmotreview.org.

necessarily improve a worker's chances of getting into better quality employment. In other words, poor quality employment can adversely affect not only a worker's quality of working life, but also their overall quality of life, including their family life. Employers can experience low quality employment in lower productivity, and recruitment and retention costs. Eventually, society and the economy can be constrained by such costs, reflected in productivity, business standards, economic growth and employment rates[26].

4.18. Firms may well "find it easier to recruit" if parents of young children, people with health problems and other welfare beneficiaries are forced to take unsatisfactory jobs, but it could well be at the expense of good jobs, incentives to increase productivity and employment conditions, and increased reliance on low wages for competitive advantage. The Welfare Working Group's report appears largely devoid of a sound analysis of the effects of its recommendations on the labour market, including its ability to absorb these additional people, and the effects on wages, conditions and productivity to the extent that it does absorb them. Paul Dalziel's paper quoted above covers many of these issues.

4.19. The $1 billion per year fiscal savings does not apparently take account of additional fiscal costs of income supplements for people in employment through tax credits or benefits such as Working for Families and accommodation supplements[27]. In fact those savings will depend on the level of the minimum wage. The Working Group's report quotes (p.177) an "unpublished analysis from the Ministry of Social Development [which] shows that when sole parents move to full-time employment (30 hours per week) at the minimum wage, their new incomes almost always take them above 50 per cent and 60 per cent of median poverty lines particularly given the financial support that is provided through Working for Families." But this is clearly dependent on Working for Families and other government provided financial support because the 50 percent median poverty line in 2011 for a single parent with one child is $448, or $537 at the 60 percent median poverty line[28]. It is of course higher where the parent is responsible for more dependent children: $558 and $674 respectively for two children, $658 and $790 respectively for three children. Yet gross income from the minimum wage worked at 30 hours per week (which would be difficult for many single parents) is only $390, just $260 if they can manage only 20 hours, and possibly less depending on the hours they can (or must) work. To avoid

[26] "Work Values and the Quality of Employment: A Literature Review", Roopali Johri, 2005, Department of Labour, Wellington.

[27] The report states (p.173, footnote 195) "Savings do not take account possible offsetting costs relating to increased non-benefit supplementary assistance."

[28] "Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2010", by Bryan Perry, Ministry of Social Development, Wellington, July 2011, Table E3, p.88, converted to 2011 dollars by applying the June 2011 increase in the CPI of 5.3 percent.

poverty, these families will be heavily dependent on further government assistance.

4.20. The use of fiscal savings to judge the success of social programmes is in any case superficial, one-dimensional, and a recipe for the social disasters New Zealand experienced in the 1990s and has not yet fully put right.

4.21. Many participants in the National Conversation about Work project undertaken by the Human Rights Commission in 2009[29] talked about the difficulties they experienced making ends meet. One participant said that staff on low wages seek longer hours to gain an adequate income. A cleaner stated “I have seen some older people work two to three jobs to make ends meet”. Other people working in jobs at or just above the minimum wage felt the cost of tertiary study put their aspirations of career advancement out of reach.

4.22. As well as the low paid local workforce, the increasing demand for temporary migrant labour in New Zealand creates another group of workers vulnerable to low pay. Alarmingly, some industry groups have pointed to the minimum wage as the de facto market rate for migrant workers.

4.23. As discussed in more detail in Section 11, income and wealth inequality are high in New Zealand, having grown rapidly in the 1980s and 1990s. There is evidence of this resuming, the most recent being the difference between the increase in the median and average hourly earnings in the 2011 New Zealand Income Survey: 1.9 percent compared to 3.8 percent respectively.

4.24. In light of these conditions, the importance of employment in current social security systems and the degree of inequality, the minimum wage is a vital safety net. It is important that the minimum wage is vigorously enforced and that it is returned to a socially acceptable level of 66 per cent of the average wage.

5. A low Minimum Wage is symptomatic of low wages in general

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

5.2. New Zealand’s wages are still recovering from being at historically low levels. Data provided with the recently published book, “The New Zealand Economy: An Introduction” by Ralph Lattimore and Shamubeel Eaqub (Auckland University Press) shows that the average hourly wage peaked in 2006 dollar terms in March 1982 at $24.93 compared to $22.71 in June

[29] “What Next? National Conversation about Work”, Human Rights Commission, New Zealand. 2010.

2011. It reached its lowest in June 1995 when it was $19.34, a level not seen since March 1970.

5.3. This cannot be dismissed as simply a symptom of a low-growth economy, despite well known concerns about New Zealand's rate of GDP and productivity growth. If labour productivity growth is seen as a benchmark for wage growth, as is commonly held, then New Zealand wages have fallen far behind this benchmark. New Zealand workers have seen little of the productivity gains reflected in their wages.

5.4. While labour productivity increased by 38.6 percent in the measured sector (most of the private sector) from 1992 to 2010, real wages[30] as measured by the Labour Cost Index (LCI) for all labour costs fell by 3.0 percent against the CPI and 5.8 percent against the Producer Price Index for Outputs (PPO – which reflects the employer's revenue as a result of employing workers) over this 18 year period.[31] Even the more favourable average total hourly wage, which includes increases for recognition of individuals and reflects changes in labour market composition, rose in real terms only 16.2 percent (CPI) or 12.9 percent (PPO) over that period. From 1989 it rose only 16.0 percent (CPI) or 16.3 percent (PPO) while productivity rose 52.0 percent.[32].

5.5. Over the period of the Employment Contracts Act, labour productivity rose 25.8 percent but the average total hourly wage rose in real terms only 6.6 percent (CPI) or 3.9 percent (PPO). Over the period of the Employment Relations Act (to March 2010), labour productivity rose 13.3 percent but the average total hourly wage rose in real terms only 9.1 percent (CPI) or 7.1 percent (PPO). The more recent employment regime saw higher wage increases despite lower annual productivity growth, but productivity growth still considerably exceeded real wage growth.

5.6. Care is needed with productivity-wage comparisons over a short run and across incomplete business cycles because firms may build excess labour or production capacity in anticipation of expansion, or be unable to utilise their full capacity during a downturn so that their productivity may vary significantly over different parts of a cycle[33]. However we note that between 2008 and 2010, productivity rose 3.0 percent but the real average total hourly wage rose only 1.0 percent (CPI) or 0.2 percent (PPO). Real LCI for all labour costs actually fell 1.7 percent (CPI) or 0.9 percent (PPO) over the same period.

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[30] In this and the following paragraphs discussing the comparison of wages and productivity, both the wages measures are for the measured sector (the industries over which Statistics New Zealand has measured productivity) or for the private sector where that is not available (since 2009).

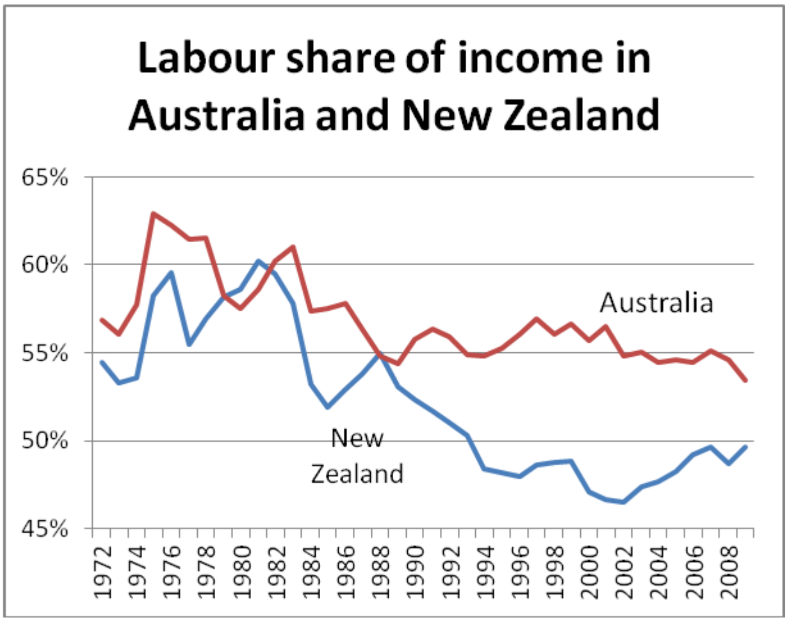
[31] Statistics New Zealand, Productivity, CPI, PPO and Labour Cost Index.

[32] Statistics New Zealand, Quarterly Employment Survey.

[33] For a more detailed analysis see "Real wages and productivity in New Zealand", presented at the 14th Conference on Labour, Employment and Work in New Zealand, Wellington, 2010, Industrial Relations Centre, Victoria University of Wellington, proceedings forthcoming.

5.7. Recent experimental Unit Labour Cost series released by Statistics New Zealand also throw light on the matter. Unit Labour Costs show the ratio of labour costs to the labour productivity of employees and the self-employed. Real Unit Labour Costs (RULC) can be read as indicating the relationship between real wages and productivity. If RULCs are rising, then wage and other labour costs (such as leave, employer contributions to superannuation, and staff development) are rising faster than productivity[34]. In fact it also shows falling RULCs in the measured sector for virtually the entire period 1996-2007 over which it is available. There were small rises from 2004 to 2007 but given the variability of the measure and the fact that it fell by a similar amount in the previous three years, little can be read into this as establishing a pattern. Certainly, wage earners are long overdue a return to higher wage levels compared to productivity. Statistics New Zealand also provides a RULC measure for the whole economy to maintain comparability with other OECD countries, but this must be treated with considerable caution. The difference between it and that for the measured sector is that it includes parts of the economy over which productivity is not reliably or validly measured such as education, health and public administration. Including these in a RULC calculation does not suddenly make their productivity measurable.

5.8. A further demonstration of the relative position of wages in the economy is provided by the Labour Share of GDP. This shows the proportion of income generated by the economy that goes to labour in wages or other labour costs. The remaining proportion, Operating Surplus, goes to capital, mainly in the form of interest and dividends. The accompanying graph compares that of New Zealand to Australia. Both have fallen over the period 1972-2009 but New Zealand's fell much more steeply, and continued to fall during the 1990s when Australia's labour share flattened. New Zealand's has risen since 2002 but appears to be flattening again, at a level 10 percentage points of GDP behind where it was in the early 1980s. New Zealand's labour share has been lower than



[34] Statistics New Zealand uses GDP deflators to convert from nominal to real Unit Labour Costs. This is very similar to PPOs.

Australia's over almost the entire period. It is unlikely that this is due to greater capital deepening in New Zealand – all the evidence suggests the contrary. Again, this indicates low wages in New Zealand not only in relative terms, but in terms of what the country could afford.

5.9. It is therefore essential that any increase in productivity is accompanied by mechanisms to ensure it is fairly distributed in wages. The minimum wage is one such mechanism, and indexing it to productivity and wages strengthens that connection. Another very effective mechanism is to strengthen collective bargaining. We discuss productivity in more detail below.

5.10. According to data from the Industrial Relations Centre at Victoria University, approximately 18 percent of the workforce is covered by collective bargaining[35], but their wage rates have increased significantly faster than the workforce in general. From June 1993 to June 2000 under the Employment Contracts Act which made collective bargaining very difficult and opened it to non-union parties, real wages measured by the LCI after CPI inflation did not rise at all – that is, 0 percent per year. At the same time, real wages in collective agreements (measured by the average adult minimum wage in them, after inflation) went up by 0.3 percent per year. During the Employment Relations Act period from June 2003 to June 2011, when only union collectives were permitted, and after all non-union collectives had expired, real wages measured by the LCI fell 0.3 percent a year. Over that period, real wages in collectives went up by 0.4 percent per year. Increases were not generous in either period, but there is a consistent picture of collectives doing better than individual agreements.

5.11. New Zealand's unemployment rate until 2008 had been at or below 4 percent for an extended period (3.9 percent in September 2004 through to 4.0 per cent in June 2008 seasonally adjusted[36]). Despite continued labour shortages over this period Kiwi workers saw no significant change in their pay packets in real terms. In an environment of low and relatively unresponsive wage rates, and in light of the issues around productivity and economic transformation, a low minimum wage is symbolic of an economy with a low-skill, low technology approach to employment.

5.12. While unemployment has since risen and is expected remain high for a considerable time, these considerations continue to apply. Unemployment peaked at 7.0 percent in December 2009 but has reduced only slightly to 6.5 percent and the Reserve Bank forecasts it still to be at 5.2 percent in March 2013 according to its September 2011 Monetary Policy Statement. Skill shortages have disappeared in many sectors, but they are re-emerging in others. It is likely that the construction industry has lost skilled workers to

[35] "Employment Agreements: Bargaining Trends and Employment Law Update 2010/2011", Stephen Blumenfeld, Sue Ryall and Peter Kiely, Industrial Relations Centre, Victoria University of Wellington, 2011. Calculated from data on p.18, which the authors warn may underestimate coverage.

[36] Statistics New Zealand, "Household Labour Force Survey", accessed through Infoshare.

Australia during the very deep recession that sector experienced for example. This will cause difficulties as the needs of Christchurch following the earthquake put exceptional demands on the sector. Already employers are reported to be filling vacancies from overseas.

5.13. The intention should be to come out of this recession in a fit state to improve productivity, skills, and technology. This should be built on the provision of better wages, not low cost labour.

5.14. OECD private sector hourly earnings and consumer price statistics show that between 1990 and 2011, real hourly earnings in the private sector increased by 36.2 percent in Australia but only 14.0 percent in New Zealand. From 2000-2011, private sector real hourly earnings rose 18.7 percent in Australia and 6.3 percent in New Zealand. They rose 6.5 percent between 2008 and 2011 in Australia (and 0.7 percent in the last year) but fell 1.2 percent and 2.0 percent respectively in New Zealand. For the period 1996-2010 (for which richest OECD data is available), New Zealand had the 6th lowest increase among 18 OECD countries, from 2000-2010, 6th lowest, from 2008-2010, 5th lowest, and from 2009-2010, 7th lowest. The last two are particularly surprising given that New Zealand's economy as a whole was less affected by the global recession than most of the OECD. The periods (June years) are not affected by the GST increase on CPI.

5.15. Average fulltime adult ordinary time earnings in Australia were A$34.36 in May 2011[37], and the New Zealand average ordinary time earnings were NZ$26.21 in June 2011. At straight exchange rate conversion the Australian rate was $44.46 or 70 percent higher than the New Zealand equivalent. In purchasing power terms it was worth NZ$36.90 or 41 percent higher. Even if we add 7.9 percent to the New Zealand average wage to make allowance for it including part-time workers[38], so estimating the average ordinary time wage for fulltime workers to be $28.28, the gap is still 57 percent on the exchange rate

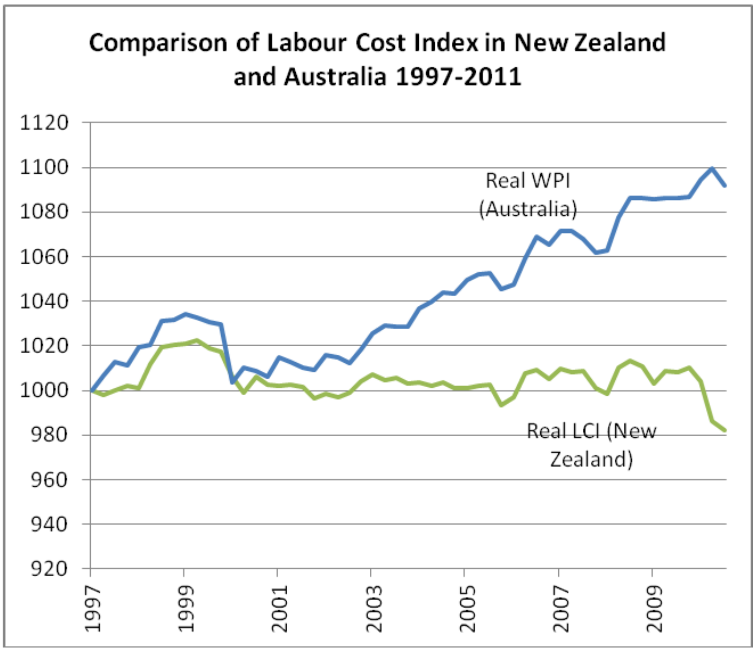
[37] Average weekly full time ordinary time earnings, seasonally adjusted, were $A1,305.60 in May 2011 (Australian Bureau of Statistics). This is divided by 38 to obtain hourly earnings. Purchasing power is estimated using the latest (August 2011) OECD values for Comparative Price Levels between New Zealand and Australia.

[38] This is the difference between median hourly earnings for fulltime and all wage and salary earners shown in the New Zealand Income Survey, June 2011. It was the same in 2010.

comparison, and 30 percent in purchasing power terms. This does not take account of casual employment loadings and substantial compulsory employer superannuation contributions in Australia.

5.16. The gap rose during the 1990s and 2000s until about 2005, and then fell until the beginning of the global financial crisis. Since 2008, Australian wages have continued to grow rapidly in real terms while New Zealand wages have fallen in real terms leading to the gap widening again. The graph on the previous page shows the difference between New Zealand and Australian wages in purchasing power terms using both the ordinary time hourly wage and the average weekly wage including overtime (which is the most directly comparable measure)[39].

5.17. The difference in wage dynamics between the two countries can also be seen in a comparison between New Zealand's Labour Cost Index and Australia's Wage Price Index, nearly identical measures. Both are indexes so show only movements in levels of wages and other costs, but in real terms, the New Zealand LCI has been virtually flat or falling slightly since it began in 1992. However the Australian WPI, which is available only since 1997, has risen in real terms as the accompanying graph shows.



5.18. The sluggish nature of wage levels in New Zealand has been in striking contrast to corporate profits. As already noted, there has been a long term shift in the balance between income to employees and returns to capital (gross operating surplus). Until 1993, employees received a greater (though rapidly falling) share of the economy's output than capital did. In 1981 for example, employees received 60.2 percent of GDP and capital received 39.8 percent[40]. From 1994 until 2006 the position was reversed. A small part of that growth was from rising numbers of self-employed due to employees being forced into contracting rather than employment relationships, but most was due to the stagnation or fall in real wage and salary incomes. The

[39] Further details can be found at http://union.org.nz/economicbulletin125.

[40] Allocating taxes on production less subsidies to them proportionately.

imbalance in how the growing production of the economy is shared (which also shows up in New Zealand's high levels of income inequality) is clearly a systemic issue which got steeply worse until about 2002 when capital received a record 53.5 percent of GDP. After that, the imbalance moderated but has a long way to go to return to historical levels.

5.19. Executive pay has also risen steeply. One survey[41] showed that whereas in 2000, a CEO could expect to earn eight times as much as the pay of the average worker, by 2006, the average CEO pay-packet was 19 times the average wage.

5.20. A survey by Moyle Consulting released in May 2010[42] showed 48 percent of CEOs received a base salary increase in 2009, and of those who did receive an increase, the median increase was 5 percent. For the same period, the Labour Cost Index was showing that only 44 percent of wage and salary earners had received increases, over the year, with a median increase of 3.7 percent for those who received one.

5.21. From reports in the *New Zealand Herald* the following picture emerged for New Zealand's top executives' pay:

Year	2006	2007	2008
# of NZ's largest companies	44	56	49
% increase	23%	8%	25%*
Average CEO salary	$1.018m	$1.056m	$1.217m
Ratio to the NZ average wage	25	27	25
Ratio to the NZ min wage	50	45	49

*14% if one-off payouts to CEOs who left are excluded.

Source: *NZ Herald* "Richer than ever before" – 22 Mar 2008; "Price of success - what our chief executives earn" – 7 Apr 2007; "Top executives' pay averages $1m" – 15 April 2006.

5.22. A survey of 34 companies by Fairfax newspapers business wing, Businessday, published in August 2011[43], found that "Top chief executives are being paid up to 50 times as much as their average employees – and the gulf between boss and worker is widening." The survey estimated that a chief executive's pay in 2010 averaged over 18 times that of an average worker at the same company. The writers noted that a similar measure was last published nine years before by Helen Roberts of Otago University. She found chief executive pay was 15.2 times the national average worker income. Telecom CEO Paul Reynolds earned the most at $4.74 million per year, more than 51 times the estimated average in that company.

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[41] See http://www.neon.org.nz/newsarchive/nzlwe/.

[42] "Recession slams CEO pay", Moyle Consulting, 8 May 2010, http://www.moyleconsulting.co.nz/NewsArticles/tabid/62/articleType/ArticleView/articleId/8/Recession-Slams-CEO-Pay.aspx.

[43] "The Great Divide", by Tim Hunter and Shane Cowlishaw, 20 August 2011, p. A1.

5.23. The CTU recognises that wages will not increase simply through a mechanism such as the annual review of the minimum wage. We recognise the significant increases in investment in skill development. Such investment in people can lift wages over a period, if it is alongside union collective bargaining and wider programmes to invest in new technology and infrastructure and engage workers in workplace and industry issues. Responsible contracting policies in which government contracts require appropriate working conditions and pay rates can also help. But the symbolic and flow-on effect of minimum wage increases can play a vital role.

5.24. As well as underscoring the need for increased minimum wages, low wages point to the need for increased research into the nature of low pay in New Zealand. As such, the CTU continues to advocate the development of a Low Pay Unit to collect appropriate data about the extent and impact of low pay in this country.

6. Implications for productivity

6.1. Employers may point to higher costs or slowing economic growth in the current recession to challenge the case for further increases in the minimum wage. But the argument about increasing wages in New Zealand – and, as part of that, the minimum wage – is bigger than the short-term economic climate. Higher wages are a key part of New Zealand's economic transformation. To date employers have failed to address the issue of low wages in this context.

6.2. While the minimum wage is only one policy lever, a significant lift in the minimum wage would chart a clear course in terms of productivity enhancement alongside high labour market participation, rather than continued employer reliance on employment creation through low paid jobs with poor levels of physical capital per worker. The minimum wage can stimulate reform by reducing employers' ability to reduce wage rates to maintain their viability, and focus attention on raising productivity as the instrument of commercial adjustment.

6.3. There is evidence[44] that an increase in the minimum wage can be associated with a small, but statistically significant, increase in average productivity in low-wage industries compared with other industries**.**

6.4. A 2011 study of recent significant increases in the federal minimum wage in the US makes this more concrete. "Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase", by Tetyana

[44] See - http://www.oecd.org/dataoecd/27/20/38797288.pdf. "Assessing the Impact of Labour Market Policies on Productivity: a Difference-in-Differences Approach, Andrea Bassanini and Danielle Venn", OECD Social, Employment and Migration Working Papers No. 54.

Zelenska[45], investigates the impact of the 2007-2009 increases from $US5.15 to $US7.25 an hour. The study tracked store-level payroll records for individual employees in quick-service restaurant chains in Georgia and Alabama. The impact of the increases in the minimum wage varied significantly across restaurants, but the analysis finds no negative effect on employment and hours. This is important in itself, adding to the growing evidence of "no significant impact" from even quite large minimum wage increases, but the author went on to interview managers and employees as to the "channels of adjustment" used to address the increased cost.

6.5. Twenty-three different cost-saving measures were identified. The measures which were cited by more than 80 percent of managers were: increasing workers' performance standards, adjustments to work schedules, cross-training of workers for multi-tasking, expanding job duties of workers, discouraging overtime work, tightening up on absenteeism and discipline, getting more work from each person, increasing morale and team spirit, reducing food waste in preparation and storage, reducing water and electricity use, and finding new ways to improve customer service. While some of these are simply speed-up and some also indicated pay rises may be more limited, most were forms of productivity improvement either directly or through improved management including building employee skills and involvement. Contrary to some assertions, very few managers said they would reduce training, the number of people on the payroll or hire more teenage workers. The payroll records showed a lower worker attrition rate over the 2007-2009 period. Employees strongly supported the wage rises (91 percent in favour) while showing clear evidence of understanding the mechanisms that would be used to offset the higher costs.

6.6. Managers also reduced profit margins and increased prices, though this was limited by competition. Wage compression and lower turnover rates also reduced costs. Despite mandates from owners to keep labour costs below a fixed percentage of sales value, managers found other ways to cope rather than reduce hours or lay employees off. In other words, the wage pressures induced productivity gains that would otherwise not have been sought.

6.7. McLaughlin[46] compares Denmark to New Zealand and argues that raising the minimum wage will "shock" firms into raising productivity if there are strong incentives and pressures for them to do so. Using the Danish experience, he suggests a coordinated approach incorporating employers, government supported institutions including funding for training, and an active union movement with legislatively supported industry bargaining mechanisms. These should work together to support investment in skills and

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[45] "Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase", by Tetyana Zelenska, 2011, Economics Dissertations, Georgia State University, Paper 70, http://digitalarchive.gsu.edu/econ_diss/70.

[46] "The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark and New Zealand", Colm McLaughlin, British Journal of Industrial Relations,47:2 June 2009, pp. 327–348.

training which are an essential contributor to enhancing productivity. “The coordination mechanisms between employers and unions at various levels of the economy play a pivotal role in ensuring that the funding is used effectively through an ongoing process of developing, implementing and reviewing training programmes”, he writes.

6.8. Compared with Australia, the relative price of labour to capital in New Zealand has fallen dramatically. In a 2003 Treasury paper, Hall and Scobie found that from being equivalent with Australia in the 1980s, the relative cost of labour to capital in New Zealand had fallen by 60 per cent.[47] 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”.

6.9. Other research has shown the same outcome: that the low wage structure led to reliance by business on low wages rather than increases in productivity through investment. For example, Deardorff and Lattimore[48] found in 1999 that:

> By 1986, the importable sector supported by trade barriers, was both more capital intensive than the exportable sector and more intensive in all categories of higher labour skills than exportables... This group had nearly halved by 1996 as the tradeable sector shed labour during the early phases of the economic reforms. ... The traded goods sector is not intensive in the use of employees, of either sex, with degrees or advanced tertiary training.

6.10. By 2002, capital intensity in Australia was more than 50 per cent higher than New Zealand. From this Hall and Scobie find that between 1995 and 2002, 70 per cent of the difference in the growth of labour productivity in New Zealand is explained by a lower growth rate in capital intensity.

6.11. The International Monetary Fund[49] has estimated that in 1999 average labour productivity in market sectors in New Zealand was only 73% of the Australian level, down from 82% in 1988. So productivity in relation to Australia was higher when there was the award system for wages in New Zealand.

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

[48] “Trade and Factor-Market Effects of New Zealand's Reforms”, by Alan Deardorff and Ralph Lattimore, New Zealand Economic Papers, June 1999 v33 i1 p71.

[49] “New Zealand: Selected Issues”, International Monetary Fund, 2002, IMF Country Report No 02/72, prepared by K Kochhar, M Cerisola, R Cardarelli and K Ueda, Washington.

6.12. A recent study by NZIER[50] suggested the emphasis on capital intensity was overplayed and that there should be more focus on multifactor productivity characteristics such as skills of workers and management. Industry-specific factors were also important.

6.13. In terms of productivity, these studies clearly show that the problem in New Zealand is not a lack of labour market flexibility or that wages are too high. The problem is that wages are far too low and that firms are investing in more workers and poor workplace practices rather than more capital-intensive use of labour.

6.14. Indeed, analyses of labour productivity carried out by Statistics New Zealand for the 2025 Taskforce[51] indicates that labour productivity increased in New Zealand and Australia between 1987 to 2009 at very similar rates when comparing equivalent sectors of the two economies for which reliable productivity measurements are available. Capital intensity, measured by the ratio of capital stock to hours worked, rose much faster than Australia until 1990, and then fell from 1993 until 1996, to begin rising at approximately the same rate as Australia until 2009.

6.15. The evidence in New Zealand points to low wages having a negative impact on productivity. Low pay discourages investment in capital and skills, and locks many New Zealand firms into low targets for efficiency and harms economic transformation.

6.16. Workers are also discouraged from raising their skill levels, particularly in industry-related skills. In 9.4 we quote evidence of low, zero or negative recognition in pay levels of attaining industry qualifications.

6.17. In addition, the growing pressure for increased temporary migration in the New Zealand economy, and the downward pressure this creates on wages, only underlines many employers' blinkered view of labour productivity.

6.18. In its own right, low pay worsens the performance of labour. Low pay is commonly associated with high levels of labour market churn. For instance, an Auckland University survey undertaken on behalf of a Ministry of Health Quality and Safety project showed that average pay of $10.80 per hour correlated with staff turnover of 30-40 per cent each year. [52]

6.19. There is a more general issue about the effect of high labour churn on productivity. In a labour market of over 2.3 million people in 2010, a new job

[50] "Industry Productivity and the Australia-New Zealand income gap", by Qing Yang and John Stephenson, NZIER, September 2011.

[51] See http://www.stats.govt.nz/browse_for_stats/economic_indicators/productivity/comparing-income-gap-aus-nz-2025-taskforceupdate.aspx

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

was started on 1.03 million occasions during the year[53]; this was down from 1.2 million in previous years. The number of workers involved was something over half the number of job starts: many workers change jobs more than once a year. While a certain level of labour turnover is indicative of a dynamic labour market, this high level of churn must be impacting negatively on firm performance and overall labour productivity.

7. Raising the Minimum Wage does not increase unemployment

7.1. An 86 per cent increase in the adult minimum wage and tripling of wages for 15-19 year olds since 1999 has not been a disincentive for employers to take on new staff. The adult minimum has risen 23 percent faster than the average hourly wage and youth wages have risen twice as fast. There have been considerable periods during this time where rising labour force participation and falling unemployment demonstrated workers were not being priced out of the labour market and the tired old argument that an increase in the minimum wage must mean an increase in unemployment is now discredited.

7.2. Increases in the minimum wage will have some impact on employment, but there is increasing evidence that these effects are at worst small, and frequently do not exist. We come back to this below.

7.3. In addition, we have provided evidence above that wages have not risen nearly as fast as productivity. A recent study[54] throws further doubt on the connection between wages and productivity from a different direction. It analysed the revenue and wages in 1,735 representative medium to large Belgian firms over a six year period finding no significant differences in the productivity of different occupational groups within the firms, despite obvious differences in pay.

7.4. These findings suggest that assumptions of perfectly competitive labour and goods markets are wrong, that there is room in company revenues for higher wages, and that much more sophisticated models incorporating bargaining power (including employer monopsony power), market dominance in product markets, the effect of wage rises in stimulating demand and productivity improvements, and the findings of empirical studies in the US, are needed to accurately anticipate the effects of changes in the minimum wage.

7.5. In particular, we are unconvinced by the standard model used by the Department of Labour to forecast the employment outcomes of a rise in the minimum wage. These routinely predict employment losses contrary to many

[53] Statistics New Zealand: Linked Employer-Employee Data, March 2010 quarter.

[54] "Are Occupations Paid What They Are Worth? An Econometric Study of Occupational Wage Inequality and Productivity", by Stephan Kampelman and François Rycx, IZA Discussion paper no. 5951, September 2011, Forchungsinsitut zur Zukunft der Arbeit/Institute for the Study of Labour.

empirical findings. We welcome the fact that the Department is reviewing this model, and emphasise the necessity for a sophisticated approach that is not imprisoned in inadequate neo-classical theories which have failed to be validated empirically.

7.6. There are useful theoretical discussions contained in the papers already cited by Herr, Kazandziska and Mahnkopf-Praprotnik[55], and Zelenska[56].

7.7. From both an employment and productivity perspective, there are good grounds for a substantial increase beyond the current $13.00 an hour.

7.8. There are now numerous studies concluding “no significant impact” on employment (let alone unemployment) of increases in the minimum wage. These findings do not mean there will be no impact under any circumstances, but it is becoming clear that improvements in statistical methodology and greater understanding of the factors connecting wages and employment are tending to cast doubt on negative effects that are found. A more complete assessment of the literature in relation to the impact of minimum wage increases is in Appendix 1, but the following provides a summary of some of the most recent research.

7.9. Economist Arindrajit Dube, along with colleagues William Lester, Sylvia Allegretto and Michael Reich, have conducted several studies based on the fact that many States in the US have their own minimum wages at a level above the Federal minimum. By comparing firms operating in counties on either sides of borders of States with different minimum wages they have being able to isolate employment effects of minimum wage increases, and consistently find no significant effect on employment. Dube recently summarised the state of minimum wage research[57]. He described one of his key studies (with Lester and Reich)[58]: They compared contiguous counties across state borders, over 64 different border segments with minimum wage differences over a 17-year period (1990-2006). Employment effects were positive rather than negative but not statistically significant, even over the

[55] “The Theoretical Debate about Minimum Wages”, by Hansjörg Herr, Mika Kazandziska and Silke Mahnkopf-Praprotnik, Working Paper No. 6, Global Labour University Working Papers. Berlin: Global Labour University, p.24. Retrieved from http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_115075.pdf

[56] “Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase”, by Tetyana Zelenska, 2011, Economics Dissertations, Georgia State University, Paper 70, http://digitalarchive.gsu.edu/econ_diss/70.

[57] “Minimum Wage Laws and the Labor Market: What Have We Learned Since Card and Krueger’s Book Myth and Measurement?”, Arindrajit Dube, 1 September 2011, http://www.newdeal20.org/2011/09/01/minimum-wage-laws-and-the-labor-market-what-have-we-learned-since-card-and-kruegers-book-myth-and-measurement-57160/.

[58] “Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties”, by Arindrajit Dube, T. William Lester, and Michael Reich, The Review of Economics and Statistics, November 2010, 92(4): 945–964.

long run. Given the long period it covered, it spanned several recessions, and subsequent analysis by one of the co-authors finds that "the overall results hold when only recession periods are considered"[59]. Another study looked at the effects on teenage employment, again finding no employment effect, and again that held over recession periods[60].

7.10. Dube notes that "the most common [research approach] since the 1990s has been the 'state panel' approach pioneered by David Neumark and William Wascher. Like the individual case study, it uses only differences in minimum wages across states to form inference. However, instead of comparing two areas that may be similar based on, say, proximity, the 'state panel' studies effectively compare all states to all states, while accounting for possible differences by including statistical controls. The state panel approach has tended to find negative effects, especially when considering a high impact demographic group such as teenagers... However, it also assumes that we can find enough control variables to include in our regression that will make Texas look like Massachusetts. As it turns out, this is a heroic assumption that badly biases the results." Dube cites several studies carried out with his colleagues showing "the nature of bias in the state panel studies. The kind of states that have tended to have higher minimum wage in the past 20 years have been quite different from those who have tended to have lower minimum wages."

> "In other words, there is a very strong regional component to the minimum wage variation. This can lead to very misleading inference if we compare teen employment growth in, say, Texas and Massachusetts. Given factors such as climate, proximity to Mexico, and others that are usually not fully accounted for in state panel approaches, we might expect very different trends in employment in those states quite apart from minimum wages. Similarly, the growth rate in low-wage jobs has been quite different in states like Texas, North Dakota, and Indiana even thought these states have had the same binding minimum wage (i.e., the federal) over the past two decades. Unless one controls for the 'unobserved' (or more accurately 'not directly observed') sources of heterogeneity in the growth prospects across areas, conclusions may be badly flawed."

7.11. It appears then that the closer a study can control dynamically for the specific characteristics of different labour markets that occur within the country, usually defined by locality (such as state or county in the US), and in some cases additionally an employment subsector, the less likely it is to

[59] "An Increased Minimum Wage Is Good Policy Even During Hard Times", by T. William Lester, David Madland,and Nick Bunker, 7 June, 2011, available at http://www.americanprogressaction.org/issues/2011/06/higher_minimum_wage.html.

[60] "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data", by A. Allegretto,A. Dube and M. Reich, Industrial Relations, Vol. 50, No. 2 (April 2011). Also available at http://www.escholarship.org/uc/item/7jq2q3j8.

find negative employment effects. This includes differences such as in business cycles, seasonality, and wage, age and sectoral patterns. It may not be enough to control by using fixed effects models (where the differences between localities are assumed to be the same throughout the period of study). Or put the other way, studies that fail to control properly for these local differences may spuriously detect negative employment effects.

7.12. Dube considers these findings provide evidence for models of the labour market in which employers have monopsony power (the power to set wages or conditions due to job shortages and reluctance or inability of employees to move jobs, giving the employer the position of monopoly provider of employment for its employees – like the "inherent inequality of power in employment relationships" recognised in the object of the Employment Relations Act). Such models are gathering support, with one of the earlier developers, Dale Mortensen, receiving this year's Nobel Memorial prize in Economics along with two others for their analysis of markets with similar characteristics (search frictions), and growing empirical evidence.

7.13. John T. Addison, McKinley L. Blackburn, and Chad D. Cotti have made similar findings to Dube and his colleagues, covering the US retail trade sector[61], the effect of the current recession[62], and a re-examination of the restaurant-and-bar sector[63]. The first of these studies found employment effects were eliminated by controlling quite coarsely for locality using Census division in the US, of which there are only nine.

7.14. An international review of minimum wage studies of the impact of minimum wages on the youth labour market organised by the U.K. Low Pay Commission, was published in March 2011[64]. It covered 12 countries and concluded that "The size of employment effects from the introduction of or increases in minimum wages for young people in general are extremely small and on the margins of statistical significance in the great majority of studies surveyed". While "the impact of minimum wages upon the youth labour market is more likely to be negative where there is no separate subminimum (minima) for younger workers as for example in Spain", it also concluded that "the method by which the minimum wage is set is relevant, with systems which set rates by collective bargaining less likely to experience negative employment effects."

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[61] "Do Minimum Wages Raise Employment? Evidence from the U.S. Retail-Trade Sector", John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2009. Labour Economics, vol. 16(4), pages 397-408, August.

[62] "Minimum Wage Increases in a Soft U.S. Economy", John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2011, Institute for Advanced Studies. Available at: http://ideas.repec.org/p/ihs/ihsesp/273.html.

[63] "The Effect of Minimum Wages on Labor Market Outcomes: County-Level Estimates from the Restaurant-and-Bar Sector", John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2011, Rimini Centre for Economic Analysis. Available at: http://ideas.repec.org/p/rim/rimwps/02-08.html.

[64] "The impact of Minimum Wages on the Youth Labour Market, an International Literature Review for the Low Pay Commission", by Richard Croucher and Geoff White, March 2011.

7.15. On New Zealand it concluded that "The literature indicates the following conclusions. First, there were no or very small effects of the minimum wage on employment for the 20-24 age group. There were varied findings on the impact of rises in the minimum wage on employment for younger age groups, with estimates ranging from 'non-robust', to zero or fairly weak negative effects (Chapple, Hyslop and Stillman). The employment elasticity for 16-17 year-olds in 2003 in Hyslop and Stillman (2007) was -0.1 to -0.2: this is consistent with other literature."

7.16. Closer to home, a study of minimum wage changes in Australia found that "the introduction of minimum wage legislation in Australia in 1997 and subsequent minimum wage increases appear not to have had any significant negative employment effects for teenagers"[65].

7.17. Finally, the recent study by Hyslop and Stillman[66] commissioned by the Department of Labour considered the effects of the very sharp increase in minimum wage that occurred in April 2008 for 16 and 17 year olds here in New Zealand.

7.18. It shows that the employment rate among non-students increased by about 3 percentage points. While it concludes that the change lowered employment for the age group overall by 3-6 percentage points in the two years following the change, with no significant effect in the first year, the loss of employment was largely borne by 16-17 year old students, to some extent to the benefit of 18-19 year old students.

7.19. However there was no increase in the rate of 16-17 year old unemployment as a result of the changes. The loss of employment was more than offset by an increase in those studying and not working. Indeed, there was a reduction in the rate of inactivity among 16-17 year olds (not in employment, education or training).

7.20. Under some assumptions, average hours worked by 16-17 and 18-19 year-olds fell after 2008, as did their earnings and total incomes. The changes in main-job earnings for 16-17 year olds were a fall of around 15 percent in 2009 and a rise of around 10 percent in 2010; and a fall of 5-10 percent for total earnings. For 18-19 year olds the main-job earnings fell 10-15 percent in 2009 and 2010.

7.21. However under other assumptions, the falls in earnings and hours worked were smaller, some even showed increases in earnings or hours, and some were not statistically significant. The negative findings were not robust to all specifications. While the analysis implicitly controls for the recession by its

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65 "Minimum Wages and Employment: Reconsidering the Use of a Time Series Approach as an Evaluation Tool", by W.-S. Lee and S. Suardi, 2011. British Journal of Industrial Relations, 49, p.s376–s401.

66 "The Impact of the 2008 Youth Minimum Wage Reform", by Dean Hyslop, and Steven Stillman, 2011., Wellington, New Zealand: Department of Labour. Available at: http://www.dol.govt.nz/publications/research/impact-2008-youth-minimum-wage-reform/exec-summary.asp.

methodology of comparing 17-18 year olds with 20-21 year olds, where further controls were added for the business cycle, some of the negative effects became weaker (e.g. loss of hours worked) or even disappeared (e.g. loss of earnings).

7.22. It is possible that the control for the business cycle using aggregate adult unemployment may not be appropriate given that employment of teenagers is highly concentrated in the Retail Trade and Accommodation, Cafes and Restaurants sectors. The effect of the global recession was significantly greater in those sectors than the average effect for the economy as a whole. That is, the control in their models may underestimate the global recession effect, thus inflating the negative effects (if any) of the 2008 minimum wage changes.

7.23. Given that 18-19 year olds were not directly affected by the change in minimum wage – if anything they might have been expected to benefit from being preferred to the younger workers as they apparently did with employment – it is not clear that their loss of hours and earnings was due to the minimum wage change. There could have been a "teen effect" such as for example the sector effects mentioned in the previous paragraph, or employers favouring older workers when reducing hours or taking on new employees during the recession whose beginning coincided with the change to the minimum wage.

7.24. It is also possible that the experimental design has not sufficiently taken into account Dube's findings on the importance of locality. Given that there are significant regional variations in employment in New Zealand, such as urban/rural differences, seasonality, age and skill levels of the labour force, sectoral composition and differences in unemployment levels this may be a significant factor here too. Unemployment in the South Island (at least prior to the earthquakes, as in this study) was low even at the height of unemployment nationally. Most of the rise in unemployment has been in the north and east of the North Island.

7.25. The changes appear to have encouraged more 16-17 year olds to continue in education which is a positive long term outcome for that age group. While a loss of employment, hours and income (if it occurred) was unfortunate for the 16-19 year old students, many, including the CTU, have long argued that teenagers should be in education and training rather than encouraged into work.

7.26. Those not studying have not been badly affected, though they may have lost income at least in the short run.

7.27. Given the very large increase in the 16-17 year old minimum wage – 28 percent in real terms, and affecting most 16-17 year olds in work (60-70 percent were below the adult minimum in 2007), these findings are very consistent with the usual findings of no, or small employment impacts of minimum wage changes. It implies that going back to youth rates is unlikely to reduce rates of either unemployment or inactivity (not in employment, education or training).

7.28. However large changes do need to be undertaken with care, and it would be wise to accompany them with supportive active labour market policies. The importance of collective bargaining highlighted in the U.K. study should be acknowledged with legislation to strengthen it. Such changes are much easier in an environment of high employment so the government should focus much more on stimulating the economy to lower unemployment for all age groups, and should be taking much more action to actively engage workers in training and other productivity improvements. Young people should be encouraged to continue their education by raising the caps on tertiary education places and putting a high priority on changes that will encourage school leavers into industry training.

7.29. Hyslop and Stillman found in 2004 that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.[67] In fact, hours of work increased for 16 and 17-year-olds relative to other age groups.

7.30. For a more complete assessment of the literature in relation to the impact of wage increases see Appendix 1.

8. New Entrant Rate

8.1. The CTU submits that the new entrant rate should be removed. It is unfair and discriminatory to pay lower wages to a worker performing the same work as another worker on the basis of age.

8.2. Paying lower wages to one group of workers, based solely on their age, is contrary to the principle of non-discrimination in employment. ILO Convention No. 111 Discrimination (Employment and Occupation) 1958, is one of the core ILO conventions and outlaws unequal payment for work of equal value.

8.3. There is no evidence to support the position that the work carried out by younger and new workers is inherently of a lesser value than the work done by older workers. There is also no strong evidence to support the theory that a youth minimum wage will increase the employment of 16 and 17 year olds – the argument used by those who support the reintroduction of youth rates.

8.4. The CTU agrees that New Zealand has a youth employment crisis and that there is an urgent need to reduce youth unemployment. But neither youth rates nor a new entrant rate are solutions to this complex problem. The CTU

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

supports the recommendations of the New Zealand Institute[68] for better transitions of young people between education and employment and more investment in education and training.

8.5. The CTU policy for the removal of the new entrant rate is supported by Hyslop and Stillman's 2011 findings quoted above showing that the rise in youth unemployment over the last three years cannot be attributed to the removal of youth rates[69].

8.6. In addition, their study "found that the introduction of the New Entrants minimum wage was largely ignored by businesses and that most 16 and 17 year old workers were moved on to the adult minimum wage". The fact that employers are not using it is a further reason for removing it. Changes could be made with minimal impact.

8.7. The argument that 16 and 17 years olds entering the workforce do not have work skills or employment experience and need more supervision and training than workers aged over 17 perpetuates stereotypes about the capabilities of young people. It also ignores the fact that many young people have had prior work experience and have been in the workforce for a considerable period before they turn 16 years old.

8.8. Proponents of youth rates say that young workers need orientation and training when they start a new job. But that same logic applies to anyone who starts a new job. There is no evidence that young workers need more training and take longer to orient into work. The reverse is quite likely to be true in many cases.

8.9. The CTU has conditional support for a trainee wage recognising that there is an additional employment cost for employers supporting employees to undertake training on the National Qualification Framework. This is covered in more detail below.

8.10. A major issue for the Government and certainly a long standing concern for the CTU is the absence of a minimum wage for those aged under 16 years of age. Workers under 16 years of age can be paid wage rates lower than those received by other workers, and there is no redress or any protections limiting how low these rates can fall.

8.11. Research by Caritas in 2003[70] and 2006 [71]found that that there is inadequate attention given to the working experiences of New Zealand

[68] "More ladders, Fewer snakes: Two Proposals to reduce youth disadvantage", by R. Bowen, C. Harland, and L. Grace, The New Zealand Institute, July 2011.

[69] "The impact of the 2008 youth minimum wage reform", by D. Hyslop, and S. Stillman, August 2011.

[70] "Protecting Children at Work: Children's Work Survey", Caritas Aotearoa New Zealand, Wellington 2003.

[71] "Delivering the Goods, A survey of Child Delivery Workers", Caritas Aotearoa New Zealand, 2006.

children. They showed that children working in delivery work are exposed to significant health and safety hazards and experience injuries as a result.

8.12. It was a revelation to many Parliamentarians at the time of the Abolition of the Age Discrimination Bill that there is no minimum wage level or employment protection for young people under the age of 16 years. This is in breach one of the four international labour standards - ILO Convention No. 138 Minimum Age Convention 1973.

8.13. The CTU again submits that there should be an approach to the ILO that would assist us review our labour and education laws and policy to provide a threshold for the entry of young people into work, and that must include the setting of minimum wage levels for young people under 16 years old.

9. Training Rates

9.1. The CTU supports an exemption for trainees on a conditional basis. The conditions are that wage rates are negotiated on a scale which sees the rate progressively increase to at least the minimum wage; that the training requires 60 credits a year on a programme on the National Qualifications Framework; and that the maximum length of time that a trainee can remain on a rate lower than the adult minimum wage rate is 12 months. There must also be oversight to ensure that a significant training component exists in the job and that trainees are getting access to quality training.

9.2. If these conditions are not accepted then we submit that the trainee rate should be abolished. These are safeguards to ensure that the trade-off between provision of such training and exemption from the minimum wage is not being exploited.

9.3. It is with some reserve we support this policy, however. While we recognise the additional costs of training to the employer and accept the case for some compensation for training costs incurred by an employer to fully support a trainee, there must be strict supervision to ensure the training and support occurs.

9.4. A reason given for trainee rates is that workers will acquire higher wages following training and qualification achievement. But this is only true at higher qualification levels such as degrees. Employers frequently do not recognise industry training qualifications and subsequent experience on the job sufficiently in better wages. For example a 2009 study of the earnings effect of workplace-based industry training by Statistics New Zealand and the Department of Labour[72] showed that 15–19 year old males experienced an annualised increase in average monthly earnings of just 11.3 percent as

[72] "Does Workplace-based Industry Training Improve Earnings?", by Sarah Crichton, Statistics New Zealand and New Zealand Department of Labour, September 2009. Available at http://www.dol.govt.nz/publication-view.asp?ID=318.

a result of undertaking and obtaining a Level 4 qualification, 3.6 percent for a Level 3 qualification, and no increase for lower levels. Even worse, 15–19 year old females benefited by just 6.8 percent from a Level 4 qualification, 9.7 percent for a Level 3 qualification, and no increase for lower levels. The increases were even less for older participants (for example 5.4 percent for male 20-24 year olds, 1.1 percent for female 20-24 year olds, and negative for 25-29 year old females completing a Level 4 qualification), and the study warned that the results for 15-19 year olds were overestimated. The position is even worse for further education by existing workers making the effort to increase their skills. For some, their pay actually falls after attaining a qualification, and most see at best small increases in their pay[73].

9.5. Trainees are faced with very low income while they are training, with little reward once they complete their qualification. There is little incentive on young workers to make the effort to gain these qualifications – or to take a vocational training pathway in the first place – when rewards are so poor. Under these conditions, trainee rates are a barrier to skill development. Pay recognition for qualifications gained and for skills developed on the job should be a condition of subsidising industry trainees taken on by employers. Unions should be encouraged to take an active role in supporting this, including collective bargaining coverage for trainees.

9.6. The need for more focus on training and vocational support in the workplace is undisputed. But the quality and access to training can vary enormously. Therefore the CTU recommends a more robust process to ensure oversight of the conditions allowing a trainee rate.

9.7. Given that trainee rates could extend to young workers in the Youth Guarantee Scheme and if this scheme is expanded it is even more necessary to ensure overview of the trainee rate and ensure that the conditions are being met.

9.8. Apprenticeships, trades training and industry training are all ways to increase the skill levels of workers in employment. But lower wage rates for trainee rates should not mean that trainees get unsustainable wages. This will not assist the need to increase the appeal of trades training and apprenticeships.

9.9. Trainees require adequate wages to meet reasonable costs of living and some need to support families. Very low wages will only serve to increase the dropout rate of trainees. Payment of a fair wage will increase the chance of completion of industry training courses or apprenticeships and increase the likelihood of an employer having a trained worker at the end of the training period.

[73] "Labour Market Returns to Further Education for Working Adults", by Sarah Crichton and Sylvia Dixon, Department of Labour, 2011, available at http://www.dol.govt.nz/publication-view.asp?ID=380.

9.10. Apprenticeship wage rates in the past were on a graduated scale recognising that following the completion of an apprenticeship a higher rate of pay would compensate for the lower initial starting rate. But this is not the case for women who have completed apprenticeships.

9.11. A 2006 study commissioned by the Ministry of Women's Affairs showed that despite similar starting rates once an employee in a male-dominated occupation had completed their apprenticeship their wages jumped up considerably (to $19 an hour when the minimum wage was $10.25), whereas the rates for females in female-dominated occupations stayed close to minimum wage levels.

9.12. Regrettably the Modern Apprenticeship Scheme continues to preserve inequities in relation to gender, ethnicity and people with disabilities.

9.13. We propose again that the Department of Labour undertakes research on the extent to which training rates are used and the quality of the training received while they are paid less than the full adult minimum wage.

10. Labour participation rates and social policy

10.1. We submit that an increase in minimum wages will have a beneficial impact on labour participation**.** Two of the most significant challenges facing the labour market are maintaining participation rates and improving our labour productivity rates. The CTU submits that low wages act as an impediment to optimal labour market participation and also act to impede productivity improvements.

10.2. The labour force participation rate has fallen from a peak of 69.1 percent in December 2008 to 68.4 percent at June 2011. Participation rates are not expected to grow due to an ageing population and older labour force[74].

10.3. Strong active labour market policy approaches including higher wage rates are needed to re-encourage people back into the labour market following the negative social and economic effects from the global financial crisis.

10.4. The effect of high unemployment resulting from the global financial crisis is a cohort of workers discouraged and alienated from the labour market. The effects of the recession have been far worse for Māori and Pacific workers. Māori workers were more affected by the economic downturn in 2009 than European workers. Māori participation fell by 1.1 percentage points in 2009, while European participation was almost unchanged. The economic downturn had a more adverse effect on the participation rate of Pacific workers with participation of Pacific peoples falling by 2.5 percentage points in 2009.

[74] "Labour Force Participation in New Zealand", Department of Labour, 2010.

10.5. For many industries it is vital to increase and encourage participation, yet this will continue to be difficult if they continue to pay low wages. The aged care sector is a case in point. This sector has high numbers of low paid women workers in their prime working age years (between 25 and 54) with low qualification levels. Yet the sector does not have the workforce to respond to the growing demand that is predicted.

10.6. The Department of Labour[75] estimates that caregiver numbers in the aged care sector need to more than double from the current 17,900 to 48,200 in order to meet the needs of the increasing number of older people requiring support in 2026.

10.7. Recommendations for this sector include increasing workforce participation among older workers, encouraging disengaged workers from the labour force to consider this work as a career, developing training programmes and established career structures in the sector, considering increased immigration of low skilled workers to provide workers for the sector, and increasing wage rates.

10.8. With the exception of looking to immigration as a solution, the CTU supports all these recommendations. The Department of Labour itself casts doubt on immigration as a response to skills shortages as a sustainable way of dealing with labour force shortages. Significant problems already exist now with the use of migrants as a source of labour for this sector. Kai Tiaki Nursing New Zealand has recorded some of the shocking abuses of Filipino caregivers and nurses at the hands of unscrupulous immigration agents and employers[76].

10.9. The Welfare Working Group has recommended that solo parents' labour force participation must be increased. We have serious concerns about policy recommendations from the Welfare Working Group that show a ruthless determination to reduce the number of people on domestic purpose benefits without consideration of the social impacts let along the labour market impacts given they are more likely to find only low paid and precarious work. This is discussed in Section 4 above.

10.10. Raising the minimum wage is unlikely to have an adverse effect on school leaving rates, and the contrary may well be the case. The recent research by Hyslop and Stillman confirms this (see Section 7). In addition, Timmins[77] has shown that one of the characteristics of those on the minimum wage is that they are studying. He found that 39.9 per cent of those aged 16-24 years are studying. But for young people earning on or near the minimum wage, the

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[75] "The Future Demand for Paid Caregivers in a Rapidly Ageing Society", Department of Labour, 2009.

[76] "Embarrassed and Ashamed to be a New Zealander: A New Zealand Nurse shares her shame about the treatment of Filipino nurses in this country", T. O'Connor, Kai Tiaki Nursing New Zealand, May 2005.

[77] "Minimum wage workers: Who are they?" by Jason Timmins, Department of Labour 2007, PANZ Conference, 3 July 2007.

proportion studying was 58.7 per cent. Higher wages may in fact enable students to replace work time with study time. Studies by Hyslop and Stillman (2004)[78] and Pacheco and Cruickshank[79] have found that there have been some small and varying effects on education enrolment. However large increases in the youth minimum wage since 1999 have been accompanied by strongly increased educational participation. Many people on the minimum wage are studying; therefore a higher minimum wage could mean they could work fewer hours and have more time for studying.

10.11. Disabled people experience serious labour market disadvantage. New Zealand's signing of the Convention on the Rights of Persons with Disabilities has brought much greater awareness about the employment rights of people with disabilities.

10.12. Getting a decent job is one of the most significant challenges for disabled people. At every level of qualification, they are less likely than non-disabled people to be in the workforce[80]. Disabled people's advocates say that if disabled people do get a job they are likely to "be stuck on the minimum wage for the rest of their life"[81].

10.13. The CTU supports the need to improve the participation of disabled people in the paid workforce and to address the fundamental inequities faced by disabled people in regard to employment.

10.14. The repeal of the Disabled Persons in Employment Act helped bring New Zealand's legislation in line with New Zealand and human rights norms. The CTU supported the repeal of the Act.

10.15. The system of minimum age exemptions for workers with disabilities is in need of urgent review. The inquiry by the Equal Employment Opportunities Commissioner[82] reported rates of pay varied from just under the minimum wage to less than $1.00 an hour (and as low as 15c an hour) and significant difficulties with accessing information about minimum age exemptions.

10.16. The CTU supports the call for greater transparency around the process of determining exemptions to and better access to the Department of Labour for information about minimum wage exemptions.

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

[79] "Minimum Wage Effects on Educational Enrolments in New Zealand", G.A. Pacheco and A.A. Cruickshank, 2007.

[80] "Tracking Equality at Work for Disabled People", Human Rights Commission, June 2011.

[81] Personal Communication, disabled person's advocate, October 2011.

[82] Human Rights Commission *op.cit.*

11. Social justice

11.1. A fair minimum wage level plays an important role in reducing inequalities. International evidence shows that changes in the minimum wage level are directly inversely correlated with the level of wage inequality[83]. Where the real value of minimum wages has been allowed to fall, overall wage inequality has risen: the more minimum wages have fallen, the more inequality has risen.

11.2. New Zealand's rates of inequality have jumped dramatically. From having relatively low inequality rates in the early to mid 1980s there has been a rapid transition and New Zealand is now one of the most unequal countries in the OECD.

11.3. From 2004 to 2007 inequality fell in New Zealand mainly as a result of the Working for Families package. Inequality is anticipated to increase again now because of the effect of the 2010 tax cuts and the unequal impacts of the recession.

11.4. Wealth in New Zealand is even more extreme than income inequalities. The wealthiest 10 percent of the population hold over 50 percent of total wealth while the bottom half of the population hold 5.2 percent of total wealth.

11.5. And yet this isn't the kind of change that is supported by New Zealand citizens. The Social Inequality Survey 2009[84] found that New Zealanders want greater equality and agree that income differences are too large. Respondents saw lower income earners as being underpaid and that higher income earners are overpaid.

11.6. Wilkinson and Picket, in their widely discussed book, "The Spirit Level"[85], have marshalled strong evidence to show that wealthy societies with very wide income inequalities have worse outcomes than less wealthy societies with smaller inequalities.

11.7. New Zealand Treasury head, John Whitehouse in May 2011, said the growth in inequality is a concern for the New Zealand economy and that in highly unequal societies it is hard to maintain economic performance. And a Treasury working paper on health and wealth[86] states that,

> Typically those with better health status tend to have greater productivity, higher incomes and longer working lives, all of which provide an opportunity to accumulate greater net wealth.

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[83] "Low Wage Jobs and Pathways to Better Outcomes", by S. Richardson and L. Miller-Lewis, New Zealand Treasury Working Paper 02/29, Dec 2002, Pg 7.

[84] "Social Inequality", International Survey Programme Massey University March 2010.

[85] "The Spirit Level: Why Equal Societies Almost Always do Better", by R. Wilkinson and K. Pickett, 2009.

[86] "Health and Wealth", by S. Anastasiadis, Working Paper 10/05, Treasury, Wellington, 2010

11.8. Increasing costs for households are reflected in increasing child poverty rates. Using After Housing Costs (AHC) measures of poverty, child poverty rates have increased from 22 percent in 2007 to 25 percent in 2010 and New Zealand's poverty rates are now around double the rates in the early 1980s[87].

11.9. Poverty rates for children in beneficiaries' households are much higher than for children in families with at least one adult in full time employment. Nevertheless around two in five poor children are from households where at least one adult is in full time employment or is self employed.

11.10. Child poverty has long term implications for our country. Professor Ines Asher, Chair and Head of Paediatrics at the University of Auckland, in an open letter to the Welfare Working Group, reports on the rise in preventable diseases like rheumatic fever, pneumonia, bronchiectasis, and serious skin infection which result in expensive hospitalisations and, for some children, in permanent disability[88].

11.11. The health status of our children with respect to preventable diseases is now poorer than before 1990. Poverty rates for children in Māori and Pacific ethnic groups are consistently higher than those of European/Pakeha ethnicity.

11.12. The level of the minimum wage is a critical component of the issues around about what is a fair and adequate income. The level at which the minimum wage is set also tells us about how we value people, how we value their skills and their contribution through their employment. The 2010 Social Report emphasises the importance of work and that work contributes to other aspects of wellbeing and makes the point that "the quality of work is critically important".[89]

11.13. A fundamental principle for the CTU is that if a job is only provided at wages persistently below a level required for a dignified life, then society is better off without that job. An income standard protects people who for lack of knowledge, or out of desperation, will work for substandard wages. An adequate minimum wage level is an essential part of setting such a standard.

11.14. Poverty results in inability for many New Zealanders to fully participate in society. Families on low incomes have to make choices that mean that children's participation in sport and cultural activities are among unaffordable luxuries. Other restrictions on participation include not being able to invite

[87] "Household Incomes in New Zealand: trends in indicators of inequality and hardship" by Bryan Perry, Ministry of Social Development, 2011.

[88] Letter to Members of Ministerial Group on Welfare Reforms by I. Asher, June 2011.

[89] "Social Report", 2010, http://www.socialreport.msd.govt.nz/paid-work.

friends over for a meal or birthday party, not going on school outings or not being able to have friends or family over to stay.

11.15. The World Health Organisation's Commission on the Social Determinants of Health stated that decent work is one of the means to reduce inequalities and that "fair employment and decent conditions of work help eradicate poverty, alleviate social inequities reduce exposure to physical and psychosocial hazards and enhance opportunities for health and well being"[90].

11.16. A social justice approach focuses on what needs to be done to improve the position of children in New Zealand. The current government and recent policy approaches reflected in the Welfare Working Group recommendations to increase participation into paid work include effectively forcing solo parents into paid work.

11.17. And yet solo parents are more likely to be in low paid work. Poor quality employment and enduring low wages increase social inequalities. As the Review of Health Inequalities in England commented, "The quality of work matters. Getting people off benefits and into low paid and insecure and health damming work is not a desirable option".[91]

11.18. Full employment should be a primary goal of any government, but we do not accept the view that paid work should be the ultimate goal at any cost. The outcome of that is that any wage will do. Employment must be decently paid. Given the minimum wage directly affects children, a strong reason for increasing the minimum wage is that it will have a beneficial impact on children and some impact on reducing child poverty rates.

11.19. Housing is unaffordable for many New Zealanders and house prices are expected to remain high for the foreseeable future. The 2011 Demographia International Housing Affordability Survey reported that housing in New Zealand in 2010 was severely unaffordable and scaled New Zealand at the 5.3, three-quarters above the historic affordability norm they use of 3.0[92].

11.20. For lower-income people high housing costs relative to income can leave households with insufficient income to meet other basic needs such as food, clothing, transport, health care and education.

11.21. There has been a substantial increase in the proportion of households spending more than 30 percent of their income on housing since the late-

[90] "Closing the Gap in a Generation", Commission on Social Determinants of Health, 2008.

[91] "Fair Society, Healthy Lives: A Strategic Review of Health Inequalities in England Post-2010", M. Marmot et al, 2010; London: The Marmot Review, available at www.marmotreview.org.

[92] "7th Annual Demographia International Housing Affordability Survey: 2011", Demographia, available at http://www.demographia.com/dhi.pdf.

1980s. In 2009, 27 percent of New Zealand households spent more than 30 percent of their disposable income on housing costs.

11.22. The ability to access quality housing is related it to income, with higher income earners generally able to attain high quality housing. High housing costs relative to household incomes are a source of huge stress for low-income households.

11.23. Increases in house prices have raised the wealth of home owners and driven a widening gap between the affordability of houses and the incomes of people who aspire to own a home. Wealth inequalities within New Zealand have increased as a result of increased house prices.

11.24. The Auckland region has serious renting housing affordability issues. As at June 2009, 39.6 percent of all renting households and 49.4 percent of all private renting households were paying in excess of 30 percent of their gross household incomes in housing costs[93]. The number of financially stressed renter households is forecast to increase from 59,810 to 99,690 or by 39,880 in absolute terms and two thirds in percentage terms over the 2006 to 2026 period.[94]

12. Gender Pay Gap

12.1. The CTU submits that reducing the gender pay gap must be an important consideration in deciding the appropriate minimum wage increase. We note the gender pay gap has been approved by Cabinet as a factor in deciding the level of the minimum wage.

12.2. The impact of the minimum wage is very significant for women, especially Māori and Pacific women who are over represented in low waged work, both on and near to the minimum wage.

12.3. In a paper on “Decent Work” to the International labour Congress in 2009, minimum wages were described “not as a panacea but an essential element in a more comprehensive policy approach to tackle the persistent gender pay gap”[95]. In New Zealand, increases in the minimum wage have been shown to make a small but important contribution in reducing the gender pay gap.[96]

12.4. As low pay is an enduring feature in the working life of many women workers, the impact of minimum wage levels is greater. Women are more

[93] “Auckland Regional Market Assessment”, Centre for Housing Research Aotearoa, November 2010.

[94] Ibid

[95] “Gender and the Minimum wage”, by J. Roberti and D. Grimshaw, Paper to the ILO conference, 2009.

[96] “Understanding Reductions in the Gender Wage Differential -1997- 2003”, by S. Dixon, paper at New Zealand Conference for Pay and Employment Equity,2004, Wellington.

likely to be in low paid work than men. As argued below, this is largely due to the undervaluation of skills in female dominated work.

12.5. Currently, government action to recognise this undervaluation and to employ processes to evaluate skills and raise pay levels in female dominated work is at a low ebb. The level of the minimum wage thus becomes even more important to decrease the gender pay gap and improve the position of low paid women workers.

12.6. Using the definition of low pay as less than two-thirds of the average hourly rate, the 2008 Survey of Working Life[97], estimated that of 234,100 in the low paid category, women were twice as likely as men to be low paid: 27.5 percent of women (154,000) as opposed to 13.8 percent (80,100) of men.

12.7. Female labour force participation continues to grow and reached 62.4 percent in the year to June 2011. But it is characterised by a growth in employment areas where there is less full time work and in the low paid sectors of retail, hospitality and other service sectors[98].

12.8. Women predominate in lower paid part-time work. In a study commissioned by the National Advisory Council on the Employment of Women (NACEW), examining the extent to which low wages endure for women during their prime years (defined as aged 25- 54) it was found that the main reasons for working part time were their greater role in caring responsibilities and their inability to find suitable full time given those responsibilities.[99]

12.9. The penalty for such part time work for women is lower earnings not only overall but also on an hourly basis. The average hourly rate of part time workers is lower than full time workers. Over one third of women work part time, three times the men's part time rate and 10 percent above the OECD average.

12.10. In addition, career progression for women in the labour market is made more difficult because of the concentration of women in jobs that are not only low paid and part time but also have very shallow pay structures[100]. Poorer skill utilisation within the part time workforce compared to that of full time work compounds difficulties and impedes career progression.

12.11. The 2011 New Zealand Income Survey shows that the median hourly earnings gap decreased slightly in the year to June 2011. However the evidence that the gender gap is reducing is not conclusive as the gap in the

[97] Survey of Working Life: March 2008 Quarter, Department of Statistics.

[98] "New Zealand Women's Employment Outcomes, the relationship between working shorter hours and low-paid, female-dominated occupations", NACEW, 2010.

[99] Ibid.

[100] "Women and Part-time Work – a stocktake of recent research, A report to NACEW", M. Dwyer, R. Ryan, September 2011.

average hourly earnings widened with an increase of 0.7 percentage points from June 2010.

12.12. One of the reasons for the apparent narrowing pay gap at the median may be increased joblessness among women. Statistics New Zealand point out that there were 24,900 fewer low income people in paid work than last year, which is one of the reasons that median earnings increased for all wage and salary earners. If there are fewer people in low income work, then the median of those that are left goes up even if no-one got a pay rise. Women were over-represented among those 24,900 (14,600 compared to 10,300), making up over half of them. So the faster rise in the female median wage may be due to the misfortune of low income women losing their jobs.

12.13. The survey shows that the great majority of women (723,800 out of 906,400) were in occupations which experienced a widening of the pay gap measured by median hourly earnings. A further 83,800 experienced no change in the pay gap. Those occupations with a widening pay gap tended to be lower paid than those where it improved.

12.14. The minimum wage has an important role in reducing not only gender discrimination in the labour market but also in reducing ethnic discrimination. The tables below show that ethnicity compounds gender pay gaps with ethnic gaps even wider than gender pay gaps. The widest earnings gap, as in past years, is between Pacific women and Pakeha men with Pacific women earning only 68.5 percent of the hourly rate of Pakeha men.

Average hourly earnings comparisons by main gender and ethnic groups of wage and salary earners

	Women	*Men*	*All*
Pakeha	$23.57	$27.64	$25.63
Māori	$20.18	$22.32	$21.27
Pacific	$18.96	$20.16	$19.62
All	$22.87	$26.62	

Women's pay by ethnicity relative to other groups

		Relative to:				
		Pakeha women	**Māori men**	**Pacific men**	**Pakeha men**	**All men**
Women	**Pakeha women**	100.0%	105.6%	116.9%	85.27%	88.5%
	Māori women	85.6%	90.4%	100.1%	73.0%	75.8%
	Pacific women	80.4%	84.9%	94.0%	68.6%	71.2%

Source: Statistics NZ Income Survey, June quarter 2011, Table 10

12.15. Virtually all support for government action on pay and employment equity for low-paid women has now ceased. The review by the Equal Employment Opportunities Commissioner examining the public sector gender pay gap shows slippage and little progress in reducing gender discrimination in employment in the public service. The New Zealand Census of Women's Participation 2010 reported on an overall gender pay gap in the public service of 15.4 percent in the 34 Public Service Departments reviewed[101].

12.16. This reinforced the results of the pay reviews undertaken in the public service between 2004- 2008 that found gender pay gaps ranging from 3-35 percent as well as unequal salaries for the same job. Other findings include female dominated jobs being paid lower than male dominated jobs, gender disparities in pay progression and performance pay, and women predominating among the lowest paid staff and forming a minority of those in the best paid jobs. Only one government department of 34 had a pay gap in favour of women. Twelve of the 34 departments had gaps of over 20 percent[102]. Hyman noted that the 23.2 percent gap in the Ministry of Economic Development amounted to an average $19,636 difference in annual pay[103].

12.17. This lack of action on pay and employment equity does not equate with official government policy which affirms that responding to gender inequalities is part of being a good employer in both the public and private sectors[104].

12.18. The government decision to rule out pay investigations that would increase the pay of low paid female workers is a critical blow against pay and employment equity. Pay investigations analyse and compare job content in female-dominated work areas with male-dominated work areas to assess the level of any undervaluing and underpayment of women workers.

12.19. Special education workers employed by the Ministry of Education were one of the two groups excluded from a pay investigation. These workers who undertake work with special needs children in schools are in employment that has all the characteristics of precarious work – insecure hours, casual hours, fixed term agreements and part time work, together with undervaluation of significant skills.

12.20. Despite an additional $2 million funding allocated over four years to the Ministry of Women's Affairs (MWA) in the 2009 Budget, there has been no impact from the MWA work programme on low-waged women workers. One of their four areas of work programmes had a focus on low paid workers – career pathways for women in low paid occupations. But the outcomes from

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[101] New Zealand Census of Women's Participation, Human Rights Commission, 2010.

[102] "Public Sector Pay and Employment Equity Reviews: Overview Report", Department of Labour, June 2009.

[103] "Pay Equity and Equal Employment Opportunity in New Zealand Development 2008/2010 and Evaluation", P. Hyman, Labour, Employment and Work in New Zealand conference 2010, Victoria University, Wellington.

[104] "Crown Entities and the Good Employer", Human Rights Commission, 2010

this programme have not surfaced at all despite the compelling need for work in this sector with a predominantly low paid female workforce.

12.21. Given the dismantling of pay and employment infrastructure and lack of any progress, a substantial increase in the minimum wage is essential to make some progress in improving pay and employment equity.

12.22. Minimum wage decisions play a dual role by increasing wage equity and encouraging labour force participation, particularly among low wage employees. It is estimated that the Australian gender pay gap would have been 2.7 percent greater had it not been for minimum wage decisions and adjustments[105].

12.23. The World Bank Development Report on Gender Equality and Development observed that gender gaps in earnings remain stubbornly unchanged in much of the world and identified this as one of the four chief policy areas for action. The World Bank report identified gender equality as both smart economics and the "right thing to do"[106].

12.24. New Zealand researcher, Maire Dwyer, in the report, "The Economic Rationales for Narrowing the Gender Pay Gap"[107], made the point that many economists and policy makers fail to make the connection between lower earnings and labour force participation and unfulfilled productive potential and regard the labour market participation of parent mothers as simply reflecting family preferences. Yet as she said, these attitudes are simply out of step with attitudes of parents about employment and parenting and parental choice.

12.25. Gender inequity in workplaces is likely to be associated with a loss of productive potential when women are in jobs that are below their skill level, and some women opt to stay out of the workforce because wages are too low to make working worthwhile.

12.26. A recent report by Goldman Sachs on gender and economic performance in the New Zealand labour market[108] concluded that significant productivity gains could be achieved through more effective tapping into New Zealand's highly qualified female labour force. Regrettably but not unexpectedly Goldman Sachs failed to recognise that major contributor to the gender pay

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[105] "Pay Equity – More Please! 18th Annual Labour Conference", S. Hammond, University of Sydney Law School and Workplace Research Centre, June 2010.

[106] World Bank, Press Release No:2012/065/DEC, 18 September, 2011.

[107] "The Economic Rationales for Narrowing the Gender Pay Gap", by Maire Dwyer, June 2006, National Advisory Council on the Employment of Women, available at http://www.nacew.govt.nz/publications/quality/women/index.html.

[108] "Closing The Gender Gap: Plenty of Evidence of Potential Economic Upside" by Philip Borkin, Goldman Sachs, 9 August 2011.

gap is the undervaluing and underpayment of women in female dominated occupations.

12.27. A fair minimum wage level will help to reduce an important cause of women's low pay and gender inequity. We believe that the MWA is misled in its focus on increasing the participation of women in male dominated work. The thinking reflects a stereotypical attitude that women who work in low paid occupations do so because of a lack of training or education. Evidence shows that as occupational groups become more female-dominated, the value of the work lowers resulting in declining relative wage as the female workforce increases[109].

12.28. Unionisation is a protective factor for low paid workers and collective bargaining reduces the gender pay gap. But in low paid, insecure and precarious work, large sectors of the workforce are un-unionised. This exposes these workers, who are more likely to be women, to very low paid work and wages that are totally dependent on minimum wage increases for any wage increase.

12.29. The aged care sector is an example of a female dominated sector where the skills needed are undervalued and wages are very close to minimum wage levels. Both formal studies and workers' perceptions demonstrate such undervaluation. The most frequently quoted complaint about working in the aged care sector is pay. While workers may love aspects of their jobs the incentive to look for better paid work will increase if pay rates do not rise in this sector.

13. International commitments – UN & ILO

13.1. International instruments that prohibit discrimination and are relevant to the minimum age level are: the Universal Declaration of Human Rights; the Convention on the Elimination of Discrimination Against Women; the Convention on the Elimination of all Forms of Racial Discrimination; and the Convention on the Rights of Persons with Disabilities.

13.2. As a member of the United Nations, we have made commitments to all these international agreements. Adherence to international agreements is an enduring obligation and commitment.

13.3. Article 23(2) of the Universal Declaration of Human Rights and also article 7 of the International Covenant on Economic Social and Cultural Right affirms "the right to a just and favourable remuneration".

[109] "Job Queues, Gender Queues: Explaining Women's Inroads into Male Occupations", by B.F. Reskin and P. Roos (1990), Philadelphia, Temple University Press.

13.4. Article 23 (3) and Article 25 (1) of the Universal Declaration of Human Rights and Article 7 of International Covenant of Education, Social and Cultural Rights, and ILO C131 Article 3 refer to the minimum wage stating:

> The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include:
>
> (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
>
> (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

13.5. Article 11 of The Convention on the Elimination of Discrimination Against Women (CEDAW) requires state parties to take all appropriate measures to eliminate discrimination in employment. CEDAW specifically refers to equal pay for equal work and "fair wages and equal remuneration for work of equal value".

13.6. New Zealand took a leading role in the development of the Convention on the Rights of Persons with Disabilities. Article 27 of this Convention includes provisions that prohibit discrimination in employment for people with disabilities; protects the rights of persons with disabilities to just and favourable conditions of work including equal remuneration, and equal remuneration for work of equal value; and states that people with disabilities must be able to exercise their labour and trade union rights on an equal basis with others.

13.7. Membership of the ILO also confers obligations under international labour treaties and convention. The founding Convention of the ILO, the Declaration of Philadelphia (1944), states that governments have a responsibility to ensure the provision of an adequate living wage.

13.8. In 1998, the International Labour Conference adopted the ILO Declaration on Fundamental Principles and Rights at Work. This declaration commits all ILO member states to respect the principles in the four core labour areas whether or not they have ratified the specific conventions. Most relevant to minimum wages is the elimination of discrimination which is one of the four core labour areas.

13.9. ILO Convention No. 111 Discrimination (Employment and Occupation) 1958, ratified by New Zealand, requires member states to pursue equality of opportunity and treatment in employment and occupation, in order to eliminate discrimination.

13.10. ILO Convention No.26 Minimum Wage-Fixing Machinery 1928, requires member states to create and maintain machinery to fix minimum rates of wages for workers employed in certain sectors where there are no effective arrangements for regulating wage rates (whether by collective agreement or otherwise) and in which wages are exceptionally low.

13.11. ILO Convention No. 131 Minimum Wage (1970) refers to the minimum wage level and states that the minimum wage must cover the living expenses of the employee and his/her family members. Moreover it must relate reasonably to the general level of wages earned and the living standard of other social groups. Although New Zealand has not ratified this convention, its ILO membership still confers obligations to respect its principles.

14. Addressing the Objectives and Criteria of the Minimum Wage

An increase in relation to the objective, assessment criteria and factors

14.1. In light of the Review's objective, "to set a wage floor that balances the protection of the lowest paid with employment impacts", and an assessment of "the extent to which any change to the minimum wage would produce gains that are more significant than any losses," this section considers each of the six factors identified for consideration in turn.

14.2. It will then make a separate "consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment related interventions, and would meet the broader objectives of government."

Consistency with the principles of fairness

14.3. The review asks that an increase in the minimum wage be considered in relation to its, "consistency with the principles of fairness, protection, income distribution and work incentives".

14.4. Measures of living standards in New Zealand indicate a significant proportion of the population continue to experience hardship and disparity of income distribution. The CTU believes an increase in the minimum wage to $17.66 would best meet the principle of fairness by improving the relativity of the minimum wage to the average wage and providing a more equitable distribution of income. It would protect a significant number of workers from, sustained downward pressure on wages that is causing "market" wages to converge with the minimum wage. These sectors of the economy often employ a disproportionate number of women, Māori, Pacific and temporary migrant workers. These issues are considered in detail in Sections 3-6 and 10-12 above.

14.5. A lift in the minimum wage to $17.66 an hour would be a very significant step in addressing income disparity through raising the income of those most vulnerable to low pay. Finally, in terms of the principle of providing work incentives, significant increases in the minimum wage have occurred alongside significant and steady increases in labour force participation. A lift in the minimum wage to $17.66 would increase the incentive to work. This is discussed in detail in Section 10.

Comparison against international benchmarks

14.6. The review also asks that an increase in the minimum wage be considered in "comparison against international/OECD benchmarks".

14.7. The most important benchmark for New Zealand in this context is Australia, given the flow of workers between the two countries. The details are discussed in detail in section 3 above. New Zealand's minimum wage is considerably behind Australia's set of minimum wage levels. With record numbers of New Zealanders leaving for Australia in pursuit of higher wages, it is time for a significant step to be taken and a lift in the minimum wage to $17.66 would provide such an important signal.

Comparison against other benchmarks.

14.8. The review further asks that an increase in the minimum wage be considered in "comparison of the level of the minimum wage, and any proposals to change that level, against other benchmarks (benefit rates, the minimum rate of wage averaged across collective agreements, the producers price index, median wages, and average wages)". This is discussed in Sections 3-5 and 10-12.

Social and economic impacts on those most like to be low paid

14.9. The review also asks for a "consideration of forecasted social and economic impacts relevant to changing the level of the minimum wage including the positive and negative impacts on those most likely to be low paid[110], the net effects after corresponding withdrawal of social assistance and impacts on the gender pay gap".

14.10. Many of the lower paid will receive Working for Families income supplements and others may qualify for the Independent Earner Rebate. We do not however regard either as a substitute for decent pay. This is very welcome assistance, however it does operate as a subsidy for employers paying low wages and it is targeted at the needs of families rather than the value contributed to enterprises by individual work. The minimum wage provides both a safety net for workers who may previously have benefited from collectively bargained rates and for society as the accepted minima below which society would rather not have the job. Improving the minimum

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

wage also improves incentives for firm investment in skills and capital, rather than focusing on more workers. In this respect low wages can, alongside other economic factors pose a barrier to growth. Women are over-represented amongst the lowest paid and so can disproportionately benefit from improvements to the minimum wage. As such, improving the relativity of the minimum wage to the average wage will contribute to reducing the gender pay gap. Consideration has also been given to any perceived impact on education enrolments. See particularly Sections 3-5 and 10-12 above for more detail.

Labour market and other economic impacts

14.11. The review also asks for a "consideration of the forecast labour market/economic conditions and impacts (together with a range of possible economic conditions) relevant to changing the minimum wage[111]".

14.12. Unemployment has fallen marginally from its peak of 7.0 percent in December 2009, but the Reserve Bank forecasts that it will still be at 5.2 percent in March 2013[112]. Despite this, skill and labour shortages are still present in some sectors and increases to wages are necessary to ensure that does not become a problem as activity in the economy grows. Equally if high levels of labour market participation are to be maintained, particularly in the face of significant cost increases such as childcare following government cuts, steady growth in the minimum wage is required.

14.13. In recessionary conditions where lack of demand is an important factor, such as the present one, it is important to maintain aggregate demand, and wage increases are a part of that picture. An increase in the minimum wage will provide part of that demand. Equally, the message that a small or nil increase in minimum wages sends for other wage setting may have a significant stifling effect on other pay increases and thus demand at a time when the economy is still fragile.

14.14. The evidence of direct macro-level costs from an increase in the minimum wage in terms of unemployment is that they are zero to very small. Demand growth from the increase may more than negate any employment loss. At the same time there are important positive spin-offs for the economy from incentivising investment in skill development and new technology. It is of course recognised that an increase to $17.66 an hour is a significant increase and that employers will strongly object. But in fact a pay jolt is exactly what this country needs to encourage productivity and a change of focus from low cost labour to investment as the economy comes out of recession. We have discussed above the environment in which this will succeed.

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

[112] Reserve Bank of New Zealand, September 2011, Monetary Policy Statement.

14.15. While the current economic circumstances affect the cost of capital for firms and the trading conditions they face, it also impacts on workers. At the same time the minimum wage is not just economically relevant in the short-run. It is about the longer-term wage track for New Zealand as we promote high skill, high value production of goods and services.

14.16. For a more comprehensive consideration see Sections 4-6 and Appendix 1.

Non-compliance

14.17. Finally the review asks that an increase in the minimum wage be considered in relation to its "potential impacts on the rate of non-compliance". We believe that non-compliance is indeed an issue in some instances.

14.18. Adjustments to the minimum wage always pose some enforcement challenges as organisations adjust to the new rate. Removing the new entrant and trainee rates as proposed by the CTU would simplify the minimum wage provisions. The CTU see no additional barriers or concerns for enforcement in its proposals.

Additional Considerations

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

14.20. It is important to ensure that no one should earn less than a socially acceptable minimum for their labour. To this end we wish to continue to have dialogue in respect of the minimum wage for those under 16 years of age.

14.21. The CTU supported the Minimum Wage and Remuneration Amendment Bill and its underlying principle that no one should earn less than a socially-acceptable minimum for their labour. It addresses a growing loophole in the coverage of the Minimum Wage Act, created by a rise in non-standard working arrangements and the propensity of non-standard employment to be precarious and low paid. According to the ILO, "The ultimate test of any minimum wage system is its acceptability and effectiveness at a given period in time and its ability to meet the different needs of all parties concerned".[113] On these grounds the CTU believes that current minimum wage protection is excluding an unacceptable number of workers and is increasingly ineffective

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

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

14.22. Finally, the CTU considers that an explicit factor in the review of the minimum wage is the reduction of the gender pay gap. Consideration of the impact on the gender pay gap of any change to the minimum wage has been insufficient in our view.

15. Conclusion

15.1. The CTU has put forward a comprehensive submission making a clear case for a significant increase in the minimum wage for the review in 2011.

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

16. Appendix 1: Research literature review

16.1. Research on the minimum wage and employment effects has been a contentious area, with several competing theories and the development of increasingly sophisticated methodologies to test effects empirically. This review firstly surveys some of the theoretical approaches and then looks at the empirical evidence, concluding with some of the most recent findings.

16.2. Our analysis of this review suggests that:

a) The question is essentially an empirical one which must take into account the context of specific local and national labour markets; and

b) Employment effects, when correctly measured by taking the full context into account, are zero or minimally positive or negative. Studies that fail to control properly for local and sectoral differences may spuriously detect negative employment effects.

However the purpose of this appendix is to set out more fully a range of perspectives and a survey of research and evidence.

16.3. The overall effects of a minimum wage on total employment depends on a number of factors, including the elasticity of labour supply to wages and to demand for labour, the reservation wages of those who do not find work in the sector covered by the minimum wage, and the relative size of this covered sector.[114]

16.4. The main empirical difficulty is to isolate the wage effects from other exogenous influences. For example, if the demand curve for labour is itself shifting, this is an additional influence on employment which has to be separated out.

16.5. Traditional economic theory would say that an increase in the minimum wage that leads to an increase in wages which does not correspond to an increase in productivity would reduce employment.

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

16.7. The substitution effect means that firms could decide to use more capital than labour as the latter becomes more expensive and, secondly, they could substitute skilled-labour for unskilled-labour.

[114] "Minimum Wages and Youth Unemployment", Youcef Ghellab, ILO, 1998.

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

16.9. A basic market model treats wages like any price and labour like any other commodity. It ignores the social or human dimension of selling and buying labour. Apart from common market problems such as asymmetric information about the “market” and the cost of negative externalities, there are other ways in which the labour market operates not related to wages (prices) such as quality adjustments. The literature on why the labour market is different from other markets includes explanations such as quantity-constrained models, Human Capital Theory, Search Theory, Bargaining Theory, insider/outsider models, segmented labour markets, internal labour markets, efficiency wages, and monopsony employer power. Some of these are discussed below.

16.10. Efficiency Wage Theory is based on the supposition that higher real wages can, through various mechanisms, result in higher labour productivity. Wages above the average would increase incentives to work and lead to better economic performance, through lower absenteeism and better adaptation of workers. It suggests that, in the absence of any wages regulation, and if unemployment is high and supply of labour abundant, wages can fall dramatically, leading to poverty among workers. It suggests that such a decline in real wages will produce a drop in both labour productivity and the firms’ profits.

16.11. Turnover has been one of the most important focal points of efficiency wage theory. In general, low-wages are associated with high turnover, and the latter is itself associated with the loss of firm-specific skills and hence a decline in labour productivity. Alternatively, Akerlof has discussed how labour productivity may rise as a result of additional efforts made by workers if they regard their wage as a “fair wage” and also how higher wages may allow the firm to attract the most skilled workers.[115]

16.12. One study found that the lower the firm’s wage is relative to the average wage in the economy, the higher the quit rate.[116] This is relevant in a New Zealand context where Linked Employer-Employee Data released by Statistics New Zealand shows 17 percent worker turnover per quarter over the last five years in New Zealand, falling only a little during the recession.

16.13. Theories based on monopsonistic employer power are gaining support. The evidence comes from both minimum wage research (see for example Dube’s

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[115] “Gift Exchange and efficiency – Wage Theory: four views”, by George A. Akerlof, The American Economic Review, Vol. 74 – No. 2, 1984, p.81.

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

recent review of research[117]) and more general labour market studies which find evidence of the reluctance of employees to change jobs[118], conferring power on employers to unilaterally set wages. These theories have some commonality with Efficiency Wage approaches, also emphasising employer wishes to reduce the costs of turnover. Employers have the power to decide whether to pay more to reduce the costs of turnover, or pay less to save on payroll costs. Their optimal wage (and employment) level may be above that predicted from a simple market model, but employment will be less than would be socially optimal because they will not want to pay higher wages to employees who are unlikely to quit. Raising the minimum wage within a range at which profits are still being made will encourage more employees to stay and will increase recruitment.

16.14. Macro-economic aspects are integral to Keynesian wage theories. These put more emphasis on the effects of wages in generating aggregate demand and anchoring prices in the economy. They predict that raising the real minimum wage can help prevent deflation during a recession, compress the wage distribution, and change the structure of demand for goods and services, but will not have a systematic effect on employment. The employment effect is indeterminate because any increase in the minimum wage will have both direct effects which depend on the competitiveness of each industry and the elasticity of demand for its products as prices change, and indirect effects as spending patterns change and industries adjust by adopting new technology and buying the capital and intermediate goods required. In addition, there may be an increase in aggregate demand which will increase employment. The net effect cannot be determined in theoretical terms, and with great difficulty empirically[119].

16.15. Ian McDonald[120], for example, takes a Keynesian approach to minimum wage setting in the Australian economy which he says is based on "the importance for the employment of those on minimum wages of aggregate demand and the importance for aggregate demand management of the

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[117] "Minimum Wage Laws and the Labor Market: What Have We Learned Since Card and Krueger's Book Myth and Measurement?", Arindrajit Dube, 1 September 2011, http://www.newdeal20.org/2011/09/01/minimum-wage-laws-and-the-labor-market-what-have-we-learned-since-card-and-kruegers-book-myth-and-measurement-57160/.

[118] See for example "Modern Models of Monopsony in Labor Markets: A Brief Survey", by Orley C. Ashenfelter, Henry Farber, and Michael R Ransom, Working Paper 554, Princeton University Industrial Relations Section, April 2010, available at http://www.irs.princeton.edu/working_papers.php.

[119] See Hansjörg Herr, Mika Kazandziska and Silke Mahnkopf-Praprotnik, "The Theoretical Debate about Minimum Wages" Working Paper No. 6, Global Labour University Working Papers. Berlin: Global Labour University, p.24. Retrieved from http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_115075.pdf

[120] "A macroeconomic perspective on the setting of minimum wages", by Ian McDonald, University of Melbourne, in *2008 Minimum Wage Research Forum Proceedings*, Volume 1, Australian Fair Pay Commission, p.27-43.

inflation targeting based monetary policy". He considers that "in Australia at the moment the employment of people who earn minimum wages is determined primarily and substantially by the level of aggregate demand. Relative wages play a small role." He proposes an annual rate of increase in minimum wages of productivity growth plus the Reserve Bank of Australia's inflation target.

16.16. As the ILO noted as far back as 1998, the conventional view that the introduction of a minimum wage that raises the wages of a fraction of workers above what they would otherwise have received, would automatically reduce the employment prospects of that particular category of workers, is far from being a dominant view.[121]

16.17. The standard view was reinforced in the United States in a number of studies conducted in the 1970's which found that there was a significant negative link between the minimum wage and youth employment, such that a 10 per cent increase in the federal minimum wage would lead to a decline in the employment rate ranging from 1 to 3 per cent.

16.18. Brown, Gilroy and Kohen[122] estimated that from 1954 to 1979, a 10 percent increase in adult minimum wages (using US data) reduced teenage employment by between 1 per cent and 3 per cent. But subsequent analysis, which carried the data forward into the 1980s, found that the estimated elasticity weakened and by 1990 the reduction in employment was close to zero.

16.19. The evidence for nine countries presented in the OECD's Employment Outlook 1998 suggested that higher minima adversely affected teenage employment: a 10 per cent increase in the minimum wage was associated with a 1.5–3 per cent decline in teenage employment, the effects being essentially the same across countries regardless of whether they had high or low minimum wages.

16.20. But when in 1992, New Jersey increased the state minimum wage to $5.05 an hour (applicable to both the public and private sectors), David Card and Alan Krueger used this opportunity to study the comparative effects of the raise on fast-food restaurants and low-wage employment in New Jersey and Pennsylvania, where the minimum wage remained at the federal level of $4.25 an hour. Their data demonstrated that a modest increase in wages did not appear to cause any significant harm to employment. In some cases, a rise in the minimum wage even resulted in a slight increase in employment.

16.21. Card and Krueger found that after a rise in the minimum wage in New Jersey, employment actually increased by about 13 per cent relative to stores in nearby eastern Pennsylvania that continued to pay a lower rate. It

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[121] "Minimum Wages and Youth Unemployment", by Youcef Ghellab, ILO, 1998, p. 8.

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

was suggested that stores paying low wages were often plagued by high turnover and job vacancy rates and that the higher minimum wage may have ameliorated such problems and led to an increase in employment.

16.22. The studies conducted by Card and Krueger and Katz and Krueger have not gone unchallenged. David Neumark and William Wasche (1992) questioned whether the "natural experiment" approach failed to consider lagged effects of minimum wages, and also suggested it did not control for the school enrolment rate, knowing that such a variable may have an endogenous impact on teenage employment.

16.23. Other work by David Neumark finds small but significant negative effects of living wages on the employment of low-wage workers, and positive effects on the wages of workers who remain in the labour force.[123] Overall, Neumark found that passing a living wage law does tend to reduce the amount of poverty in a city, but this benefit comes at the cost of some jobs.

16.24. Alison Wellington[124] found that the disemployment effects of the minimum wage were rather insignificant, since a 10 per cent increase in the minimum wage was estimated to reduce teenage (16-20 year olds) employment by less than 1 per cent.

16.25. In the United Kingdom, the Low Pay Commission in its fourth report stated that between 1999 and 2003 the impact of the national minimum wage on employment levels - which overall had continued to increase in the UK - was negligible.[125] Indeed, employment growth had been "stronger than average" among the groups and sectors most affected by the national minimum wage.

16.26. Previously consideration had been given to the fact that employment may have risen faster in the absence of a minimum wage, but an econometric analysis for the third report concluded that "even after controlling for this and other factors, the impact of the minimum wage was broadly neutral." The report found that the only exception was among 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."

[123] "Living Wages: Protection For or Protection from Low-Wage Workers?", by David Neumark, Industrial and Labor Relations Review, October 2004, p 27-51.

[124] "Effects of the minimum wage on the employment status of youths", by Alison J. Wellington, The Journal of Human Resources, Vol. XXVI, No. 1, 1991, p27-46.

[125] "The National Minimum Wage in the United Kingdom", by Dan Finn, Institut Arbeit und Technik, Gelsenkirchen 2005, p36.

16.27. Dan Finn from the University of Portsmouth noted that the introduction of the national minimum wage also has not had the dire consequences for employment levels predicted by the Conservative Government. [126]

16.28. Mark Stewart in a study entitled "The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low Wage Workers"[127] found that the evidence suggests zero, or if anything small positive employment effects for adult men, young men and young women.

16.29. Youcef Ghellab of the ILO has concluded that there is no consensus among economists, at least in three countries, namely Netherlands, the United States and the United Kingdom as regards the minimum wage effects employment. The studies concluding that the minimum wage has caused job-losses have been challenged by other studies suggesting that: (a) the minimum wage had no negative impact on youth employment (Netherlands); (b) there is no evidence that the activities of the minimum wage councils acted as a restraint on employment in Britain in the 1980s (United Kingdom); (c) the federal minimum wage increase, at least following its 1990 and 1991 uprating, did not lead to employment contraction (United States).

16.30. Ghellab states:

> *"All in all, it seems fair to conclude that the existing evidence supports both positions in the debate. Whether a minimum wage has a negative or a positive effect depends on many factors such as, its relative level, the structure of the labour market and the country concerned".* [128]

16.31. Alan Manning has also 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".* [129]

16.32. Following on from Card and Krueger's work, there have been significant developments in the methodology of minimum wage research which are reviewed below. However, Ghellab's and Manning's point remains. New Zealand can learn a lot from overseas studies, but while there will be some factors which will be relatively common to labour markets across many different countries, there will be vital country-specific elements.

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[126] Ibid, p48.

[127] "The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low Wage Workers", Mark Stewart, 2002, Warwick Economic Research Papers, no. 630, University of Warwick, U.K., available at http://wrap.warwick.ac.uk/1560/1/WRAP_Stewart_twerp630.pdf.

[128] "Minimum Wages and Youth Unemployment", by Youcef Ghellab, ILO, 1998, p.58.

[129] "Monopsony in Motion: Imperfect Competition in Labour Markets", by Alan Manning, Princeton University Press, 2003, p19.

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

16.34. A study by Tim Maloney of the period 1985 to 1993 showed that a 10 percent increase in the adult minimum wage produced a decline of 3.8 percent in the employment of young adults.[130] This was broadly consistent with evidence from the United States. Maloney found that employers started to reduce the employment of young adults and then started hiring teenagers not then covered by a minimum wage: a substitution effect.

16.35. Simon Chapple found some evidence that was consistent with Maloney's estimates, but his overall assessment was that increases in the real minimum wage showed minimal impact on employment rates. Chapple suggests that "conclusions regarding significant negative employment effects from real minimum wages increases are strikingly non-robust".[131]

16.36. Gail Pacheco and Tim Maloney compared the employment trends of two groups, females with no school or post-school qualifications, and females with school and post-school qualifications.[132] The study tested the hypothesis of disemployment effects associated with changes in the real minimum wage between 1985 and 2000. The only significant finding appeared to be that, on average, a 1 per cent rise in the adult minimum wage caused a 14 per cent fall, two quarters later, in the employment ratio of females with no qualifications. However, most importantly, the long run employment impact of the minimum wage on this particular labour market group was found to be effectively zero.

16.37. Dean Hyslop and Steve Stillman found that a 69 per cent increase in the minimum wage for 18 and 19-year-olds in 2001 and a 41 per cent increase in the minimum wage for 16 and 17-year-olds over a two year period had no adverse effects on youth employment or hours worked.[133] In fact hours of work increased for 16-17 year olds relative to other age groups. This is a strong contrast to the studies quoted overseas and the Maloney study in New Zealand which have argued that a 10 percent increase in the minimum wage would result in up to a 3 per cent increase in unemployment.

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

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

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

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

16.38. The most recent study in New Zealand is also by Hyslop and Stillman[134]. It considered the effects of the very sharp increase in minimum wage that occurred in April 2008 for 16 and 17 year olds. There was no increase in the rate of 16-17 year old unemployment as a result.

16.39. It shows an increase in the employment rate among 16-17 year old non-students of 3 percentage points. While it concludes that the change lowered employment for the age group overall by 3-6 percentage points in the two years following the change, with no significant effect in the first year, the loss of employment was largely borne by 16-17 year old students, to some extent to the benefit of 18-19 year old students. However the loss of employment was more than offset by an increase in those studying without working, resulting in no change in unemployment. Indeed, there was a reduction in the rate of inactivity among 16-17 year olds (those not in employment, education or training). The changes appear to have encouraged more 16-17 year olds to continue in education, a positive long term outcome for that age group.

16.40. Given the very large increase in the 16-17 year old minimum wage – 28 percent in real terms, and affecting most 16-17 year olds in work (60-70 percent were below the adult minimum in 2007), these findings are remarkable.

16.41. Internationally, the position that an increase in the minimum wage has no significant effect on employment is finding increasing recent evidence.

16.42. An international review of minimum wage studies of the impact of minimum wages on the youth labour market organised by the U.K. Low Pay Commission, was published in March 2011[135]. It covered 12 countries and concluded that "The size of employment effects from the introduction of or increases in minimum wages for young people in general are extremely small and on the margins of statistical significance in the great majority of studies surveyed". While "the impact of minimum wages upon the youth labour market is more likely to be negative where there is no separate subminimum (minima) for younger workers as for example in Spain", it also concluded that "the method by which the minimum wage is set is relevant, with systems which set rates by collective bargaining less likely to experience negative employment effects."

16.43. On New Zealand it concluded that "the literature indicates the following conclusions. First, there were no or very small effects of the minimum wage on employment for the 20-24 age group. There were varied findings on the impact of rises in the minimum wage on employment for younger age

[134] "The Impact of the 2008 Youth Minimum Wage Reform", by Dean Hyslop, and Steven Stillman, 2011., Wellington, New Zealand: Department of Labour. Available at: http://www.dol.govt.nz/publications/research/impact-2008-youth-minimum-wage-reform/exec-summary.asp.

[135] "The impact of Minimum Wages on the Youth Labour Market, an International Literature Review for the Low Pay Commission", by Richard Croucher and Geoff White, March 2011.

groups, with estimates ranging from 'non-robust', to zero or fairly weak negative effects (Chapple, Hyslop and Stillman). The employment elasticity for 16-17 year-olds in 2003 in Hyslop and Stillman (2007) was -0.1 to -0.2: this is consistent with other literature."

16.44. A substantial US meta-analysis was published by Hristos Doucouliagos and T.D. Stanley in 2009[136]. One of its motivations was to test criticisms of Card and Krueger. It re-analysed 64 US minimum-wage studies including 39 relating to teenagers. These studies included 1,474 empirical estimates of the minimum-wage elasticity of employment. They found not only bias in selection of published studies towards ones which show an adverse effect for employment, but that once such effects were corrected for, there was a small positive effect between an increase in the minimum wage and employment. Even without correcting for selection effects, adverse effects were so minimal (a doubling of the minimum wage would lead to only a 1 percent decrease in teenage employment) that they had no policy implications.

16.45. They specifically rebutted Neumark and Wascher. In explanation of the positive effect, they conjectured that it could be explained by monopsonistic or oligopolistic competition, efficiency wage theory, or other non-neoclassical theories of labour. They also found evidence that there is a structural effect of firms adapting to real increases in the minimum wage over time.

16.46. There have been several substantial studies further developing the methodology of Card and Krueger. They have covered a number of issues including teenage employment, long-run effects and business cycle effects.

16.47. Economist Arindrajit Dube, along with colleagues William Lester, Sylvia Allegretto and Michael Reich, have conducted several studies taking advantage of the fact that many states in the US have their own minimum wages at a level above the federal minimum. By comparing firms operating in counties on either sides of borders of states with different minimum wages, they have being able to isolate employment effects of minimum wage increases and consistently find no significant effect on employment.

16.48. In one, Dube, Lester and Reich[137] compared contiguous counties across state borders, over 64 different border segments with minimum wage differences over a 17-year period (1990-2006). Employment effects were positive rather than negative but not statistically significant, over the short or long run. Given the long period it covered, it spanned several recessions, and subsequent analysis by one of the co-authors finds that "the overall

[136] "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis", by Hristos Doucouliagos and T.D. Stanley, British Journal of Industrial Relations, 47:2, June 2009, pp. 406-428.

[137] "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties", by Arindrajit Dube, T. William Lester, and Michael Reich, The Review of Economics and Statistics, November 2010, 92(4): 945–964.

results hold when only recession periods are considered"[138]. The impact of business cycles is discussed further below.

16.49. In September 2011, Dube summarised the state of minimum wage research[139], contrasting the Neumark and Wascher 'state panel' approach with that of Card and Krueger, and Dube and colleagues' own approach. The state panel approach "uses only differences in minimum wages across states to form inference... [which] effectively compares all states to all states, while accounting for possible differences by including statistical controls". Neumark and Wascher have tended to find negative effects while the contrasting approach has in general found no or positive effects.

16.50. Dube views the critical difference as being that the Neumark and Wascher approach "assumes that we can find enough control variables to include in our regression that will make Texas look like Massachusetts. As it turns out, this is a heroic assumption that badly biases the results."

16.51. Dube continues: "in other words, there is a very strong regional component to the minimum wage variation. This can lead to very misleading inference if we compare teen employment growth in, say, Texas and Massachusetts. Given factors such as climate, proximity to Mexico, and others that are usually not fully accounted for in state panel approaches, we might expect very different trends in employment in those states quite apart from minimum wages. Similarly, the growth rate in low-wage jobs has been quite different in states like Texas, North Dakota, and Indiana even thought these states have had the same binding minimum wage (i.e., the federal) over the past two decades. Unless one controls for the 'unobserved' (or more accurately 'not directly observed') sources of heterogeneity in the growth prospects across areas, conclusions may be badly flawed."

16.52. It appears then that the closer a study can control dynamically for the specific characteristics of different labour markets that occur within the country, usually defined by locality (such as state or county in the US), and in some cases additionally an employment subsector, the less likely it is to find negative employment effects. This includes differences such as in business cycles, seasonality, and wage, age and sectoral patterns. It may not be enough to control by using fixed effects models (where the differences between localities are assumed to be the same throughout the period of study). Or put the other way, studies that fail to control properly for these local differences may spuriously detect negative employment effects.

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[138] "An Increased Minimum Wage Is Good Policy Even During Hard Times", by T. William Lester, David Madland,and Nick Bunker, 7 June, 2011, available at http://www.americanprogressaction.org/issues/2011/06/higher_minimum_wage.html.

[139] "Minimum Wage Laws and the Labor Market: What Have We Learned Since Card and Krueger's Book Myth and Measurement?", Arindrajit Dube, 1 September 2011, http://www.newdeal20.org/2011/09/01/minimum-wage-laws-and-the-labor-market-what-have-we-learned-since-card-and-kruegers-book-myth-and-measurement-57160/.

16.53. John Addison, McKinley Blackburn, and Chad Cotti have made similar findings to Dube and his colleagues, covering the US retail trade sector[140], the effect of the current recession[141], and a re-examination of the restaurant-and-bar sector[142]. The first of these studies found employment effects were eliminated by controlling quite coarsely for locality using just the nine Census division in the US.

16.54. The second study was particularly interested in the significant rise in the US Federal minimum wage. It increased by 41 percent in three US$0.70 steps from July 2007 to July 2009 to reach US$7.25. No loss in employment was found. In it, Addison et al argue that while there is a concern that in periods of economic downturn any disemployment effects of the minimum wage would be considerably larger than those typically reported in periods of economic buoyancy, this is misplaced as minimum-wage workers are apparently concentrated in sectors of the economy for which the labour demand response to statutory wage hikes is minimal.

16.55. As an example they give a study of the US federal minimum wage increases between July 2007 and July 2009 by William Even and David Macpherson[143]. They estimated elasticities for 16-19 year olds in the range -0.19 to -0.32, and at the higher levels of each range with the inclusion of lagged effects. “Superficially at least, there was therefore some suggestion of an uptick in implied disemployment effects”, according to Addison et al. However they found that these results did not hold up after they controlled for trends more precisely and weighted estimates appropriately.

16.56. James Holmes, Patricia Hutton and Jeffrey Burnette[144] found that there are "substantial, significant negative employment effects in contractions and insignificant positive effects in expansions that apparently cancel out when the data are pooled. The statistical results support the hypothesis of changing regimes and suggest that minimum wage policy should depend upon the phase of the business cycle". Addison et al however point to the

[140] “Do Minimum Wages Raise Employment? Evidence from the U.S. Retail-Trade Sector”, John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2009. Labour Economics, vol. 16(4), pages 397-408, August.

[141] “Minimum Wage Increases in a Soft U.S. Economy”, John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2011, Institute for Advanced Studies. Available at: http://ideas.repec.org/p/ihs/ihsesp/273.html.

[142] “The Effect of Minimum Wages on Labor Market Outcomes: County-Level Estimates from the Restaurant-and-Bar Sector”, John T. Addison, McKinley L. Blackburn, and Chad D. Cotti, 2011, Rimini Centre for Economic Analysis. Available at: http://ideas.repec.org/p/rim/rimwps/02-08.html.

[143] “The Teen Employment Crisis: The Effects of the 2007-2009 Federal Minimum Wage Increases on Teen Employment”, by William Even and David Macpherson, July 2010, Employment Policies Institute.

[144] “The Minimum Wage, Teenage Employment and the Business Cycle”, by James Holmes, Patricia Hutton and Jeffrey Burnette, 2009, unpublished paper, State University of New York at Buffalo, available at http://www.economics.buffalo.edu/contrib/people/faculty/documents/41109minwage.pdf.

wider ranging study by Allegretto, Dube and Reich[145] which looked at the effects on teenage employment, again finding no employment effect, and that the finding held over recession periods. It tests for the role of the cycle over the period 1990-2009 using both cross section and time series variation in the unemployment rate. It does not find evidence that employment effects vary in different parts of the business cycle. Neither interaction terms of minimum wages with unemployment rates nor the joint effect of the minimum wage and the unemployment rate prove statistically significant.

16.57. The way in which firms adjust to increases in the minimum wage has also been investigated. In 2011 Tetyana Zelenska completed a study of the 2007-9 increases in the US federal minimum wage[146]. It tracked store-level payroll records for individual employees in quick-service restaurant chains in Georgia and Alabama. The impact of the increases in the minimum wage varied significantly across restaurants, but the analysis found no negative effect on employment and hours. The author went on to interview managers and employees as to the “channels of adjustment” used to address the increased cost.

16.58. Twenty-three different cost-saving measures were identified. While some were simply speed-up and some also indicated pay rises may be more limited, most were forms of productivity improvement either directly or through improved management including building employee skills and involvement. Contrary to some predictions, very few managers said they would reduce training, reduce the number of people on the payroll or hire more teenage workers. The payroll records showed a lower worker attrition rate over the 2007-2009 period. Employees strongly supported the wage rises (91 percent in favour) while showing clear evidence of understanding the mechanisms that would be used to offset the higher costs.

16.59. Managers reduced profit margins and increased prices, though this was limited by competition. Wage compression and lower turnover rates also reduced costs. Despite mandates from owners to keep labour costs below a fixed percentage of sales value, managers found other ways to cope rather than reduce hours or lay employees off. In other words, the wage pressures induced productivity gains that would otherwise not have been sought.

16.60. Colm McLaughlin[147] compares Denmark to New Zealand and argues that raising the minimum wage will “shock” firms into raising productivity if there

[145] “Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data”, by A. Allegretto,A. Dube and M. Reich, Industrial Relations, Vol. 50, No. 2 (April 2011). Also available at http://www.escholarship.org/uc/item/7jq2q3j8.

[146] “Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase”, by Tetyana Zelenska, 2011, Economics Dissertations, Georgia State University, Paper 70, http://digitalarchive.gsu.edu/econ_diss/70.

[147] “The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark and New Zealand”, Colm McLaughlin, British Journal of Industrial Relations,47:2 June 2009, pp. 327–348.

are strong incentives and pressures for them to do so. Using the Danish experience, he suggests a coordinated approach incorporating employers, government supported institutions including funding for training, and an active union movement with legislatively supported industry bargaining mechanisms. These should work together to support investment in skills and training which are an essential contributor to enhancing productivity. He concludes that "the coordination mechanisms between employers and unions at various levels of the economy play a pivotal role in ensuring that the funding is used effectively through an ongoing process of developing, implementing and reviewing training programmes".

16.61. A study of minimum wage changes using tests for structural breaks in the data to identify the effects on employment of teenagers in Australia found that "the introduction of minimum wage legislation in Australia in 1997 and subsequent minimum wage increases appear not to have had any significant negative employment effects for teenagers"[148].

16.62. Finally, Daniel Oesch[149] compared 21 OECD countries (including New Zealand) using pooled regressions over the period 1991-2006 in order to evaluate four explanations for unemployment disproportionately affecting low-skilled workers: wage-setting institutions, employment regulation, globalization and monetary policy. Oesch concluded: "We find no support for the argument that low-skilled workers' employment prospects are hindered by legal minimum wages or strict employment protection, nor that wage inequality improves low-skilled employment. By contrast, investment in active labour market policies pays off and low real interest rates are associated with significantly less low-skilled unemployment. Hence, low-skilled workers' job prospects seem enhanced by a combination of active labour market programmes with monetary policy that fully exploits the economy's growth potential."

[148] "Minimum Wages and Employment: Reconsidering the Use of a Time Series Approach as an Evaluation Tool", by W.-S. Lee and S. Suardi, 2011. *British Journal of Industrial Relations*, 49, p.s376–s401.

[149] "What explains high unemployment among low-skilled workers? Evidence from 21 OECD countries", by Daniel Oesch, *European Journal of Industrial Relations*, 16(1), 39-55, 2010.

17. Appendix 2: Responses to Questionnaire

In this and the following sections we respond directly to the questions in the consultation documents. However, the sections in the body of the submission answer these questions in considerably more detail.

1. Which Industry/groups do we represent?

The CTU represents a wide range of workers number and not all unions have members affected by minimum wage increases. Unions affected by minimum wage level increases are mainly in low paid industry sectors: retail, cleaning and catering, service sectors, recycling, manufacturing, the aged care sectors and some parts of the education sector.

2. Of the people we represent, what proportion are directly affected by the minimum wage?

Union members who are affected by the minimum wage increases are women, casual workers, younger workers, part time workers, Māori and Pacific women workers and workers in employment sectors where there is a concentration of low paid workers.

The aged care and school support sectors both have high numbers of women working part time work and starting wage rates are usually just above the minimum wage rate. Both workforces are predominantly female with high rates of part time staff and many of the workers are on fixed term agreements or on casual contracts.

UNITE reports that fast food chains all start their pay scales on the minimum wage rate and almost all young workers are on minimum rates. Cinema workers are all on minimum wage rate documents.

Around 5-10 percent of school support staff workers are on rates marginally above the minimum wage. Approximately one percent of members of the Engineering, Printing and Manufacturing Union (EPMU) are directly affected by minimum wage increases in workplaces where workers are deemed “unskilled” though this definition is challenged by unions who see these workers as not being unskilled but as having skills that are not recognised.

A review of collective agreements by the Industrial Relations Centre at Victoria University at June 2010 when the minimum wage was $12.75 an hour/$510 a week found 11 percent of agreements had rates at or below $510 per week. A further 6 percent had rates between $510 and $520 inclusive. For agreements with a start date at or after June 2010, the percentages are 11 percent (36) that had adult minimum rates at or below the statutory minimum wage as of June 2010 and a further 6 percent with rates between $520 and $530.

3. What impacts have we observed as a result of changes to the minimum wage?

The reality for low wage workers is that last year's rise in the minimum wage rate fell behind relativity with average wage growth (2.6 percent) and with inflation.

The wages of workers employed in contracted out work are directly affected by Government funding allocations. In the aged care sector, workers have been receiving wage increases that are lower than the annual minimum wage increase (2 percent) resulting in more workers in that sector on wages at or close to the minimum wage level.

This question is discussed in detail in sections 3-6 and 10-12 above.

4. What are the gains or positive impacts likely to be from a moderate increase in the minimum wage rates for the people we represent?

Increases to minimum wages are necessary to ensure an adequate 'floor' is maintained for low paid workers. This not only ensures an adequate earned income from workers' labour but ensures that poor business practices are not supported.

However, if by "moderate" is meant another increase similar to those of the last three years, we believe this is inadequate. We submit that a "moderate" increase is not what New Zealand requires in current circumstances. It is time for a substantial increase. An immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2012 we estimate this to be $17.66[150]) would set a clear base. However a possible alternative, as an interim step on the way to this level, is to increase the minimum wage to $15.00 from 1 April 2012 and move to the 66 percent benchmark in April 2013.

A significant lift to the minimum wage is important to improve the wage relativity with Australia in particular and to improve incentives for business investment. This is also good for workers. Enhanced opportunity for skill development, the potential for more satisfying work, reduced pressure to work long hours and improved work life balance all contribute to higher productivity and improved quality of life. The price of labour relative to capital in New Zealand is low and this is not due to slow growth in the economy or lack of labour market flexibility.

There are also costs to workers who would be affected should the minimum wage increase be small or remain unchanged. They cannot afford further years of falling real incomes, and would continue to lose relativity with current wages.

[150] We are proposing that the minimum wage for 2011 is based on 66.0 percent of the average ordinary time hourly rate at 31 March 2012. The average ordinary time wage as at June 2011 in the Quarterly Employment Survey was $26.21 an hour and we allow for a 2.1 percent increase (Treasury CPI forecast) to take it to the end of March 2012.

Increases to the minimum wage are critical in being able to make an upward movement in the very low starting rates for support staff and support workers in special education, in aged care and in numerous other occupations noted above.

This question is discussed in detail in sections 3-7 and 10-12 above.

5. What are the costs or negative impacts likely to be from a moderate increase in the minimum wage rates for the people we represent?

The most significant negative impact that is often quoted is in respect of employment. We do not believe this is a significant concern and have addressed the issue in detail in Section 7.

6. In April 2008 the youth minimum wage ceased to apply and the new entrants minimum wage came into effect. What impacts have we observed as a result of this change?

The CTU advocates for the complete removal of any minimum wage discrimination on the basis of age. As a matter of principle, the lowest socially acceptable level of remuneration for an hour's work should not change on the basis of an arbitrary characteristic such as age.

The new entrant rate has had no measurable impact on unemployment for young people. We discuss this in detail in Section 7. Employers are making little use of the new entrant rate. We submit it should be abolished. This is discussed in Section 8.

7. How do we see the minimum wage working with other employment and income-related government interventions? (For example the tax system and social assistance)

While income assistance is welcome and necessary, it cannot be a substitute for decent pay. In fact the worst scenario, in terms of both workers skill development and personal esteem and the broader development of the workforce in general, is if income support acts as a subsidy for employers paying low wages. As such it must be targeted at the needs of families rather than the value contributed to enterprises by individual work. The minimum wage provides both a safety net for workers who may previously have benefited from collectively bargained rates and for society as the accepted minimum below which society would rather not have the job. Improving the minimum wage also improves incentives for firm investment in skills and capital, rather than focusing on wages as a cost.

See sections 3-6 and 9-12 above

8. What sector or industry-specific issues related to changes in the minimum wage are we aware of? In what circumstances or types of work?

Non unionised workers in low paid work are dependent on the minimum wage increase. Typically these workers are harder for unions to organise because of the presence of precarious work factors: isolated work practices, uncertainty and insecurity of hours, lack of career development, and higher health and safety risks. Extending the benefits of collective bargaining would reduce the reliance on the minimum wage for these workers.

9. Do we think there are any additional issues relating to minimum wage rates that are relevant to specific groups we represent? (e.g: Women, Māori, Pacific Island groups, people with disabilities, migrants, temporary workers, SME's or employers?)

The minimum wage is an essential mechanism in improving the pay gap for Women, Māori, Pacific Island groups, people with disabilities, migrants, and temporary workers. All are over-represented in low pay sectors of the economy.

This is discussed in detail in Sections 10-12.

10. In the workplaces of the people we represent, how long do people tend to remain on the minimum wage? What factors affect the length of time someone is paid the minimum wage?

Some workers remain on wages at or near the minimum wage continuously. Unions report that the rate for security guards is $13.50 an hour. In the cleaning sector in some firms both the start rate and the finishing rate is the minimum wage.

There is no guarantee that workers on wages slightly above the minimum wage will get an adjustment because of an increase in the minimum wage. Unions negotiate for wage rates above the minimum wage level to be raised at least proportionately. Some collective agreements have provisions for workers to stay on minimum rates for no more than six months.

11. In the workplaces of the people you represent, are the wages of people earning above the minimum wage increased as a result of minimum wage increases?

There is no guarantee that wages set even marginally above the minimum wage level will increase as a result of minimum wage increases. For many workers wage increases are completely dependent on employer discretion. Workers in small and isolated work places without union protection are particularly at risk of their wages not keeping pace with increases in minimum wage levels.

12. Do the workplaces of the people you represent make any changes to improve productivity in adjusting for the cost of a minimum wage increase? Please describe.

Minimal increases in the minimum wage level provide no incentives for productivity improvements. There will be no engagement by workers in processes and initiatives that could improve productivity and engage the workforce when wages are set at the minimum wage level. The motivation of employers in this situation is clearly about access to the cheapest possible labour.

The EMPU report that employers who are affected by the minimum wage increase tend not to make any changes to workflow as a result, and absorb costs of the increases.

Productivity issues are described in detail in Section 6.

13. Are we aware of some employees being paid below the minimum wage? What is the extent of this and why does it occur?

FIRST union reports young people getting below minimum wage levels for delivery work. This has been confirmed in the 2006 Caritas survey of children in delivery work. See Section 8

14. What would we consider an appropriate setting for the 2012 adult minimum wage? Why?

Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage (for April 2012 we estimate this to be $17.66) to set a clear base. However a possible alternative, as an interim step on the way to this level, is to increase the minimum wage to $15.00 from 1 April 2012 and move to the 66 percent benchmark in April 2013.

See the body of the submission for details.

15. Are there any other issues we would like to raise in relation to changes to minimum wage rates?

All other issues are presented in the submission.