NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission

to the

Minimum Wage Review

2015

9 October 2015

Table of Contents

1. Summary

1.1. The following is a summary of our main recommendations. Our reasons are detailed in the body of the submission.

1.2. While we welcome the opportunity to make this submission to what is described as a four-yearly "comprehensive" minimum wage review, we are not clear what difference this makes to the outcome of the review. We are raising a number of concerns about aspects of the minimum wage system. In addition we are addressing some factors that we consider should be included in any review but are missing. The CTU opposed the move to the four-yearly cycle and has sought a return to the previous system of conducting a comprehensive review of the minimum wage annually. The current system provides inadequate opportunity to consult and narrows the criteria and depth during three of the four years.

1.3. The possible outcomes of this year's review have not been described to us. Other than changes in factors considered and wider consultation, it is not clear what is at stake.

1.4. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage to set a clear base. For the minimum wage from 1 April 2016 we estimate this to be $19.46. A possible alternative would be to move to this position over three years. Using Treasury forecasts this would mean a minimum wage $16.50 as from 1 April 2016, $18.46 as from 1 April 2017, and $20.65 as from 1 April 2018.

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

1.6. An increased minimum wage level is needed as a contribution towards:

1.6.1. Addressing the needs of many low income workers

1.6.2. Compensating for rising costs

1.6.3. Narrowing the wage gap with Australia

1.6.4. Providing a safety net for many vulnerable workers

1.6.5. Encouraging employers to invest in raising productivity

1.6.6. Raising New Zealand's low general wage levels

1.6.7. Maintaining domestic demand and employment levels

1.6.8. Reducing New Zealand's high income inequality

1.6.9. Reducing poverty and especially child poverty

1.6.10. Reducing gender inequality

1.6.11. Improving the position of Māori and Pacific workers

1.6.12. Increasing labour participation rates, particularly of disadvantaged groups.

1.7. Article 7(a) of the International Covenant on Economic Social and Cultural Rights ('ICESCR') and article 23 of the Universal Declaration of Human Rights call for State Parties to recognise the right of everyone to "[f]air wages and equal remuneration for work of equal value without distinction of any kind" and a "decent living for themselves and their families." Through ratification of ICESCR, New Zealand has committed to progressive realisation of these rights. The recent changes to the minimum wage setting process are a step backwards.

1.8. New Zealand has committed to the constitution of the ILO which incorporates the Declaration of Philadelphia. article III(d) of the Declaration states that governments have a responsibility to pursue "policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection."

1.9. ILO Convention No. 131 on Minimum Wage Fixing provides a more modern and effective framework for consultation on wage fixing than ILO Convention No. 26 on Wage Fixing Machinery (which came into force more than 80 years ago). The ILO has urged New Zealand to consider ratification of this convention for several years. We believe there are few and minor obstacles to ratification and recommend that work begin to ratify it.

1.10. We note the rapid growth of the Living Wage movement since the last Minimum Wage Review. The CTU and its affiliates are strong supporters of the movement and of Living Wage Aotearoa New Zealand as a means to move towards wages that provide a decent standard of living for all New Zealand households who depend on them. We point out however that while there is an apparent coincidence in value between a Minimum Wage of two-thirds the average wage which we advocate in this submission and the $19.25 Living Wage calculated by considering the expenditure needs of a household, that is only coincidence and the two concepts are very different. The Living Wage is voluntary for employers whereas the Minimum Wage is a statutory requirement. The Living Wage is calculated by considering "the income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society."[1]

1.11. The CTU opposes the 'Starting Out' rate and advocates moving back to the position where the minimum wage applies fully to those aged 16 years and over.

---

1 See http://www.livingwagenz.org.nz/.

1.12. Changes introduced by the Minimum Wage (Starting-Out Wage) Amendment Act 2013 mean that the training rate for under-20s meets none of our criteria for support and we recommend that this rate is repealed along with other youth subminimum rates.

1.13. We recommend that MBIE 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.

1.14. 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.

1.15. The CTU seeks on-going 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. There should be an approach to the ILO to assist us to review our labour and education laws and policy in order to ratify Convention 138 and to provide a threshold for the entry of young people into work which must include the setting of minimum wage levels for young people under 16 years old.

1.16. 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. The growth of non-standard work is of increasing concern in undermining good, healthy and safe working conditions and secure and acceptable incomes. Our research on insecure work highlights a wide range of such issues[2].

1.17. The lack of resource in the Labour Inspectorate poses a significant challenge to the enforcement of the minimum wage. We recommend that the number of Labour Inspectors should be doubled to 100 and over the next three years raised to 150 Labour Inspectors (equal to the current number of Health and Safety Inspectors).

1.18. 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.

1.19. The CTU urges a review of the Minimum Wage Exemption Permits. While incomes for people who are on minimum wage exemption are in most cases

---

[2] "Under Pressure: A Detailed Report into Insecure Work in New Zealand", New Zealand Council of Trade Unions Te Kauae Kaimahi, October 2013, available at http://union.org.nz/underpressure.

supplemented by benefits, the current practice is embedding poverty and discrimination and is based on historical and outdated models of disability that prevent people with disabilities having opportunities to basic human and employment rights.

1.20. We recommend that a work programme be undertaken to consider the interaction between the minimum wage, regulation of work hours, insecurity of employment and work hours, the benefit system and the taxation (and tax credit) system.

1.21. Further understanding is also needed of the way that the minimum wage affects wages above it. We recommend that MBIE commission research to estimate the effect of rises of the minimum wage on wages both close to it and further up the scale.

1.22. We express some concerns regarding technical aspects of the review process and recommend that

1.22.1. MBIE reviews its methodology and sources to ensure that both the data being used and its analysis are reliable; and

1.22.2. the details of the model used to quantify employment effects is published, and a detailed report on its output should be published each year. As far as possible the data on which the modelling is based should also be made publically available.

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 2015 minimum wage review. The CTU is the internationally-recognised confederation of trade unions in New Zealand and represents 35 affiliated unions with a membership of 320,000 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. While we welcome the opportunity to make this submission to what is described as a four-yearly "comprehensive" minimum wage review, we are not clear what difference this makes to the outcome of the review. We are raising a number of concerns about aspects of the minimum wage system. In addition we are addressing some factors that we consider should be included in any review but are missing. These include gender aspects such as the gender pay gap, and the impact of the minimum wage on inequality

2.3. The CTU opposed the move to the four-yearly cycle and has sought a return to the previous system of conducting a comprehensive review of the minimum wage annually as the current system provides inadequate opportunity to consult and narrows the criteria and depth during three of the four years. Given the four-yearly process however, we would expect the fourth year which is described as a "comprehensive" review would have clear terms of reference which describe possible outcomes on which submissions could be made. Other than changes in factors considered and wider consultation, it is not clear what is at stake. Will the outcome of the wider consultation and additional factors make any difference to the final decision?

2.4. Despite New Zealand having higher economic growth rates than other OECD countries since the Global Financial Crisis, New Zealand workers have seen little benefit from this. There has been widespread comment at the modest increases in wages even when GDP annual growth rates were above 3 percent a year. This is a symptom of a wages system that is failing to transmit fairly the income generated by the economy to the great majority of households whose income depends on wages and salaries. Despite a slight improvement relative to Australia in real terms in the past year, the situation that New Zealand workers have low wages by the standards of developed countries is not fundamentally changed. Growth in the economy is slowing and though there is as yet no sign it is entering recession, it would be a signal failure of the wage setting system if workers come through an entire business cycle with paltry gains in their real wages.

2.5. Three actions are vital in lifting the low wage levels in New Zealand.

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

2.7. 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. The spur to productivity of higher wages themselves should not be dismissed.

2.8. Thirdly, we need to ensure that productivity is passed on to workers in their wages. The most important step to do this is to strengthen collective bargaining. We discuss this further below.

2.9. Of course these actions cannot be seen on their own. To succeed we must also ensure the development of high value, high productivity industry; education and training (including workplace training) which more actively assists workers to gain the right qualifications and skills throughout their working lives; a much more supportive social security system; and immigration policies which properly balance the need for skills and the acquisition of skills, employment and increasing wages by New Zealand residents.

2.10. 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. The minimum wage increased by 36.2 percent in real terms in the decade from 1999 to 2009, in striking contrast to the 0.4 percent increase in real terms over the ten years to 1999. Since 2009 it has increased only 6.3 percent in real terms.

2.11. It is notable that by December 2007 near the end of the period of exceptionally strong rises in the minimum wage, unemployment was at the lowest point it had ever been since measurement began in the Household Labour Force Survey. This reinforces the now strong international evidence that rises in the minimum wage have no substantial effect on employment, which we update in this submission.

2.12. The CTU strongly encourages the Government to increase the momentum on the minimum wage. While we acknowledge that the Government has increased the rate in real terms it has only been a modest increase compared to increases achieved between 2000 and 2008.

2.13. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage to set a clear base. For the minimum wage from 1 April 2016 we estimate this to be $19.46. It is calculated as follows: the average ordinary time wage as at March 2015 in the Quarterly Employment Survey was $28.77 an hour and we allow for the 2.5 percent increase in average ordinary-time hourly wages forecast by Treasury in the 2015 BEFU to take it to $29.49 by the end of March 2016. Taking 66 percent of this amounts to $19.46.

2.14. An alternative would be to move to this position over three years. Using Treasury forecast increases in the average hourly wage of 2.5 percent for the year to March 2016, 2.9 percent for the year to March 2017, and 3.1 percent in the year to March 2018, the average wage would reach $31.29 in March 2018. This would imply a target of a minimum wage of $20.65 as from 1 April 2018. Three equal percentage increases of 11.9 percent in the interim would take it to $16.50 as from 1 April 2016, $18.46 as from 1 April 2017, and $20.65 as from 1 April 2018.

2.15. Some employer groups will counter that increases impose unbearable costs on employers. But low wages have become an entrenched business model which allows businesses to avoid good management practices and their responsibility to invest in people, processes and plant to improve productivity. For many workers this comes at the cost of decent jobs from which people can support their families and live in dignity. International salary differentials frequently limit New Zealand’s ability to attract or retain its workers and the current special circumstances in Canterbury, depressed conditions in Europe and lower growth rates in Australia should not be allowed to obscure this longer-term context.

2.16. There are a number of policy factors currently suppressing wage growth, as well as these fundamental faults with the wage setting system. As the Reserve Bank has acknowledged in a succession of statements including its September 2015 Monetary Policy Statement, wage growth is being suppressed by high net immigration (p.20) and continuing high unemployment compared to either the 2000s or the exit from previous recessions. Another contribution comes from heightened pressure on beneficiaries to work, despite poor prospects of higher incomes and good quality jobs. The connection between slower wage growth and net immigration has also been acknowledged by the Minister of Finance, Bill English 29 September 2015 (Nicholas Jones, 2015).

2.17. Even in the tight labour market in Canterbury, with low unemployment, and all-time high participation rates wages have recently been rising more slowly than the rest of the country. In June 2015, annual wage growth in Canterbury construction (measured by the Labour Cost Index) was 1.9 percent compared to 2.3 percent in the rest of New Zealand. MBIE states that "Migrants are the main source of increased labour supply, with beneficiaries moving off benefits also contributing."

2.18. Given that the only direct regulatory lever on wages that the Government has given itself is the minimum wage level, it should use that generously to strongly raise the wage floor.

2.19. Some minimum wage workers receive additional support such as Working for Families and the accommodation supplement which are available to low income people. However we know from members of our affiliates that the current minimum wage is inadequate to support a family, even with those other supplements, and the calculation of the Living Wage supports that experience. Further, such support is 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, and whether we want to in effect subsidise wages, further encouraging the low wage model.

2.20. The minimum wage in New Zealand currently stands at around 77 per cent of the Australian federal minimum wage[3] and only 62 percent for casual workers, given that the Australian minimum wage has a 25 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.

2.21. 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. The public picks up the tab from poor pay and poor business practices through wage subsidies (such as Working for Families), through the greater burden on the welfare system exacerbated by low incomes with their attendant health and education problems, and through poor productivity performance in firms.

2.22. In sections 3-13 of this submission we address what we consider are the most important issues in considering the level of the minimum wage.

3. The Minimum Wage is an important safety net

3.1. One of the functions of a minimum wage is to underpin the wages system, ensuring as far as possible that vulnerable and unrepresented workers do not fall deeply into poverty because of low wages. This requires that the wage be

[3] Calculated at an exchange rate of NZ$1.00 to A$0.9055, the average in July 2015 according to the Reserve Bank of New Zealand.

at a high enough level to maintain living standards and to cover the vulnerable workforce, and that it is well enforced.

3.2. This is increasingly important for the increasing numbers of temporary, casual and low paid workers, beneficiaries under increasingly harsh work requirements enforced by partial or full loss of income, and low waged immigrant workers, particularly those who are temporary or tied to a single employer. The great majority of these people have little or no bargaining power. Minimum wage protection is also important because of the deunionisation of the workforce leaving 90 percent of the private sector unrepresented.

3.3. McLaughlin (2009) notes that low-paid workers, particularly those in small workplaces, remain dependent on employment legislation to improve their position.

3.4. However there are also substantial parts of the workforce in important parts of the economy and society where work is ongoing (though not necessarily secure), such as security, cleaning, retail and hospitality in which the majority or at least large proportions of workers are on or near to minimum wages and unionisation rates are low. Work traditionally dominated by women, such as in care of the aged and disabled, and home care, is particularly susceptible to chronically low wages. This has been demonstrated in the Kristine Bartlett equal pay case and settlements of the sleepover and “in-between travel” for home care workers.

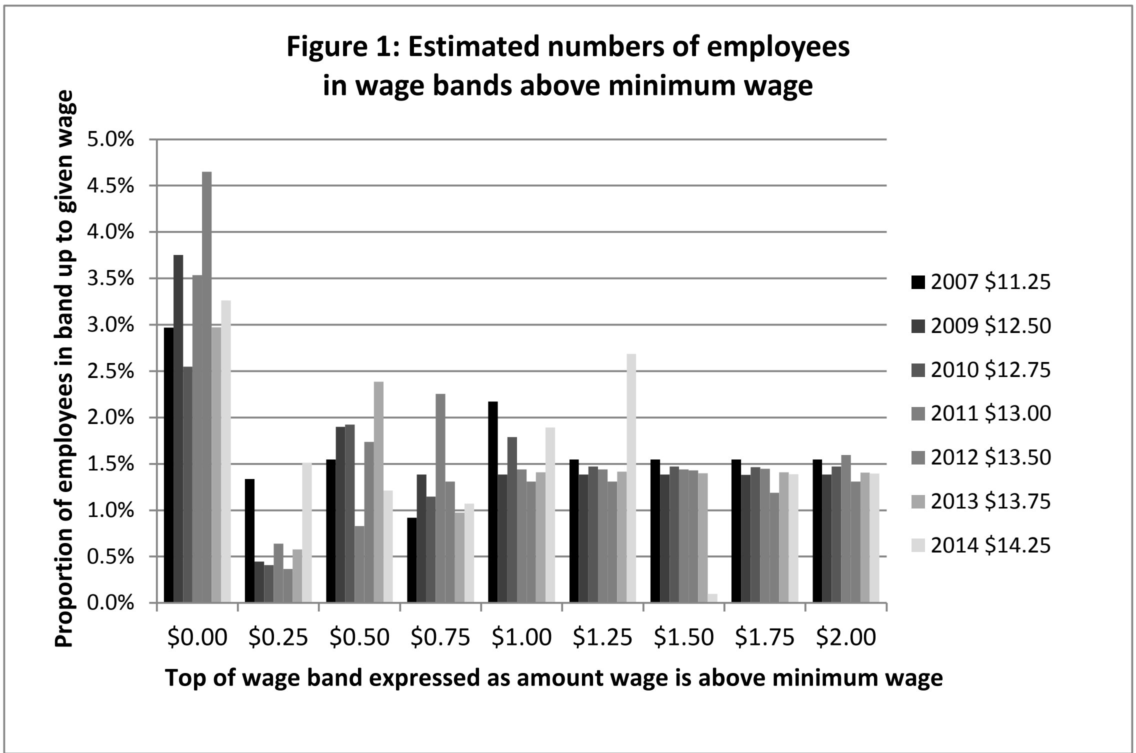
3.5. While the MBIE Regulatory Impact Statement for the 2014 Minimum Wage Review (Ministry of Business, Innovation and Employment, 2014b, p. 12) singles out Hospitality, Retail, Administrative Services, and Arts and Recreation as industries that are particularly affected because of their high proportions of minimum wage workers (20.7 per cent or 19,900 workers; 14 per cent or 28,400 workers; 13.6 per cent or 8,500 workers; and 11.8 per cent or 4,000 workers respectively) there are larger numbers in other industries reflecting the situation in the previous paragraph. Table 9 in the Ministry report for the 2014 Minimum Wage Review (Ministry of Business, Innovation and Employment, 2014a, p. 24) shows more workers affected by the rise to $14.75 in Health (12,100), Agriculture (5,100), Manufacturing 8,300), Construction (5,700), and Education (4,300).

3.6. MBIE (2014b) estimated that 115,100 workers would be directly affected by the 2014 increase of the minimum wage from $14.25 to $14.75 an hour, a rise from 109,000 affected by the previous year’s 50 cent increase. It is clear that a significant number of working people are affected by minimum wage setting. In addition to those directly affected, many of those on wages close to the minimum will have their wages adjusted as a result. MBIE estimated that 547,000 had a wage within a range approximately a third greater than the 2014 minimum wage: up to $18.80 (though see the box below).

3.7. The pattern from year to year reported by MBIE is consistent with increases in the minimum wage being reflected up through the wage range to over $4.00 above the minimum wage (the highest value provided). As the following chart suggests[4], the pattern is one of reasonably consistent proportions from year to year of workers at the minimum wage and in bands above each year's minimum wage. If the ripple was not occurring we would see increased bunching near the minimum wage. The picture does vary from year to year but there is no obvious trend or pattern and the data available from MBIE reports does not allow us to say whether the year-to-year variations are statistically significant. The picture is far from definitive however.

3.8. Other evidence is mixed as to how much "ripple effect" occurs from increases in the minimum wage. Our affiliates report that some employers use the increase in the minimum wage as a guide for other wage increases; other employers increase only those wages that strictly must be increased.

3.9. We **recommend** that MBIE commission research to estimate the effect of rises of the minimum wage on wages close to it, and further up the scale.

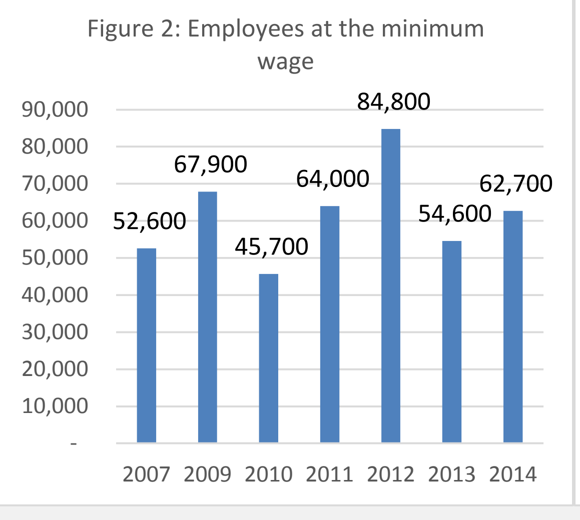


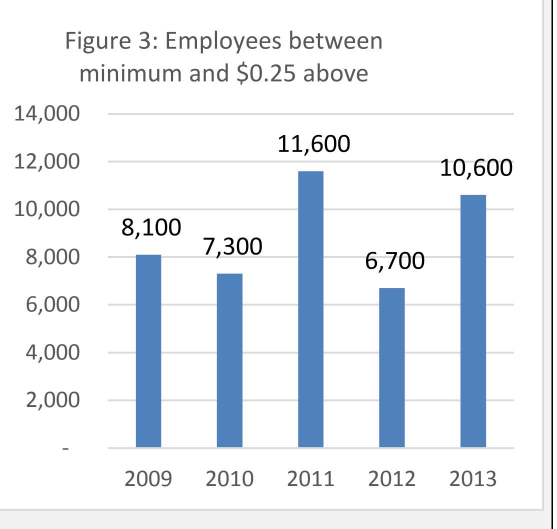
[4] Missing numbers in higher wage bands are estimated from available data. We do not suggest that this presents a definitive picture but it is suggestive.

3.10. Temporary workers particularly need the protection of a strong minimum wage. By its very nature, temporary work frequently leaves workers at a much greater than usual disadvantage when arguing for higher pay. If they are on a benefit, they may be penalised for refusing the work. However in addition there is now robust evidence that people in casual, labour hire or seasonal work have a pay disadvantage that cannot be attributed to their personal characteristics or the nature of the job or occupation.

3.11. Pacheco and Cochrane (2015) found that temporary workers suffered a statistically and economically significant pay penalty. There is an hourly wage pay penalty of 20 percent for temporary agency workers, 20 to 25 percent for casual workers and 15 percent for seasonal workers. The gap may be even larger because the researchers were unable to identify if the hourly wage included an 8 percent pay loading for annual leave. There is no significant

We suggest that MBIE carry out a validation of the data it presents, sourced from the New Zealand Income Survey. For example, the numbers reported to be on the minimum wage vary substantially from year to year without apparent trend or explanation, as do those in the 25 cent range above the minimum wage. In both cases, the highest is almost double the lowest, as shown in the following pair of charts.





Further, Treasury (Galt & Palmer, 2013, p. 7) estimated that in 2013, 45 percent of wage and salary earners earned up to $18.40 an hour. That is equivalent to approximately 825,000 workers in 2013. The Regulatory Impact Statement for the Minimum Wage Review for 2013 estimated this number to be 530,000, which is a very large difference. Similarly Treasury estimated that 56 percent of this group earned between $13.75 and $15.00, equivalent to approximately 460,000 wage earners. MBIE estimated this at 178,800, not only another very large difference but a quite different proportion of the larger group – 34 percent instead of 56 percent. We appreciate that in both cases these are survey based estimates but such large differences between two government agencies undermines the credibility of estimates which are used for important policy decisions and in public debate.

We **recommend** that MBIE reviews its methodology and sources to ensure that both the data being used and its analysis are reliable. Variations of this size raise concerns as to the validity of the conclusions being drawn.

difference in pay for fixed term temporary workers compared to their permanent counterparts. Temporary workers are therefore more likely to be on or near the minimum wage.

3.12. Temporary workers tend to miss out on a wide range of other benefits including public holidays, sick leave, bereavement leave, health and safety representative training leave, employment relations leave, jury duty, Kiwisaver employer contributions, notice periods or payment in lieu of notice. We estimate the total saving to employers on top of the wage penalty at 12 percent on top of the 8 percent annual leave loading – a total of 21 percent.

3.13. Blumenfeld (2015) also finds that temporary workers are significantly less likely to receive employer-funded training.

3.14. The casual loading in Australia of around 25 percent compensates for this and helps to level the playing field between temporary and permanent positions. A similar loading would be justified in New Zealand but a higher minimum wage at least means the penalty for temporary work is less detrimental in an absolute sense.

3.15. Minimum wage laws enable enforcement to be used to protect people under these conditions. An indication of the need is the level of non-compliance revealed by targeted audits conducted by the Labour Inspectorate.

3.16. When the Labour Inspectorate visited 44 dairy farms up and down the country between December 2013 and early April 2014 Inspectors found 31 of these were in breach of minimum employment rights.[5] A further set of inspections in dairy farming between late November 2014 and late February 2015 found essentially the same story.[6] Of 29 farms visited, 22 were in breach of minimum employment standards and 19 were in such significant breach of minimum standards as to warrant enforcement action. In all, MBIE found 71 different kinds of breaches across the 22 farms.

3.17. Similarly, 23 companies involved in the Christchurch Rebuild were audited by the Labour Inspectorate over the past six months including 18 labour hire and 5 construction companies. MBIE announced in November 2014 that 16 companies were found in breach of employment laws (12 labour hire, 4 construction).[7]

3.18. 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

---

[5] http://www.mbie.govt.nz/about/whats-happening/news/2014/dairy-farm-visits-show-majority-of-farmers-breaching-employment-laws

[6] http://www.mbie.govt.nz/about/whats-happening/news/2015/mbie-takes-enforcement-action-for-dairy-farm-employment-law-breaches

[7] http://www.mbie.govt.nz/about/whats-happening/news/2014/mbie-audits-find-christchurch-companies-in-breach-of-employment-laws

low pay. Alarmingly, some industry groups have pointed to the minimum wage as the de facto market rate for migrant workers. We welcomed the recent enactment of the Immigration Amendment Act 2015 though more must be done.

3.19. An Auckland University of Technology study has found evidence of widespread practices of illegally paying migrant student workers below the minimum wage and there is other evidence of migrants being illegally underpaid (Tan, 2013).

3.20. Case law provides further examples of extreme exploitation of migrants. James (2011) reviewed a number of recent Employment Relations Authority determinations. She notes that:

> Cases on this topic reveal some common themes. First, most of the cases considered have involved employees working long hours for low wages. For example, in *Singh v Gunveer Enterprises Ltd* [2011] NZERA Wellington 155, Mr Singh, an experienced Indian chef, was paid $50-$100 per week and was required to work both lunch and dinner shifts seven days per week. Similarly, in *Chen v Aaron & Coma Limited* [2011] NZERA Auckland 373, Mr Chen was not paid the minimum wage and was required to work 10 or 11 hours a day, seven days per week.
>
> Another common theme noted in the cases is employees who receive little or no time off and who are not paid their annual, public, or alternative holiday entitlements. In *Singh v Gunveer*, Mr Singh worked every day for nine months (except for Christmas Day). In *Kumar v Jays Kitchens and Shop Fitters PVT Ltd* [2011] NZERA Auckland 361 and *Tan v Wong* (Employment Relations Authority, Christchurch CA189A/10, 6 October 2010, Helen Doyle), the employees were not paid their annual holidays or alternative holidays, and did not receive time and a half for working on public holidays.
>
> Mistreatment, threats, and unjustified dismissal are also disturbingly common occurrences in these cases. In *Singh v Gunveer,* it was alleged that the employer had doctored Mr Singh's income records by copying Mr Singh's signature from another document. Mr Singh's employer also confiscated his passport for the entire course of his employment. When Mr Singh raised these issues with his employer, he was told there was no more work for him and that if he left or complained he would be accused of stealing from the restaurant.

3.21. The Employment Relations Authority determination in *Nguyen and Anor v Hue Kim Thi Ta t/a Little Saigon Restaurant* [2014] NZERA Christchurch 173 ('the *Little Saigon* case') provides a window into some of the worst exploitation. Vu Ho Van Nguyen worked at Little Saigon for on average 66.5 hours per week for nearly five years and the Authority could only find evidence that he was paid a total of $1,500 for that time along with board in the employer's garage and meals at the restaurant.

3.22. The *Little Saigon* case is also notable for the significant quantum of the award of wage and holiday pay arrears payable to Mr Ho Van Nyugen of $162,029.15 plus interest, payment for other lost remuneration, compensation and penalties.

3.23. Unattractive working conditions, very long hours and common breaches of the minimum code have led industries such as dairy farming to an increasing reliance on migrant labour. Tipples, Trafford and Callister (2010) note:[8]

> Dairy farming is often seen by young people as hard, dirty work with long, unsociable hours. Wilson & Tipples found the dairy farmers/dairy farm worker population worked longer hours than the New Zealand working population; 40 percent of employees, 45 percent of employers and 49 percent of those self-employed without employees worked over 60 hours per week compared to 10 percent of the total New Zealand working population working more than 60 hours per week. (Wilson & Tipples, 2008). Certainly, long working hours are an issue. Managers describe working days of 12-16 hours (Trafford, 2010)… [These hours have] implications for worker's social interactions, quality of life and health and welfare (Johnston, 2010). In addition to the long working days, rosters are typically long. They are routinely 11 days on and 3 days off or 12 on and four off (Pangborn, 2010). These factors led a Caring Dairying project brief (2010) to suggest that many large dairy farms are not farming in a socially responsible way. Their 2009 survey of large herd practice revealed poor standards of management, high staff turnover, poor staff training, poor worker understanding of the basics of farming and low animal care status.

1.1. Callister and Tipples (2010) note at 12 regarding wages that:

> 3.24. When the long hours worked by dairy workers are taken into consideration, they are very low at an average level. … [O]nly 39.4 percent of farmers record staff hours, leaving considerable scope for paying an hourly rate of pay below the minimum hourly rate of pay set for a normal 40 hour week (Minimum Wages Act 1983).

3.25. Where vulnerable workers are placed in industries with poor compliance with minimum employment entitlements, the results can be disastrous. For example, Anderson, Jamieson and Naidu (2012) looked at work experiences of 93 international students and recent graduates on job search visas working in the horticultural industry in Hawkes Bay. **All** 93 students or recent graduates surveyed, mainly from India, were being paid below the minimum wage. Just under half the workers had no formal written employment agreement. Similarly Anderson and Naidu (2010) found in another study of 74 university students working in the hospitality, service and agriculture sectors that 38 per cent were paid below the minimum wage. 75 percent of those working in the agriculture and horticulture sector reported being paid below the minimum wage.

3.26. These cases do not provide a systematic picture of the number of workers working below the minimum wage because their employers have broken the

---

[8] Tipples, R, Trafford, S and Callister, P (2010) 'The factors which have resulted in migrant workers being 'essential' workers on New Zealand dairy farms' Paper presented to Labour, Employment and Work Conference 2010, p.6

law. In its report for the 2007 Minimum Wage Review, the Department of Labour reported (p.22) that there were 86,400 or 5.3 percent of adults who then reported non-compliance with the minimum wage rate". Research into current levels of non-compliance is urgently needed.

3.27. One of the most significant gaps in the current employment standards system is the capacity of labour inspectors and other actors in the system to enforce minimum employment standards. New Zealand has low staffing levels for the Labour Inspectorate. We acknowledge that additional staff have recently been recruited but it is too little given the scale of the issue.

3.28. There are approximately 49 labour inspectors employed in New Zealand for a working population of 2,360,000[9]: a ratio of 1/47,200.

3.29. By way of comparison, Australia employs more than six hundred Fair Work Inspectors[10] for a workforce of 11,636,000.[11] The ratio of 1 Fair Work Inspector per 19,390 workers is two-and-a-half times greater than New Zealand's.

3.30. The lack of resource in the Labour Inspectorate poses a significant challenge to the enforcement of the minimum wage. We **recommend** that the number of Labour Inspectors should be doubled to 100 and over the next three years raised to 150 Labour Inspectors (equal to the current number of Health and Safety Inspectors).

3.31. While we support moves to make labour inspectors more effective and to create stronger disincentives for breaches of minimum employment standards, the increasing and unmet need for their services is a reflection of deunionisation which was a deliberate part of the policies followed beginning with the Employment Contracts Act in 1991 with only moderate improvement in the Employment Relations Act, some of which has been reversed in recent years.

3.32. Grimshaw, Bosh and Rubery (2013) conclude that the impact of the minimum wage in raising wage levels generally is weakened in an environment of low levels of unionisation and weak collective bargaining. Thus while a higher minimum wage is important, its effectiveness in reducing inequality is muted in New Zealand's unsupportive environment for effective unions and collective bargaining.

3.33. Unions offer expert advice and representation to their members, and do so in a much more timely fashion than the labour inspectorate. They have a far

---

[9] Statistics New Zealand (2015) Labour Market Statistics: June 2015 quarter

[10] Fair Work Ombudsman (2012) *Portfolio Budget Statements 2012-2013*. http://www.fairwork.gov.au/Publications/Budget/FWO-Portfolio-budget-statement-2012-2013.pdf.

[11] Australian Bureau of Statistics (2014) *December Key Figures*. Available at http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0

more direct presence, which is much more in touch with workers' immediate issues than a group of inspectors who can never hope to cover more than a small minority of workplaces.

3.34. In unionised industries, unions pick up cases that would otherwise have been referred to the labour inspectorate. Unions and workers do not have the artificially limited mandate of labour inspectors to only remedy certain statutory breaches. Unions and workers can press claims for issues such as unjustified dismissal, unjustified action causing disadvantage and discrimination.

3.35. Workers on collective agreements are much less likely to have entitlements below the statutory minima. There is a proven 'union wage' premium and union negotiators will not agree collective agreements below the legal 'floor.'

3.36. Further, unions educate their members on employment rights through meetings, training and union information.

3.37. Industries with active unions are therefore less likely to face exploitative practices.

3.38. Despite the valuable role of unions, the Government has proceeded with changes to employment law that make it more difficult for workers to speak up or unions to assist workers including:

- The introduction of 90-day "dismissal at will" trial periods in 2008 and their extension in 2010;
- The introduction of a requirement for employer consent to union workplace access in 2010. This allows employers to hide exploitation;
- The weakening of justification needed by employers to dismiss workers (also from 2010);
- The removal of the statutory right to meal and rest breaks and replacement by loosely-defined compensatory measures;
- Loss of protections for employees in industries deemed most vulnerable (cleaning and catering along with orderly and laundry services in particular industries); and
- Weakening of unions' ability to negotiate collective agreements resulting in fewer collective agreements, more legal action and less resource put into working with un-unionised sites and new workers.

3.39. If the Government is serious about the protection of employment standards including the minimum wage, it will embark upon a programme of strengthening and extending the role and ability of unions to protect basic employment standards.

3.40. As mentioned, beneficiaries are a further group of vulnerable workers who are frequently forced into low income, casual, insecure and part time employment as the 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.

3.41. Given that many 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" (Haig, 2010). 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.

3.42. The continuing high rate of unemployment does not help the outcome. This policy contributes to the high unemployment, as acknowledged by the Minister of Finance (Young, 2013), and it is now likely to rise again due to the falling rate of economic growth. 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. Welfare benefit policies that emphasise high exit rates have poorer employment outcomes for workers.

3.43. Engbom, Detragiache and Raei (2015) found that reduced time on unemployment benefits in Germany as a result of the Hartz reforms led to 10 percent lower subsequent earnings and less satisfactory employment outcomes. The Hartz reforms had many similarities to those carried out in New Zealand in the early 1990s, pursued in various ways since then, and now intensified further. Though not as draconian they included tightened conditions, reduced welfare benefit payments and made temporary employment more attractive to employers. David Card and colleagues Kluve and Weber (2010) in a meta-analysis of evaluations of active labour market policies found welfare exit rates and other short-term measures are poor predictors of the quality of employment outcomes. Judging performance on exit rates neglects the longer-term benefits of spending more time on a welfare benefit which can, through raising skills and more effective job search, improve subsequent employment outcomes.

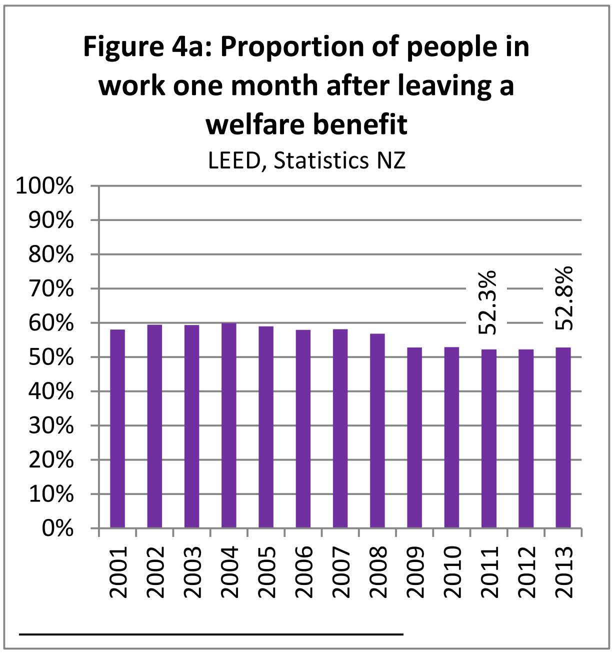
3.44. The minimum wage is one aspect of minimum conditions which comes under severe stress in these circumstances, and the importance of enforcing and improving these conditions is even greater in order to prevent such "welfare" policies becoming a licence for employers to exploit workers in this situation, 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. See Chapple (2013) and Rosenberg (2015a) for further discussion of the current policies (the "Investment Approach") on welfare beneficiaries.

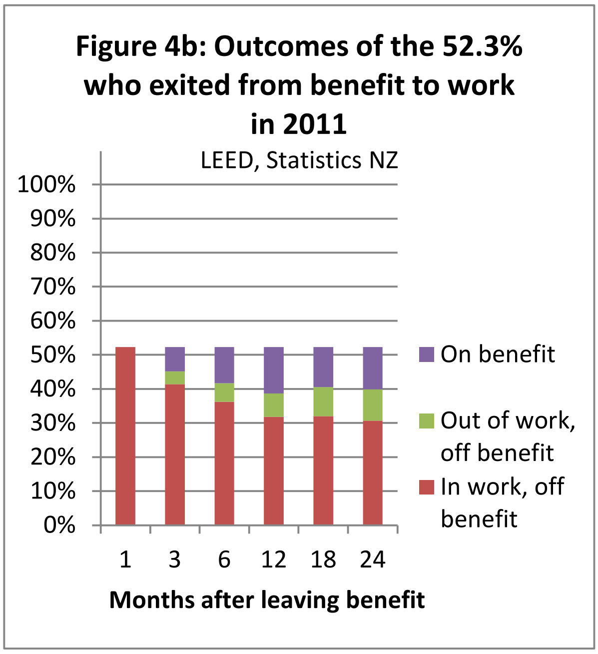
3.45. The Welfare Working Group's report, and similarly government spokespeople, contend that:

> 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. (Welfare Working Group, 2011, p. 60)

3.46. 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. Insecure, low income work with poor prospects for career development may have worse outcomes, as may jobs which don't fit family life due to for example long commutes or unsuitable hours (e.g. Brewerton, 2004, pp. 27–28; Burchell, 2011, p. 9; Johri, 2005, pp. 23–24; Marmot, 2010, p. 26; Schmitt, 2012, p. 9).

3.47. Statistics New Zealand's Linked Employer-Employee Data (LEED) show[12] that in 2013 (latest available) one month after leaving a welfare benefit only 52.8 percent were in employment, a lower proportion than any year 2001-2008 (see figure 4a). Of them 30.0 percent were no longer in work after 6 months and a third of those (10.2 percentage points) were not on a welfare benefit. Of those who left the welfare benefit for work in 2011, 41.3 percent were not in work 24 months later, and over two in five of them (17.5 percentage points) were not on a benefit (see figure 4b).





[12] See Table2 2.17 and 2.26 of the annual LEED series at http://nzdotstat.stats.govt.nz/wbos/Index.aspx

3.48. This suggests that not only are beneficiaries finding it difficult to get work, but that for many the work they find may be of poor quality that leaves them worse or little better off.

3.49. Both Ministry of Social Development (MSD) and LEED data suggest that is the case. MSD's Benefit System Performance Reports and the actuarial reports that underlie them give some data on the rate at which former beneficiaries return to a welfare benefit. For example in the report on the year to June 2014, they find that 40 percent of "Jobseeker Work-Ready" exits have returned to a welfare benefit 12 months later and this hasn't materially improved over the four years it provides data for (Raubal & Judd, 2015, p. 23). Depending on cohort of beneficiary, up to 46 percent returned to a welfare benefit within a year in 2013/14. Their 2013 report suggested the high "churn" rate could have been due to insecure work or 90-day trials (Raubal & Judd, 2014a, p. 33).

3.50. LEED[13] finds only 32.3 percent of these exiting a benefit were in work and off welfare benefit for all of their first six months in 2013. Of those who came off a welfare benefit in 2011, only 15.0 percent had been in work and off welfare benefit for all of the following two years (see figures 5a and 5b). This suggests insecure and spasmodic work, if it was found.

3.51. People coming off benefits are therefore very likely to be in a vulnerable position and need the protection of strong and well enforced minimum employment conditions.

3.52. 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. Professor Paul Dalziel's paper "Welfare and Social Sector Policy and Reform: Options and Alternatives" (Dalziel,

Figure 5a: Percentage employed and off benefit in all months 1 to 6 months

LEED, Statistics NZ

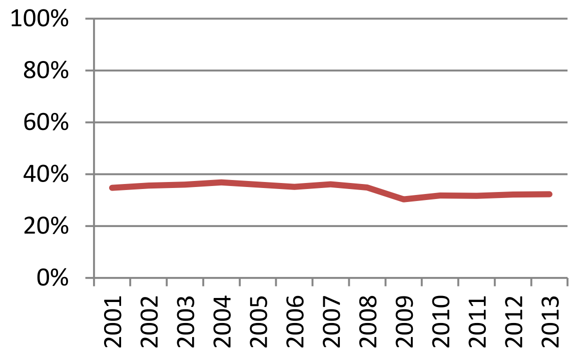
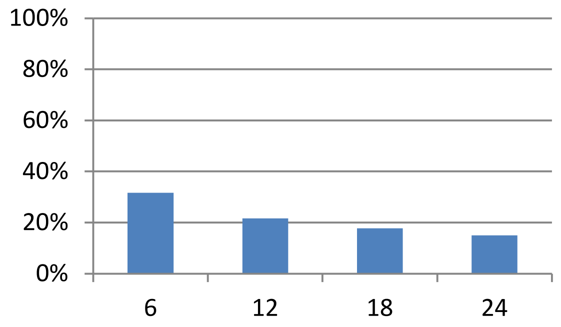


Figure 5b: Percentage employed and off benefit in all months since coming off benefit in 2011

LEED, Statistics NZ



[13] See Table 2.23 of the annual LEED series at http://nzdotstat.stats.govt.nz/wbos/Index.aspx

2011) covers many of these issues.

3.53. This view is backed up by OECD research into inequality. The report, *Divided We Stand* (Organisation for Economic Co-operation and Development, 2011, p. 41) specifically urged "inclusive" employment practices – including greater protection for temporary workers – as a means of tackling in-work poverty. It noted that countries should create "jobs that enable people to avoid and escape poverty. Recent trends towards higher rates of in-work poverty indicate that job quality has become a concern for a growing number of workers. Policy reforms that tackle inequalities in the labour market, such as those between standard and non-standard forms of employment, are needed…"

3.54. In light of these conditions, the importance of employment in current social security systems and the degree of inequality in New Zealand (see below), 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.

4. The Minimum Wage is important because New Zealand's wages are low

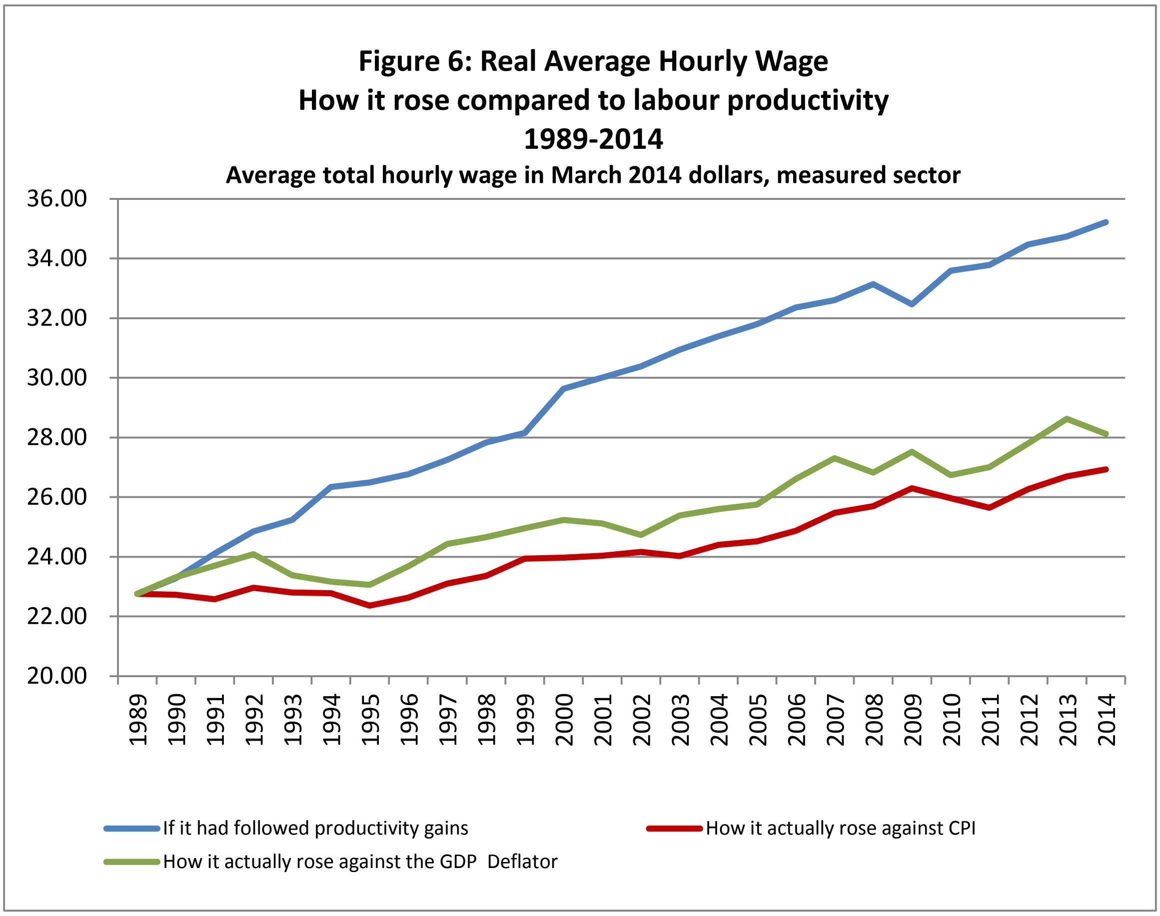
4.1. Wages in New Zealand are low – in absolute terms, relative to Australia and other OECD countries, in terms of what the economy and employers can afford, and in terms of an economic transformation in New Zealand to a high skill, high wage, and high value economy.

4.2. The minimum wage therefore also has an important function to raise the wage floor. While a better instrument for this would be a return to much more wide spread collective bargaining, which can be more sensitive to the circumstances of different industries and employers, the minimum wage is the only regulatory instrument the government has to influence wages directly, and there is justification for a general rise in wages.

4.3. This is a good time for action to raise wages: inflation is low so any inflation induced by a wage rise (which MBIE calculations show is very small in any case) is unlikely to cause problems. Growth in the economy is falling sharply and increases in wages would provide a stimulus to economy because lower income wage earners are more likely to spend their income. A significant rise is also be likely to be fiscally net positive, assuming no change in taxation or social welfare policies, as a result of greater income tax intake and falls in transfers including Working for Families tax credits, at a time when government revenue is inadequate to address the growing problems resulting from several years of reduced expenditure.

4.4. New Zealand's wages are still recovering from being at historically low levels. Connecting the current Quarterly Employment Survey total average hourly wage series with previous series shows that the average hourly wage including overtime peaked in June 2015 dollar terms in March 1982 at $25.63 and did not reach that value again until Sept 2003. The June 2015 value of $29.04 is only a 13 percent increase in 33 years.[14] Over the same time, GDP per capita has increased 58 percent and GDP per full-time equivalent worker by 49 percent.

4.5. 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 then New Zealand wages have fallen far behind this benchmark. New Zealand workers have seen little of the productivity gains reflected in their wages.



4.6. While labour productivity as measured by Statistics New Zealand increased by 54.8 percent in the measured sector (essentially the market sector of the

[14] This differs from an analysis provided in previous submissions which used data provided with the book, "The New Zealand Economy: An Introduction" by Ralph Lattimore and Shamubeel Eaqub (Auckland University Press). There is an error in their series in that it mixes hourly and weekly series. The present series splices together the QEs, the old QES (discontinued in 1999 – Infoshare series QES009AA, and the Average Hourly Earnings Index (Infoshare series ERN001AA).

economy) from 1989 to 2014, real wages[15] the average total hourly wage, which includes increases for recognition of individuals and reflects changes in labour market composition, rose in real terms only 18.3 percent (using the CPI as deflator, which shows the value to a worker and household) or 23.5 percent (using the GDP deflator, which shows the value to an employer, reflecting revenue) over that period.

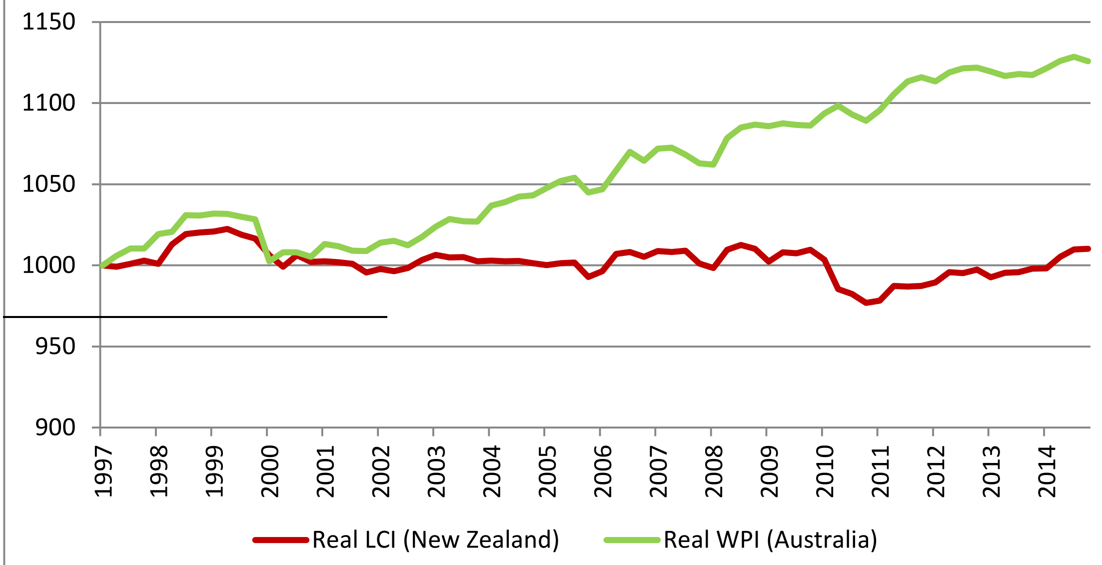
4.7. Over the approximate period of the ECA (March 1991-March 2001), labour productivity rose 24.4 percent but the average total hourly wage rose in real terms only 7.6 percent (CPI) or 6.0 percent (GDP deflator). Over the approximate period of the ERA (March 2001 to March 2014), labour productivity rose 17.4 percent but the average total hourly wage rose in real terms only 12.1 percent (CPI) or 12.0 percent (GDP deflator). The more recent employment regime saw higher wage increases compared to annual productivity growth, but productivity growth still considerably exceeded real wage growth.

4.8. Between the lowest point in the recession, 2009, and 2014, the most recent productivity statistics available from Statistics New Zealand, labour productivity has increased 8.5 percent in the market economy (the "measured sector"). Over the same time, the average wage for the same sector rose 2.4 percent in real terms (relative to CPI), and 2.2 percent relative to the GDP deflator.

4.9. The economy can afford higher wages. Wages have fallen well behind productivity growth over this period and the economy can afford a significant catch-up.

4.10. The weakness of New Zealand's wage setting system is also shown in wage and salary levels as measured by the Labour Cost Index (LCI) for wages and salaries. Between December 1992 when the series starts and June 2015, the

Figure 7: Comparison of Real Total Time Labour Cost Index in New Zealand and Australia, 1997-2015
Source: Stats NZ, Australian Bureau of Statistics

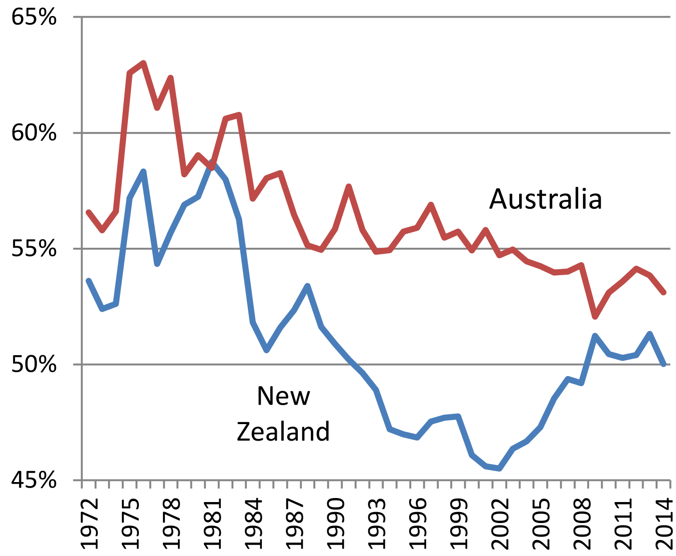


total salary and wage rates index fell by 1.1 percent against the CPI. This virtually static behaviour contrasts with Australia whose Wage Price Index (WPI), which began in September 1997 has increased 12.6 percent in that time where that LCI has increased only 1 percent. See Figure 7.

4.11. 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 (Figure 8) 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 is flattening again, at a level 15 percent less than where it was in the early 1980s. The rise since 2002 occurred at the time when minimum wages were rising rapidly and somewhat stronger employment legislation was instated. New Zealand's labour share has been lower than Australia's over the entire period. It is unlikely that this is in general due to greater capital deepening in New Zealand – apart from some brief periods 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.

Figure 8: Labour share of income in Australia and New Zealand

Source: National Accounts, Stats NZ, ABS



4.12. New Zealand Productivity Commission researchers in their recent analysis of the labour share for 11 industries in the market sector (producing about 60 percent of GDP) (Conway, Meehan, & Parham, 2015, p. 20) found that real wage growth was weaker than labour productivity growth (p.20) and that there was "weaker growth in wage rates and stronger growth in rates of return" (p.37). (Note that they were analysing a labour income share adjusted to include self-employed workers assuming they in general pay themselves the same hourly rates as employees.)

4.13. Among their conclusions was that (p.40):

> The LIS [Labour Income Share] fell over the 1990s, to a large extent due to a localised fall in the 1992 to 1995 period. Wage restraint following the earlier period of high wage growth and labour shedding and the introduction of the

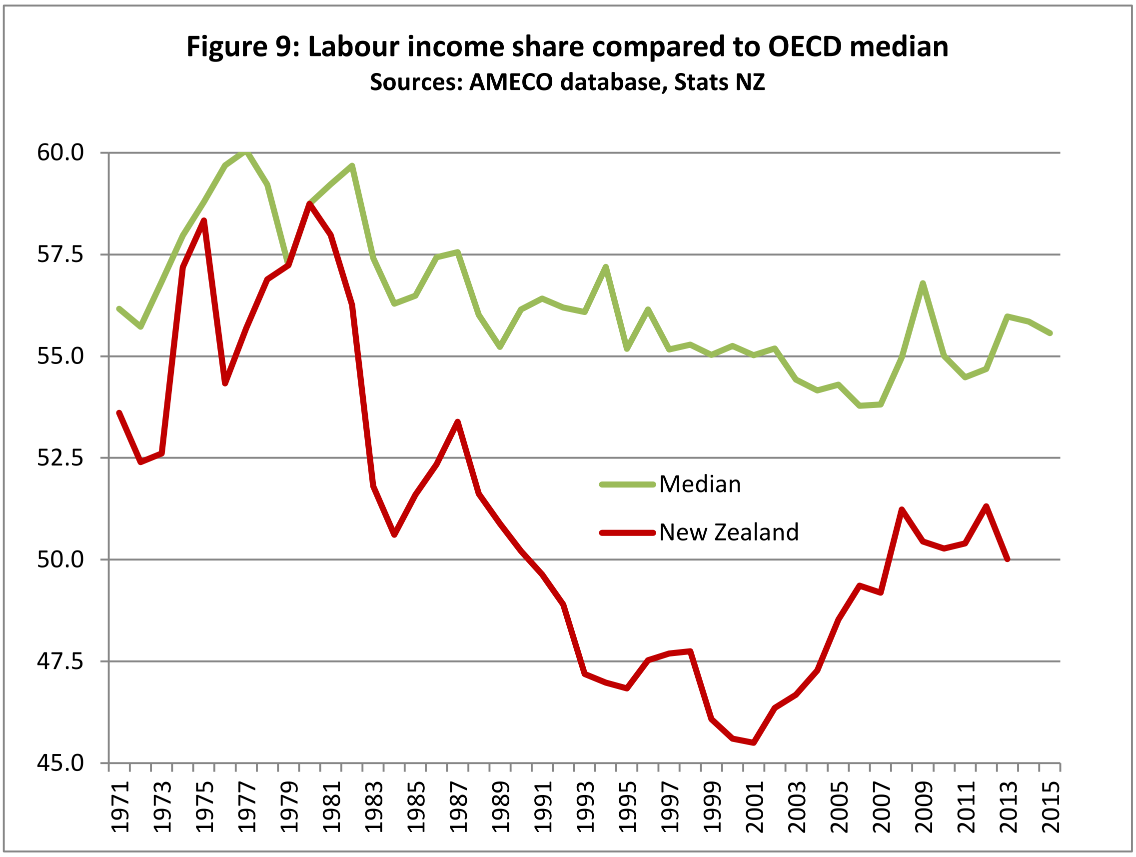
> Employment Contracts Act (1991) were possible likely key factors. This general fall in the LIS contrasted with Australia, where there was also good productivity growth but the LIS remained more or less steady. It appears that it is not labour productivity growth as such that contributes to the fall in LIS, but the nature of the underlying changes that contribute to both productivity and real wage outcomes. Given the role of low RPW [Real Product Wage] growth in reducing the LIS, New Zealand's earlier and deeper foray into labour market reform may be an important contributing factor to trans-Tasman differences in the LIS over this period.

4.14. Further: "While the LIS did fall during New Zealand's high-productivity growth period, this can be attributed to wage restraint and perhaps a change in labour market institutions. Other sharp falls in the LIS were due to temporary spikes in output prices, rather than anything to do with productivity growth."

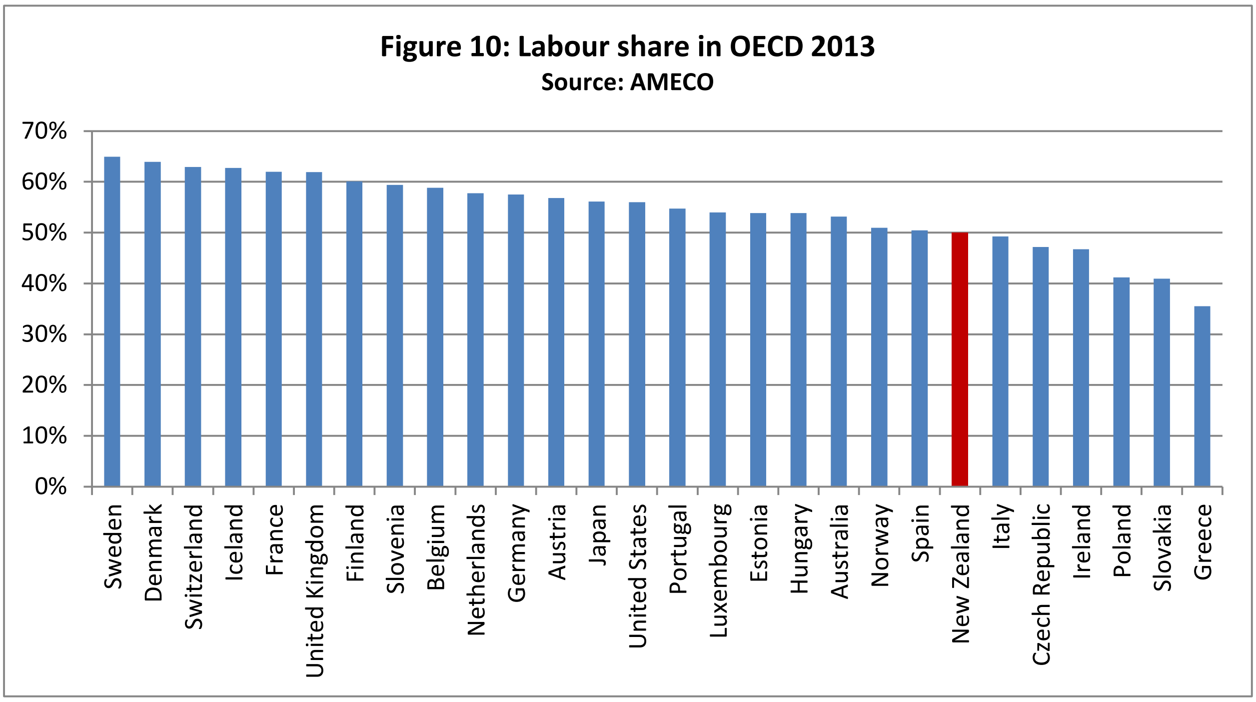
4.15. A strong relationship between deunionsation and falling labour share, as well as other indicators of growing inequality, has been found by a number of researchers, the most recent being International Monetary Fund researchers Jaumotte and Buitron (2015) who found a strong effect on the income share of the top 10 percent of incomes, "The channels through which weaker unions could potentially lead to higher top income shares include the positive effect of weaker unions on the share of capital income – which tends to be more concentrated than labor income – and the fact that lower union density may reduce workers' influence on corporate decisions, including those related to top executive compensation." (p.4). They find the deunionisation effect in New Zealand is among the highest among the OECD countries they analysed. They also find that there is a strong association between higher minimum wages and lower inequality, and that New Zealand's relatively high minimum wage had one of the strongest counterbalancing effects of any of the countries (p.26).

4.16. The comparison of New Zealand's labour share with Australia is not unique. In fact, New Zealand has a labour share well below the OECD median according to data from the European Commission's Annual macro-economic database (AMECO) database[16] as shown in the accompanying graphs.

[16] Available at http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm. A previous submission used OECD data but this has been criticised for having a labour share value for New Zealand too small to be credible. In any case, the AMECO database has a better documented and more consistent set of series. Note that it regards data for years ended March, which is the standard year in New Zealand's National Accounts, as being for the previous calendar year (for example the data for the year ended March 2014 is recorded as for 2013).



4.17. In 2013, New Zealand was 7th lowest out of 28 countries (Chile and Israel omitted; data missing for Canada, Mexico, Korea and Turkey; Australia's and New Zealand's from the respective official sources). The picture does not change significantly if the labour share is adjusted to include the self-employed, assuming they pay themselves the same wage as employees are paid.



4.18. 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.

4.19. According to data from the Centre for Labour, Employment and Work (CLEW) at Victoria University, approximately 20 percent of the non-agricultural workforce is covered by collective bargaining (Blumenfeld, Ryall, & Kiely, 2015, p. 18, Table 2.2),[17] but their wage rates have increased significantly faster than the workforce in general. From June 1993 to June 2000 under the ECA 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 0.4 percent per year. During the ERA period from June 2003 to June 2015, when only union collectives were permitted, and after all non-union collectives had expired, real wages measured by the LCI rose 0.1 percent a year. Over that period, real wages in collectives went up by 0.7 percent per year. Increases were not generous in either period, but there is a consistent picture of collectives doing better than individual agreements. For the years available, collectives in general also do better industry by industry.

4.20. Another indicator is the Labour Cost Index survey's information on reasons for pay rises. They show that employees on collectives are more than twice as likely to get a pay rise as those not on collectives. In the June 2015 quarter, the ratio was 2.1. For further details and methodology see Rosenberg (2014, 2015c).

4.21. 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[18]). A number of indicators suggest that the combination of low unemployment, strong increases in the minimum wage, the 2004 amendments to the ERA, and union campaigning based on collective bargaining created a short period of stronger wage growth between approximately 2004 and 2008 which carried on into 2009 as the result of multi-year settlements.

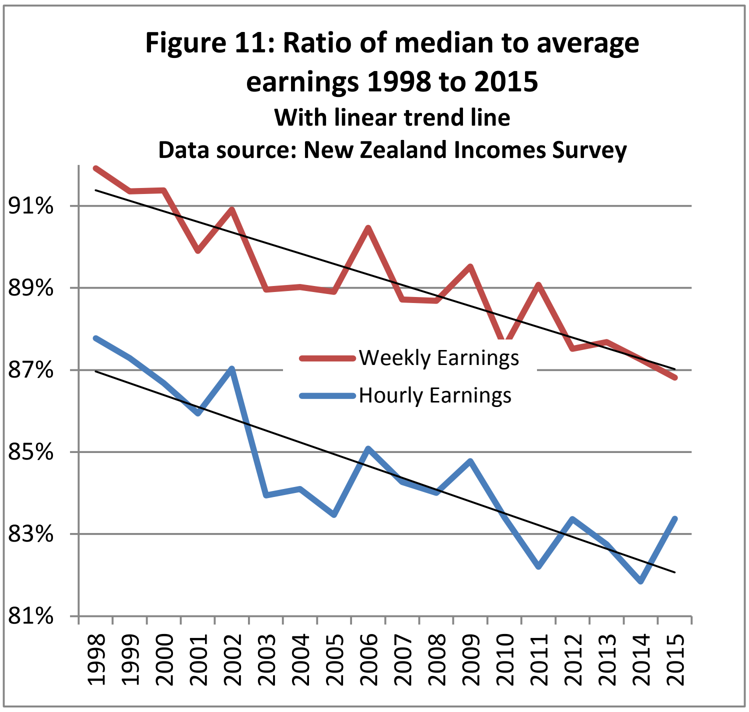
4.22. Since then, average wages have returned to slow real growth, assisted mainly by low inflation rather than strong nominal increases. They have not kept up with productivity growth, and have not benefited from high commodity prices New Zealand producers were until recently receiving and for some products still are.

---

[17] The authors warn this table may underestimate coverage.

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

4.23. Median earnings are on a falling trend as a proportion of average earnings (Figure 11). 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.



4.24. OECD private sector hourly earnings and consumer price statistics show that between 1990 and 2015, real hourly earnings in the private sector increased by 44.3 percent in Australia but only 21.3 percent in New Zealand. From 2000-2015, private sector real hourly earnings rose 25.6 percent in Australia and 14.1 percent in New Zealand. They rose 8.9 percent between 2009 and 2015 in Australia but rose only 4.2 percent in New Zealand. For the period 1996-2015 (for which richest OECD data is available), New Zealand had the 8th lowest increase among 18 OECD countries, from 2000-2009, 8th lowest from 21 countries and from 2009-2015, 11th lowest out of 21 countries. In the year to March 2015, New Zealand was ranked 14th out of 21. The 2009-15 rankings are particularly surprising given that New Zealand's economy as a whole was less affected by the global recession than most of the OECD.

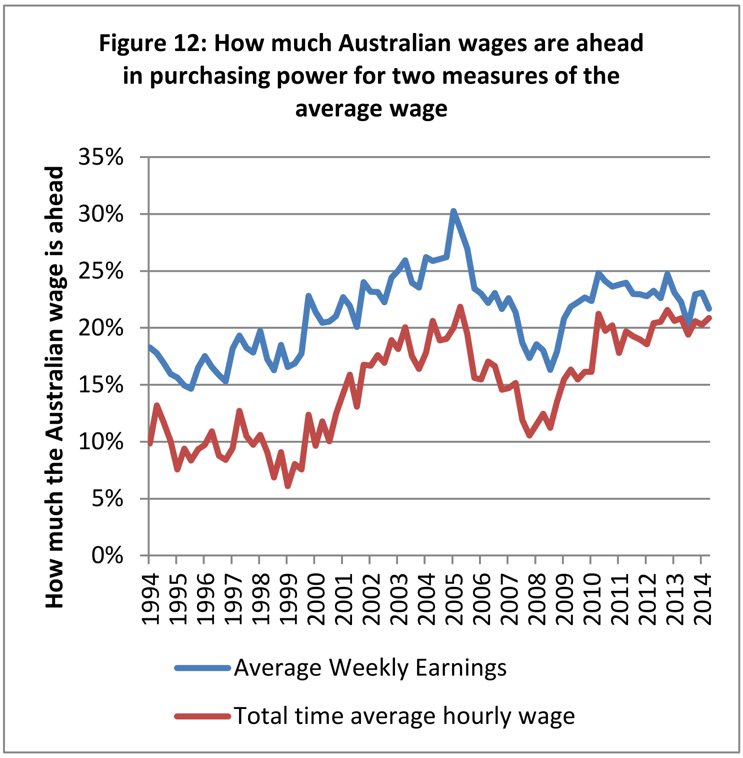
4.25. Average hourly earnings in Australia were A$34.20 in November 2014,[19] and New Zealand average total hourly earnings were NZ$28.79 in December 2014. At straight exchange rate conversion the Australian rate was $36.39 or 26 percent higher than the New Zealand equivalent. In purchasing power terms it was worth NZ$34.80 or 21 percent higher.

4.26. The gap rose during the 1990s and 2000s until about 2005, and then fell until the beginning of the global financial crisis. From 2008 to 2010 Australian wages continued to grow rapidly in real terms while New Zealand wage growth only passed 2009 levels in real terms at the end of 2012 leading to the gap widening again. However Australian real wages have stagnated since 2013.

---

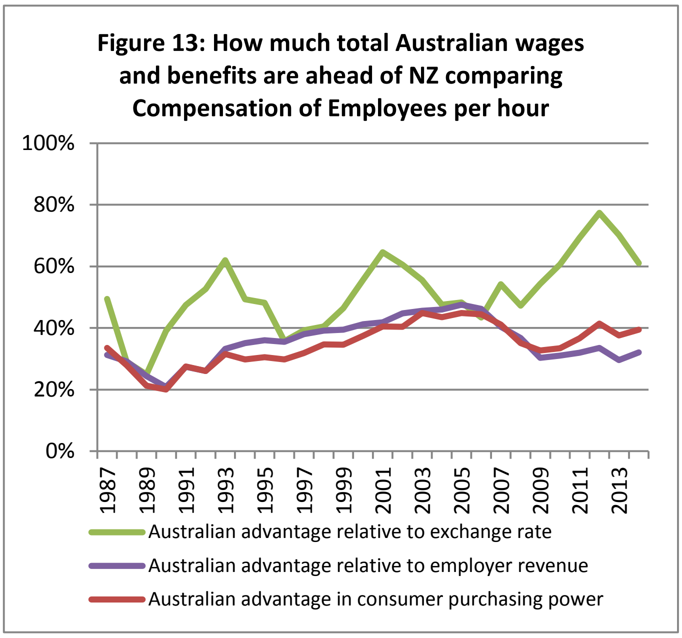
[19] Average weekly earnings were A1,128.70 in November 2014 (Australian Bureau of Statistics). This is divided by average hours worked to obtain hourly earnings. Purchasing power is estimated using OECD values for Comparative Price Levels between New Zealand and Australia.

The result is that the gap has flattened but not appreciably closed. Figure 12 shows the difference between New Zealand and Australian wages in purchasing power terms using both the total hourly wage and the average weekly wage including overtime (which is the most directly comparable measure). See Rosenberg (2015b) for further details.



4.27. This does not take full account of casual employment loadings paid in Australia, nor does it include their substantial compulsory employer superannuation contributions. All employee benefits can be included by comparing compensation of employees (an aggregate from the National Accounts) per hour worked. Figure 13 shows the gap in the period we have data for (March years 1987-2014):

- in exchange rate terms, which was at 61 percent in the year to March 2014;
- in GDP purchasing power terms which approximate those for firms and was at 32 percent in 2014, having peaked at 48 percent in 2005; and
- in consumer purchasing power terms (actual private individual consumption) which was at 39 percent 2014 having peaked at 45 percent in 2005.



4.28. The pattern at purchasing power is very similar to that for the average wage, but the gap is much larger. The exchange rate conversion shows a quite different pattern, driven much by the volatility in the exchange rate rather than wages themselves. The exchange rate conversion is what is seen by Australian businesses contracting work to New Zealand firms and therefore not experiencing New Zealand output prices (such as call centres).

4.29. The difference in wage dynamics between the two countries can also be seen in the comparison between New Zealand's Labour Cost Index and Australia's Wage Price Index already noted.

4.30. The stagnant 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 58.7 percent of GDP and capital received 41.3 percent.[20] From 1993 until 2009 the position was reversed. The 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.

4.31. Executive pay has also risen steeply. Helen Roberts of Otago University (2005, p. 21) analysed New Zealand listed company annual reports from 1997 to 2002 and found CEOs' pay rose at a median rate of 5.3 percent per year after inflation while their employees' pay rose only 1.5 percent per year after inflation. She found that "real median CEO compensation increased from 9 to 12 times real median worker income during the period". Notably, she analysed the performance of the companies and found only a weak relationship to pay, finding in fact that "lower paid CEOs tend to outperform higher paid CEOs and implies that higher paid CEOs may be extracting rents"[21].

4.32. A survey of 39 companies by Tim Hunter published in the *Sunday Star Times*, in October 2013[22] found that "The pay between the pay of top chief executives and the staff they manage appears to be growing. In the latest Fairfax annual survey of pay rates at listed companies, the average pay of CEOs in 2012 was 26.4 times that of the average employee in the same companies. That's up from a multiple of 22.5 times in 2011." CEO pay was rising faster on average than what they paid their staff. The highest multiple was at Skycity

---

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

[21] Roberts, H. M. (2005). CEO power, executive compensation and firm performance, New Zealand, 1997-2002. Dunedin, New Zealand: University of Otago. Retrieved from http://hdl.handle.net/10523/1524.

[22] "Bosses' pay rises outpace workers'", Tim Hunter, 6 October 2013, *Sunday Star Times,* p. D1, D4.

Entertainment Group whose CEO was paid 70.9 times as much as the average for his employees.

4.33. A survey published in the *New Zealand Herald* on 16 June 2015[23] found that "The bosses of New Zealand's biggest companies enjoyed an average pay rise of 10 per cent last year, their biggest bump since 2010. The increase for those at the top dwarfs the 3 per cent of growth for the average wage and salary earner in the year to June 2014." The average of the 43 CEOs surveyed was $1,627,251 in 2014, 33 times the average wage. In 2013 it had been $1,425,988, 30 times the average wage.

4.34. A study of top managerial pay, presented by economics professor Tim Hazledine of Auckland University at the 2015 New Zealand Association of Economists Conference (Hazledine, 2015), found that CEO pay went up by 85 percent between 1995 and 2014 after taking account of firm size and inflation, and "management bloat" increased too.

4.35. Real average wages increased at a quarter of the rate – just 22 percent in the same period. The study looks at the increases in top executive pay reported in annual reports of listed companies from 1995 to 2014, and top management bloat. Listed companies were required to report pay above $100,000 from 1995. Only 110 companies have lasted right through. They constitute about 5 percent of GDP.

4.36. Hazledine finds no relationship between CEO pay and firm profitability but it seems that CEOs in both highly profitable and highly unprofitable (loss-making) firms get the highest pay. There is a further premium of about 30 percent for a CEO in the "FIRE" (Finance, Insurance, Real Estate) sector compared to CEOs in the "real" economy.

4.37. CEO pay goes up not only with firm size (double the firm size and CEO pay goes up by 30 percent), but also with the number of managers reporting to him or her. The total pay of all the top managers (employees receiving $150,000 or more in 2014 dollar terms) has risen even faster than CEO pay over this period, ending up double what it was in 1995. But the pay of managers below CEO level is unrelated to firm size. This implies bloat in management numbers.

4.38. CEO pay levels are independent of whether labour productivity rose. There was little or no increase in productivity in terms of labour or use of materials (labour productivity rose just 6 percent in these companies over the 19 year period), and a slight decline in capital productivity. So the greatly increased pay of CEOs and top managers, and in the increase in number of top managers, achieved little in terms of contribution to GDP per capita through labour productivity increases.

---

[23] "Salaries interactive: What CEOs of top NZ companies earn", by Hamish Fletcher, 16 June 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11464131

4.39. The relationship between pay and productivity is seriously broken at all levels of the pay scale.

4.40. The relationship between pay and productivity is much more complex than simple theories assert. It is not even clear how an employer would judge the productivity of individual employees or groups of employees when their work is interdependent. Kampelmann and Rycx (2011) analysed the revenue and wages in 1,735 representative medium to large Belgian firms over a six year period and found no significant differences in the productivity of different occupational groups within the firms, despite obvious differences in pay.

4.41. The CTU recognises that wages will not increase simply through a mechanism such as the annual review of the minimum wage. We recognise the need for significant increases in investment in skill development, including both pre-employment and in or from the workplace. 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.

4.42. 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.

5. Raising the Minimum Wage does not increase unemployment

5.1. A 111 per cent nominal increase in the adult minimum wage and (apart from the effect of the reinstatement of the youth wage through the so-called ‘Starting Out’ wage) more than tripling of wages for 16-19 year olds since 1999 has not been a disincentive for employers to take on new staff. The adult minimum rose 46 percent in real terms over that period and for 16-19 year olds it rose 143 percent, while the average hourly wage rose only 16 percent. The ratio of the minimum wage to the average wage rose 26 percent for adults and 67 percent for 16-19 year olds. These increases were about equivalent to, or for 16-19 year olds considerably larger than what we propose.

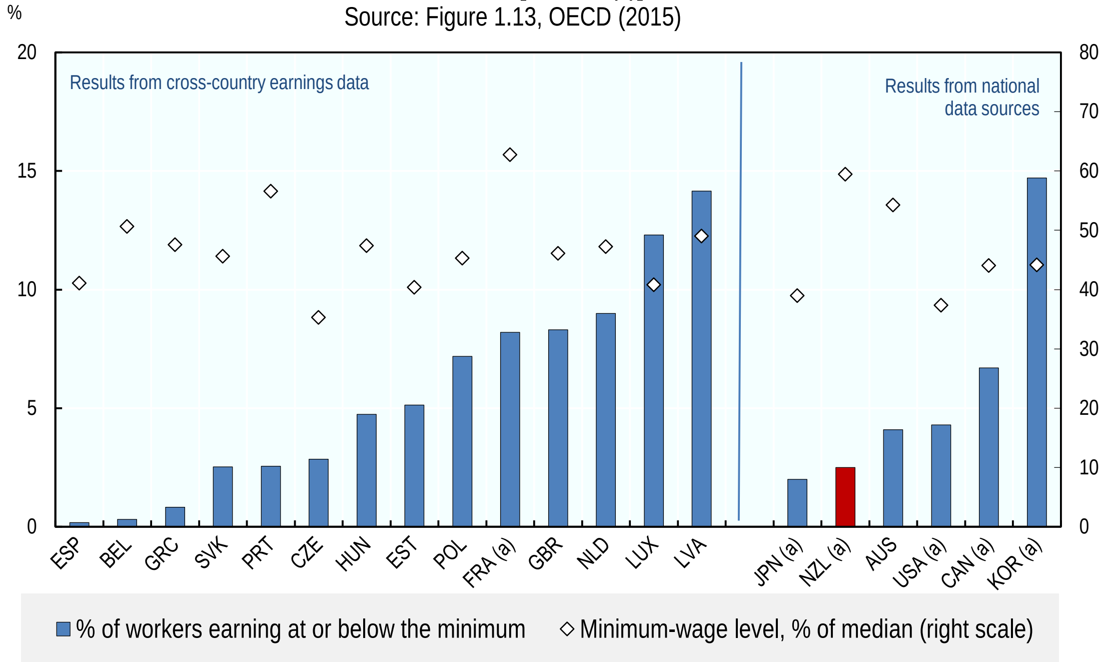
5.2. There have been considerable periods during this time where rising labour force participation and falling unemployment demonstrated workers were not being priced out of the labour market and the tired old argument that an increase in the minimum wage must mean an increase in unemployment is now discredited.

5.3. Concerns are sometimes raised that a minimum wage even at its present level is much more binding than say that of the US which is much lower relative to the average or median wages, and therefore further increases will more likely lead to unemployment. Firstly, substantial rises have not led to that occurring. Secondly, if the minimum wage was becoming increasingly binding we would expect to see a larger proportion of wage and salary earners than other countries bunched on and near the minimum wage. The Figure 14 is from *OECD Employment Outlook 2015* (OECD, 2015). It shows New Zealand with 2.5 percent of workers earning at or below the minimum in 2013 (it was 2.1 percent in 2010 when most of the data points are taken from). This was second lowest of those taken from national (survey) data and well below the median for the European countries (whose proportions include low paid workers just above the minimum and so overestimate the proportion). There is no relationship between the proportion and the minimum wage rate as a proportion of the median wage. Other factors may be affecting this such as effectiveness of enforcement, but nonetheless, New Zealand does not show bunching at the minimum wage, suggesting it is at worse no more binding than other countries with lower minimum wage levels.

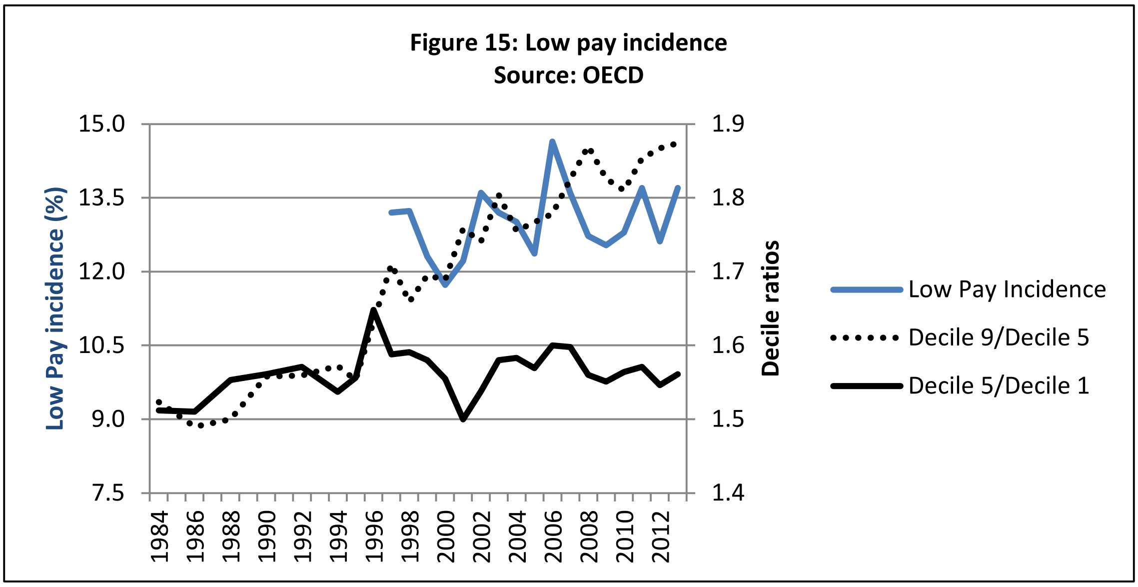
5.4. This is further reinforced by trends in OECD data for New Zealand in their measure of "low pay incidence" and the ratio of Decile 5 to Decile 1 gross earnings (the ratio between median gross hourly rate and the top gross hourly rate for the bottom 10 percent of full time employees)[24]. Low pay incidence is "defined as the share of full-time workers earning less than two-thirds of gross median earnings of all full-time workers".

5.5. Both have remained flat (though with volatility) over the period of the steep rise in minimum wages during the 2000s. This suggests that rises in minimum wages were reflected in at least in the bottom half of the full time wage distribution, though the Decile 9 to Decile 5 ratio shows that inequality rose in

Figure 14: Proportion of workers earning at or below the minimum wage, 2010 or 2013 [marked (a)]
Source: Figure 1.13, OECD (2015)



[24] Available at http://stats.oecd.org/Index.aspx?DataSetCode=DEC_I



the top half of the distribution.

5.6. 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. The impacts should be addressed by other means such as active labour market, education, skills and training policies rather than reducing ambitions for better wages for New Zealanders. We come back to this below.

5.7. In addition, we have provided evidence above that wages have not risen nearly as fast as productivity.

5.8. 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 are needed to accurately anticipate the effects of changes in the minimum wage. The models needs to incorporate employer monopsony power, information asymmetry between employers and workers, search, recruitment and training costs, market dominance in product markets, the effect of wage rises in stimulating demand and productivity improvements, and the findings of empirical minimum wage studies in the US and elsewhere.

5.9. In particular, we are unconvinced by the model used by the MBIE to forecast the employment outcomes of a rise in the minimum wage. These routinely predict employment losses. Its model, assumptions and methodology has not been published in a replicable form, and details of its annual run, including margins of error, are not published or open to scrutiny.

5.10. We do know that it takes no account of the secondary effects of raising the minimum wage in changing relative prices, increasing demand and stimulating economic activity which could increase employment. This is frequently identified as one of the possible reasons for the ambiguous employment effects of a rise in the minimum wage. For example Herr and Kazandziska

(2011, p. 12) explain it as follows, warning against making only a partial analysis:

> The Keynesian approach gives a clear explanation as to why minimum wage increases do not lead to higher unemployment on a macroeconomic level. Increases in minimum wages which will change the structure or wages will also change the structure of prices (relative prices) of the affected industries. As the output of one industry is the input of other industries, relative prices will change further. The new structure of prices will change the structure of demand, as well as the technology and the structure of production. How employment is affected is theoretically open and extremely difficult to predict empirically. There is also a valid argument that higher minimum wages may lead to a positive employment effect. As households which receive minimum wages tend to have a higher propensity to consume compared to rich households, the level of consumption is also expected to be enhanced which will have a positive impact on aggregate demand, output and employment.

5.11. We **recommend** that the details of the model should be published and a detailed report on its output should be published each year. As far as possible the data on which the modelling is based should also be made publically available. This would allow independent scrutiny and analysis and could stimulate further research.

5.12. There are continuing advances in the methodology of measuring the effects of changes in the minimum wage arising from lively academic critique. The shifting international views on the employment effects of the minimum wage are exemplified by recent articles in the long-time opponent of the minimum wage, the *Economist* magazine. A recent *Economist* blog for example acknowledged that

> In sum, the employment effects we'd expect if labour-markets were perfectly competitive don't emerge. That's because there is some monopsony power to labour markets, associated with frictions like the cost of searching for new jobs. Those frictions give employers a bargaining-power advantage that a minimum wage can in some cases counteract. Further, minimum wage increases may give both workers and employers an incentive to raise their productivity levels in order to preserve jobs: people work harder to justify the higher wage.[25]

5.13. It also pointed to a recent poll of expert US researchers in the field who were evenly split on the assertion that raising the federal minimum wage to US$9 per hour would make it noticeably harder for low-skilled workers to find employment with 60 percent uncertain or disagreeing (weighted by the experts' confidence). This is a significant change from polls a decade or more ago which showed a large majority of economists being of the view that minimum wages reduced employment. The same poll showed strong

---

[25] "Minimum human wages", 15 February 2013, at http://www.economist.com/blogs/freeexchange/2013/02/labour-markets.

agreement with the proposition that "The distortionary costs of raising the federal minimum wage to $9 per hour and indexing it to inflation are sufficiently small compared with the benefits to low-skilled workers who can find employment that this would be a desirable policy." Weighted by confidence, 62 percent agreed, and 23 percent were uncertain with only 16 percent disagreeing.[26]

5.14. The intensive international methodological debate continues, but a recent major review of minimum wage research (Belman & Wolfson, 2014) confirms this position. Among many studies it discusses is the New Zealand one of Pacheco (2011) which attempted to distinguish between young workers most likely to be earning at or near the minimum wage and those who were not. It finds significant problems with Pacheco's methodology (p.91-92) that invalidate its conclusions of strong negative employment effects for the near minimum wage group.

5.15. 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 improvements in statistical methodology and greater understanding of the factors connecting wages and employment tend 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 available on request but the following provides a summary of some of the most relevant and recent research.

5.16. A substantial US meta-analysis was published by Hristos Doucouliagos and T.D. Stanley in 2009[27]. 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.

5.17. 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.

---

26 "Minimum Wage", IGM Forum, 26 February 2013, available at http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_br0IEq5a9E77NMV.

27 "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.

5.18. A more recent meta-analysis by Giotis and Chletsos (2015) confirmed Doucouliagos' and Stanley's results for 45 empirical studies published in academic journals from 2010 to 2014. There again was evidence of publication bias but once corrected, the remaining effect "is so small that is of no significant use". They emphasised the impact of methodology, control variables and different theoretical approaches in determining the size and sign of the impact.

5.19. There are useful theoretical discussions contained in the papers discussed below by Herr, Kazandziska and Mahnkopf-Praprotnik (2009) and Zelenska (2011).

5.20. 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.

5.21. Dube summarised the state of minimum wage research.[28] He described one of his key studies (with Lester and Reich):[29] 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 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."[30] Another study looked at the effects on teenage employment, again finding no employment effect, and again that held over recession periods.[31]

5.22. 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

---

[28] "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/.

[29] "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.

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

[31] "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.

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.”

5.23. 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 though 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.

5.24. 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.

5.25. 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 section of the ERA). Such models are gathering support, with one of the earlier developers, Dale Mortensen, receiving the Nobel Memorial prize in Economics along with two others for their analysis of markets with similar characteristics (search frictions), and growing empirical evidence.

5.26. 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,[32] the effect of the current recession,[33] and a re-examination of the restaurant-and-bar sector.[34] 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.

5.27. 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.[35] 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."

5.28. In relation to New Zealand it concluded that "The literature indicates the following conclusions. 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."

5.29. A study of minimum wage changes in Australia found that "the introduction of minimum wage legislation in Australia in 1997 and subsequent minimum wage

---

[32] "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.

[33] "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.

[34] "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.

[35] "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.

increases appear not to have had any significant negative employment effects for teenagers."[36]

5.30. The 2011 study by Hyslop and Stillman[37] commissioned by the Department of Labour considered the effects of the very sharp increase in the minimum wage that occurred in April 2008 for 16 and 17 year olds here in New Zealand. 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.

5.31. 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).

5.32. 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.

5.33. 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 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).

5.34. 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.

---

36 "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.

37 "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.

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.

5.35. 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.

5.36. 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.

5.37. 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.

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

5.39. 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).

5.40. 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.[38] In fact, hours of work increased for 16 and 17-year-olds relative to other age groups.

5.41. These studies confirm that employment effects are small or negligible. 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. Low Pay Commission study should be acknowledged through 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.

6. The Minimum Wage should be raised significantly

6.1. The minimum wage at June 2015 was 50.8 percent of the average hourly wage. This is low by several measures.

6.2. 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 Centre for Labour, Employment and Work at Victoria University is $692 – or $17.30 per hour based on a 40-hour week. This is $102 higher than the current weekly minimum wage.

6.3. 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.

6.4. 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 2015, half of all 15-19 year olds (54,400 people) receive $14.90 or less, just slightly above the minimum wage, of whom at least 34,700 receive the minimum wage of $14.75 or less. Half of 20-24 year olds (109,200 people) receive less than $17.26. Half of male part-time wage and salary workers (64,100 people) receive less than $16.00 an hour, a value that has barely changed since 2013 when it was $15.90, and the equivalent level for women (163,100 people) is $17.65. From an occupational view point, half of all sales workers (100,400 people) receive less than $17.00, half of labourers (109,000 people) also receive less than $17.00, and half of community and personal

---

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

service workers (92,750 people) receive less than $16.85, which is lower than it was in 2013 when the median was $17.00. Half of workers (154,800 people) in the retail trade and accommodation receive less than $16.63.

6.5. Low income workers have faced steeply rising costs over the last five years, most recently housing costs, yet gained the least from the October 2010 tax changes. The real value of the minimum wage at June 2015 was only 6.3 percent more than it was in June 2009. The tax cuts greatly favoured high income earners, were hit harder than higher income people by the increase in GST. In addition, as noted below (paragraph 13.13), rises in the cost of living do not affect all workers equally with costs in general rising faster for lower income households.

6.6. The rapid growth of the Living Wage movement since the last Minimum Wage Review is evidence of growing community concern at the plight of low wage workers and their families. The CTU and its affiliates are strong supporters of the movement and of Living Wage Aotearoa New Zealand as a means to move towards wages that provide a decent standard of living for all New Zealand households who depend on them. Over 170 unions, community and faith-based organisations support the movement, a number which is steadily growing. Both private sector and local government employers are showing interest in implementing the Living Wage for their own employees and contractors.

6.7. The New Zealand movement, which is part of an international one which many employers and local governments are committed to, is based on the principle that: [39]

> A living wage is the income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society.
>
> We call upon the Government, employers and society as a whole to strive for a living wage for all households as a necessary and important step in the reduction of poverty in New Zealand.

6.8. While there is an apparent coincidence in value between a minimum wage of two-thirds the average wage which we advocate in this submission and the $19.25 Living Wage, that is only coincidence as the two are different concepts. The Living Wage is voluntary for employers whereas the Minimum Wage is a statutory requirement. The Living Wage is calculated by considering the above principles. The level was established by respected researchers in the area of low incomes and poverty, Charles Waldegrave and Peter King[40] by

---

[39] See http://www.livingwagenz.org.nz/.

[40] King, P., & Charles Waldegrave. (2012). Report of an investigation into defining a living wage for New Zealand. Wellington, New Zealand: Family Centre Social Policy Research Unit. Retrieved from http://www.livingwagenz.org.nz.

considering the expenditure needs of a family of two adults and two dependent children, with both adults working, one half time and the other full time. The calculation took into account taxes, Working for Families, the Accommodation Supplement, and savings needs including Kiwisaver contributions.

6.9. While the Living Wage is expressed as an hourly wage for simplicity, the principle is based on household income. It takes into account ongoing needs and not just immediate ones, and in concept should be seen as considering the needs of the life-cycle of families, not simply at a given point in their progress and development.

6.10. The minimum wage is also low compared to Australia. In Australia the national adult minimum hourly wage was raised to A$17.29 as of 1 July 2015[41]. This is approximately NZ$19.09 or 29 percent higher than the New Zealand minimum wage in a straight exchange rate conversion. In purchasing power parity terms, it is 15 percent higher.[42]

6.11. However the difference is much greater in reality. Firstly, Australia has a loading of 25 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 62 percent higher on straight exchange rate conversion and 44 percent higher in purchasing power terms.

6.12. 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, and most awards are now covered by the new system. The table below is taken from the Manufacturing and Associated Industries and Occupations Award 2010, as amended up to 22 July 2015 with New Zealand dollar equivalents added. The lowest skill classification is C14 and its minimum wage is the same as the national minimum wage.

6.13. 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.

---

41 See http://www.fairwork.gov.au/PAY/NATIONAL-MINIMUM-WAGE/pages/default.aspx

42 Calculated at an exchange rate of NZ$1.00 to A$0.9055, the average conversion rate for June 2015 according to the Reserve Bank of New Zealand. Purchasing power calculated from OECD Comparative Price Levels for July 2015 (http://stats.oecd.org/Index.aspx?DataSetCode=CPL).

Manufacturing and Associated Industries and Occupations Award 2010 (as amended 22 July 2015)[43]

Classification level	Minimum weekly wage	Minimum hourly wage					Casual rate (25% loading)	
	$A	$A	$NZ	*Greater by*	$NZ PPP	*Greater by*	$A	*Greater by*
C14	656.90	17.29	19.09	29%	16.99	15%	21.61	44%
C13	675.90	17.79	19.65	33%	17.49	19%	22.24	48%
C12	701.80	18.47	20.40	38%	18.15	23%	23.09	54%
C11	725.90	19.10	21.09	43%	18.77	27%	23.88	59%
C10	764.90	20.13	22.23	51%	19.79	34%	25.16	68%
C9	788.80	20.76	22.93	55%	20.40	38%	25.95	73%
C8	812.80	21.39	23.62	60%	21.02	43%	26.74	78%
C7	834.60	21.96	24.25	64%	21.58	46%	27.45	83%
C6	876.90	23.08	25.49	73%	22.68	54%	28.85	92%
C5	894.80	23.55	26.01	76%	23.15	57%	29.44	96%
C4	918.80	24.18	26.70	81%	23.77	61%	30.23	101%
C3	966.90	25.44	28.09	90%	25.00	70%	31.80	112%
C2(a)	991.00	26.08	28.80	95%	25.63	74%	32.60	117%
C2(b)	1,034.30	27.22	30.06	104%	26.75	81%	34.03	127%

6.14. The Award system has a surprisingly pervasive effect in wage determination, reaching about 80 percent of employees according to one study[44], 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.

6.15. In the long run, over the last three decades, the wage gap with Australia has been damaging to the New Zealand economy with net outflows of people to Australia in 125 of the 134 quarters to June 2015 (seasonally adjusted) since the beginning of 1982[45]. That it is currently in balance should not obscure the fact that it is a long-run concern.

---

[43] http://www.fwa.gov.au/documents/modern_awards/award/MA000010/default.htm

[44] "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.

[45] Infoshare series ITM310AA.

6.16. 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 James Newell[46] 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)".

6.17. Similarly, Richard Manning and Ram SriRamaratnam, 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". [47] 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".

6.18. 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.

6.19. 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 Quiggin[48] 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

---

46 Reported in the New Zealand Herald, 2 December 2009, p.A1, "Study confirms Oz 'myth' on unskilled Kiwis".

47 "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.

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

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.

6.20. Herr, Kazandziska and Mahnkopf-Praprotnik[49] 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.

6.21. The CTU submits that it is time that the New Zealand Government accepted the International Labour Organisation (ILO) 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[50.] 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.) average wage and, further, to agree a timetable for achieving that target in all Member States."[51]

---

49 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 1.1. http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_115075.pdf

50 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.

51 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.

6.22. 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.

6.23. We therefore propose a goal of setting the minimum wage at 66 percent of the ordinary time average wage, to be reached within three years. Our preference is for an immediate rise in the minimum wage to 66 percent of the average ordinary time wage to set a clear base. For the minimum wage from 1 April 2016 we estimate this to be $19.46. A possible alternative would be to move to this position over three years. Using Treasury forecasts this would mean a minimum wage $16.50 as from 1 April 2016, $18.46 as from 1 April 2017, and $20.65 as from 1 April 2018.

7. Implications for productivity

7.1. The argument about increasing wages in New Zealand – including the minimum wage – is also about long-term concerns. Higher wages are a key part of New Zealand's economic transformation. To date employers have failed to address the issue of low wages in this context.

7.2. 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.

7.3. While it is a commonplace cliché to assert that wages cannot rise unless productivity rises, it is notable that there is no acknowledgement of the ability of wage rises to encourage productivity growth. It appears to be acceptable to acknowledge that weak wage growth may lead to low productivity growth but not the natural corollary that strong wage growth encourages higher productivity. For example Treasury (2014, p. 5, fn 6) admits that low wage growth in the early 1990s "may have encouraged businesses to use more labour relative to capital and, therefore, reduced the capital available per worker and measured labour productivity." Its inability to admit to the causes of that low wage growth do little for its credibility, but the conclusion is not new and others have been more forthright as to the drivers. For example Black, Guy and McLellan (2003, pp. 24–25) connected the low wage growth during the 1990s to the Employment Contracts Act as do Productivity Commission researchers as already noted (Conway et al., 2015, p. 40).

7.4. We are not advocating policies that lead to widespread layoffs and job losses, but it is wrong to omit these considerations from policy making, with long-term consequences.

7.5. There is evidence[52] 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**.**

7.6. Mayneris, Poncet, & Zhang (2014) looked at the effects of substantial increases in minimum wages to between 40 percent and 60 percent of local average wages in Chinese cities. Using firm-level data from 160,000 manufacturing firms, the authors found no net employment effect and “higher minimum wages fostered aggregate productivity growth thanks to productivity improvements of incumbent firms and net entry of more productive ones.”

7.7. 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 Zelenska (Hirsch, Kaufman, & Zelenska, 2011; Zelenska, 2011) 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.

7.8. 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, 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.

---

52 See -. “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, http://www.oecd.org/dataoecd/27/20/38797288.pdf.

7.9. 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.

7.10. Rizov and Croucher[53] examined the longitudinal impact of the UK national minimum wage on firm productivity. They found that the aggregate low-paying sector productivity had been significantly positively affected by the NMW over a ten year period though the magnitude varied by sector and firm size, with productivity increases being more marked in larger firms

7.11. McLaughlin[54] 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 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 on-going process of developing, implementing and reviewing training programmes", he writes.

7.12. The idea that raising the minimum wage can drive productivity improvements is given additional support in a U.K. study which found that "with notable exceptions, aggregate LPC (low-paying) sector productivity has been significantly positively affected by the National Minimum Wage (NMW) over a ten year period as the effects' magnitudes vary by sector. In most of the sectors the impact is statistically significant and positive with the exception of hairdressing, leisure and agriculture where the impact is not statistically significant even though positive.[55]

7.13. 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.[56] The paper notes that, "with

[53] "The impact of the UK national minimum wage on productivity by low-paying sectors and firm-size groups". By M. Rizov, and R. Croucher, 2011. Report to the Low Pay Commission.

[54] "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.

[55] "The impact of the UK national minimum wage on productivity by low-paying sectors and firm-size groups". By M. Rizov, and R. Croucher, 2011. Report to the Low Pay Commission.

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

labour relatively cheaper in relation to capital than in Australia, it appears that New Zealand firms have opted for a lower level of capital intensity".

7.14. 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 found in 1999 that:[57]

> 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.

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

7.16. The International Monetary Fund[58] has estimated that in 1999 average labour productivity in market sectors in New Zealand was only 73 percent of the Australian level, down from 82 percent in 1988. So productivity in relation to Australia was higher when there was the award system for wages in New Zealand.

7.17. Mason (2013) recently confirmed this, with results that suggest the difference has worsened. He concludes that "Average labour productivity (ALP) levels in New Zealand across the whole economy are now almost a third lower than in Australia. This gap began to open up in the mid-1970s and, with some fluctuations, has largely tended to increase over the decades since." He found that

> In our chosen benchmark year of 2009, the ALP level across total market industries in New Zealand was an estimated 62% of the Australian level. This Australian lead was found to apply across a wide range of industries, in particular, mining, agriculture, most branches of manufacturing, construction, retail and wholesale trade and financial and insurance services. However, New Zealand has areas of relatively strong performance in food and drink manufacturing, utilities (electricity, gas and water supply) and arts and recreation services.

7.18. Mason finds we also have relatively low capital intensity:

---

[57] "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.

[58] "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.

> In 2009 capital per hour worked across total market industries in New Zealand was just over 60% of the Australian level. The Australian lead on capital-intensity applies to the great majority of market industries, covering a wide range of agricultural, manufacturing and service activities. New Zealand is more capital-intensive in only five of the 24 industries and only one of these (electricity, gas and water) is a significant user of capital equipment.

7.19. There appears to be lazy use of capital in New Zealand: Statistics New Zealand capital productivity series show capital productivity falling for the last two productivity cycles in the market (measured) sector: 2000-2008, 2008-2014, and for the whole period 1996-2014.

7.20. A study by NZIER[59] 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.

7.21. In terms of productivity, these studies and our findings above, especially with regard to the relationship between wages and productivity, 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 too low and that firms are investing in more workers and poor workplace practices rather than more capital-intensive use of labour.

7.22. 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.

7.23. Workers are also discouraged from raising their skill levels, particularly in industry-related skills. In 11.6 we quote evidence of low, zero or negative recognition in pay levels of attaining industry qualifications.

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

7.25. In its own right, low pay worsens the performance of labour. Low pay is commonly associated with high levels of labour market churn. An Auckland University survey undertaken on behalf of a Ministry of Health Quality and Safety project in 2004 showed that low pay ($10.80 per hour at the time) correlated with staff turnover of 30-40 per cent each year.[60]

---

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

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

7.26. The following was reported in the CTU publication *Under Pressure*[61]. In any one year, the number of wage and salary workers leaving a job is almost two-thirds of the number of existing jobs. In good times more than that number find a new job; in bad times some do not. However this does not mean that two-thirds of workers are changing their jobs every year because some change jobs more than once in a year – but it does mean that there are many workers whose working life is in constant flux.

7.27. In the year to June 2012, for example, Statistics New Zealand's linked employer-employee data (LEED) series recorded 1.089 million 'worker separations' looking only at jobs that had changed between the four quarters of that year. Many shorter lived jobs may not have been counted (on the other hand, the count included moves between geographical locations within one employer – not true 'separations'). There were an average of 1.812 million filled jobs over that year and 1.115 million 'worker accessions' – employees starting a job. In such a job market, it should not be surprising that many jobs are insecure, short-lived and temporary.

7.28. One way this shows itself is in the average length of time jobs are held by New Zealand workers. Job tenure in New Zealand is among the shortest in the OECD. According to Statistics New Zealand's Survey of Working Life (SoWL) for the year ended December 2012 and similar surveys in OECD countries, almost twice the proportion of people have been less than a year in their job in New Zealand compared to the Netherlands. Only Denmark, Australia, Mexico, Turkey and Korea have a greater proportion of people in jobs for less than a year. Not far below are Canada, Finland, Iceland and the US. Though countries like Denmark and Finland have proportions in short tenure jobs comparable to New Zealand, they have a much greater proportion in jobs with tenure of 10 years and over – 27 percent and 38 percent compared to New Zealand's 22 percent. New Zealand has the third-smallest proportion of workers in jobs with tenure of 10 years and over.

7.29. The countries below New Zealand illustrate two extremes of an insecure job market. Mexico, Turkey, and the US, for example, have poor social support for those losing their jobs. The consequences in loss of income and future opportunities unless another job is quickly found can be immense: in the US it is the second most frequent cause of bankruptcy (after medical expenses).

7.30. An alternative source of data on job tenure in New Zealand is Statistics New Zealand's LEED series. It shows an even more extreme concentration of New Zealand employees with short tenures. For the year ended 31 March 2011, for example, it estimated 38.7 percent of employees were in their first year of a job, and only 7.9 percent had over 10 years of service – compared to the 2012 SoWL which showed 19.9 percent in their first year and 21.5 percent with over

---

[61] "Under Pressure: A Detailed Report into Insecure Work in New Zealand", New Zealand Council of Trade Unions Te Kauae Kaimahi, October 2013, p.12-13, available at http://union.org.nz/underpressure.

10 years of tenure. There are methodological differences that explain some of the disparity, but it lends further weight to the evidence of short job tenure in New Zealand.

7.31. In contrast, while levels of benefits have often fallen since the global financial crisis, countries like Denmark and Finland still provide strong support to those losing their jobs with active labour market policies that provide high rates of income replacement along with support (and pressure) for training and finding a new job, recognising that the cost is one that should be born predominantly by society rather than the individual. New Zealanders does not have a similarly generous welfare system: OECD comparisons show that New Zealand has one of the least generous income replacement rates for unemployed people in their early stages of unemployment – between 20th and last out of 33 countries depending on family circumstances.[62] The consequences of job loss in New Zealand fall heavily on individuals and their families. Denmark and Finland are arguably getting the benefits of both flexibility and productivity while retaining a higher degree of employment security.

7.32. Short job tenure has an economic cost. Earnings rise with length of time on the job. The 2012 SoWL showed that average weekly earnings for someone in the second six months of a job were $854. For someone over 15 years in the job it was $1,295 – half as much again. LEED data shows similar patterns. Shorter tenure is likely to mean lower earnings. But in addition, those higher earnings reflect higher productivity for the employer. Loss of skills, experience, firm-specific knowledge and the higher productivity that goes with them are a cost to the economy.

7.33. We referred above (3.10) to Pacheco and Cochrane's finding of large penalties for the most precarious forms of temporary work. One likely explanation for this is the relative bargaining power of workers in this situation. Another that they suggest is that that the productivity of temporary work is significantly lower. Given that they control as far as possible for personal characteristics including educational level, as well as occupation and industry sector, this is an attribute of temporary work itself. Its widespread use may be lowering New Zealand's productivity.

7.34. While a certain level of labour turnover is indicative of a dynamic labour market, the high level of churn among New Zealand jobs must be impacting negatively on firm performance and overall labour productivity.

---

[62] OECD (2013). Benefits and Wages: Statistics. Directorate for Employment, Labour and Social Affairs - OECD. Retrieved September 12, 2013, from http://www.oecd.org/els/benefitsandwagesstatistics.htm

8. Fiscal impacts

8.1. Each year, MBIE calculates the fiscal impact of the minimum wage by considering the effect of different rises in the minimum wage on four parts of the state sector: The Ministries of Education, Health and Social Development (MSD) and the Accident Compensation Corporation. These cover both direct employees and their payments to service providers. For the contracted services it is not stated whether it is assumed that the additional costs will be fully funded, which does not always happen.

8.2. However it takes no account of the minimum wage workers' higher incomes directly increasing income tax and indirect tax revenue or reducing costs of social welfare benefits and tax credits. The higher the wage rise the more material these will be. A rough calculation using the data on these effects for a variety of family types in Treasury's analysis of the Living Wage (Galt & Palmer, 2013, p. 20) suggests the fiscal savings for an increase in the minimum to the level we recommend (assuming no changes in social welfare or taxation policies) would be over $1 billion.

8.3. In addition there will be secondary effects to the extent the rise stimulates activity in the economy as a result of additional expenditure by these low income households who are likely to spend a high proportion of their additional income. This would increase GST and other indirect tax revenue, and income tax revenue and cost savings to the extent that it creates additional employment.

8.4. Overall the net fiscal impact could well be positive. Better modelling is needed to evaluate this.

9. Starting-Out Wage

9.1. The CTU continues to oppose the starting-out wage and calls for its repeal. It is unfair and discriminatory to pay lower wages to a worker performing the same work as another worker on the basis of age.

9.2. 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) (C111) is one of the core ILO conventions and outlaws unequal payment for work of equal value.

9.3. 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. To the contrary, Tipper finds in an industry-level study of New Zealand's workforce that there is "no relationship between workforce age structure and labour productivity", and in fact that "younger workers are paid less than their productivity would warrant."[63]

9.4. 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.

9.5. Such modelling of the impact of the starting-out wage as has been done suggests that even if the highly optimistic assumptions that underpin the estimates come to pass, the net impact on the youth labour market will be small, perhaps in the range of 1-2 percent increase in aggregate, but involve considerable job loss in the 18-19 year old age group.[64]

9.6. New Zealand has a youth employment crisis and that there is an urgent need to reduce youth unemployment. However the starting-out wage offers no solution to this complex problem.

9.7. The CTU policy for the removal of the starting-out wage 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 in 2008.[65]

9.8. 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."

9.9. There would seem to be little evidence to suggest that the starting-out wage will be any more successful in reducing youth unemployment. Employers have clearly indicated that they are more concerned with hiring people with desirable attributes than anything else.[66]

9.10. Many employers interviewed in recent MBIE research indicated that they would not use sub-minimum rates as they felt that these rates were both fundamentally unjust and would inhibit their ability to attract high-quality applicants.[67]

9.11. Few employers use the starting out wage. According to the 2014 National Survey of Employers ('NSE') only 3 percent of all employers used the starting-

[63] "Labour productivity, real wages, and workforce age structure", by A. Tipper, Statistics New Zealand, Paper presented at the 53rd New Zealand Association of Economists conference, at Palmerston North, New Zealand, 28 June 2012.

[64] Impacts of the Starting Out Wage. (2012). Ministry of Business Innovation & Employment: Labour Group, Retrieved 30 September 2015, from http://www.dol.govt.nz/er/pay/starting-out-wage/sow-employment-impacts-advice.pdf

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

[66] Employers' Perspectives -Part Two: The Minimum Wage System. (2012).Ministry of Business Innovation & Employment: Labour Group.

[67] Ibid.

out wage. This is a very slight increase on the numbers in the 2013 NSE which found 2 percent of employers used the starting wage's predecessor the new entrants wage.

9.12. The argument that 16 and 17 year 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.

9.13. 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 likely to be true in many cases.

9.14. The CTU conditionally supports 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.

9.15. 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.

9.16. Research by Caritas in 2003[68] and 2006[69] found that that there is inadequate attention given to the working experiences of New Zealand children. They showed that children working in delivery work are exposed to significant health and safety hazards and experience injuries as a result.

9.17. It was a revelation to many Parliamentarians at the time of the Abolition of Age Discrimination Bill that there is no minimum wage level for young people under the age of 16 years or general age limit for employment. This is in breach of one of the eight core international labour standards - ILO Convention No. 138 Minimum Age Convention (C138).

9.18. The CTU again submits that there should be an approach to the ILO to assist us to review our labour and education laws and policy in order to ratify C138 and to provide a threshold for the entry of young people into work which must include the setting of minimum wage levels for young people under 16 years old.

---

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

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

10. Training Rates

10.1. 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;
- The maximum length of time that a trainee can remain on a rate lower than the adult minimum wage rate is 12 months; and
- There must be oversight to ensure that a significant training component exists in the job and that trainees are getting access to quality training.

10.2. Changes introduced by the Minimum Wage (Starting-Out Wage) Amendment Act 2013 mean that 16-19 year olds required to undertake 40 credits or more of training under the National Qualifications Framework as part of their employment agreement may be paid the Starting-Out Wage until they turn 20. These changes mean that the training rate for under-20s meets none of our criteria for support and we **recommend** that this rate is repealed along with other youth subminimum rates.

10.3. The adult training rate is slightly better in that it requires sixty credits in a recognised training programme under the National Qualifications Framework. However it fails to meet our other conditions for support.

10.4. If these conditions are not introduced 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.

10.5. However it is with some reservation that we support trainee rates even subject to the above conditions. 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.

10.6. 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 then

Department of Labour[70] showed that 15–19 year old males experienced an annualised increase in average monthly earnings of just 11.3 percent as 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.[71]

10.7. Treasury has also found that private returns to tertiary education in New Zealand are near the bottom of the OECD.[72]

10.8. 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.

10.9. 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.

10.10. Given that trainee rates could extend to young workers on the starting-out wage or in the Youth Guarantee Scheme, 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.

10.11. Apprenticeships, trades training and industry training are all ways to increase the skill levels of workers in employment. But lower wage rates for trainees

---

70 "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.

71 "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.

72 Zuccollo, J., Maani, S., Kaye-Blake, B., & Lulu Zeng. (2013). Private Returns to Tertiary Education - How Does New Zealand Compare to the OECD? (Working Paper No. WP 13/10) (p. 53). Wellington, New Zealand: The Treasury. Retrieved from http://purl.oclc.org/nzt/p-1568

should not mean that trainees get unsustainable wages. This will not assist in increasing the appeal of trades training and apprenticeships, which is much needed.

10.12. 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.

10.13. 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.

10.14. A 2006 study commissioned by the Ministry of Women's Affairs showed that despite similar starting rates, once employees in a male-dominated occupation had completed their apprenticeships 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.

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

10.16. We **recommend** again that MBIE 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.

11. Labour participation rates and relationship to social policy

11.1. 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. Low wages are an impediment to optimal labour market participation and they impede productivity improvements.

11.2. Labour Force Participation Rate in New Zealand decreased to 69.3 percent in the second quarter of 2015 from 69.5 percent in the first quarter of 2015. Participation rates are not expected to grow due to an ageing population and older labour force.[73]

11.3. The effect of high unemployment resulting from the global financial crisis is a cohort of workers discouraged and alienated from the labour market. Our unemployment rates have not dropped as predicted. The effects of the

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

recession and high unemployment have been far worse for Māori and Pacific workers. Māori participation fell by 3.2 percentage points and for Pacific people 3.3 percentage points in the year to December 2009, while European participation fell only 0.4 percentage points.

11.4. Māori and Pacific unemployment rates remain high with Māori at 12.6 percent and Pasifika at 11.3 percent in June 2015. This is despite the claims by the Government that measures such as the 90 day period at commencement of employment with no right of appeal against dismissal would increase employment for disadvantaged and unemployed groups.

11.5. Women, Māori and Pacific workers, people without formal qualifications, disabled workers, or refugees and migrants are also more likely to be paid the minimum wage than other groups of workers.

11.6. The Government's understanding about workers' views and pay rises is unfathomable and out of touch with the reality of working peoples' lives. This is clearly evident in the response by the Minister of Finance on 29 September to the results of a bank survey[74] that he was unconcerned that workers' confidence in getting a wage increases in the coming year was at its lowest level since the survey began in 2004. In response the Secretary of the CTU, said:

> "If the state of wages in New Zealand was acceptable, we wouldn't have seen the need for the Living Wage movement, which is mobilising communities in support of pay rates that allow people to fully participate in society, If pay and job security was okay, we wouldn't have seen a significant campaign earlier this year in fast food to get rid of zero hours contracts and to provide more reliable work in the major chains. And if women weren't being discriminated against on the basis of gender, we wouldn't be seeing growing momentum around the push for equal pay, including an historic court case about the underpayment of workers in aged care." [75]

11.7. For many industries it is vital to increase participation, yet this will remain 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) undertaking an increasingly skilled and demanding job. Yet the sector does not have the workforce to respond to the growing demand that is predicted.

11.8. The Department of Labour [76] estimated in 2010 that caregiver numbers in the aged care sector need to more than double in order to meet the needs of the increasing number of older people requiring support in 2026. Recommendations for this sector include increasing workforce participation

---

[74] http://www.stuff.co.nz/business/industries/72467086/job-confidence-among-kiwi-workers-slumps--westpac-survey

[75] http://www.scoop.co.nz/stories/PO1509/S00396/workers-are-certainly-concerned-about-wages-minister.htm

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

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.

11.9. Spurred by the Terranova vs. Bartlett case there has been an unprecedented reaction and strong public support for care workers in aged care to have a wage rise and be paid for the work they do rather than on the basis of their gender and historical social roles. The level of support and understanding of the principle of equal pay for work of equal value has grown. In the section of this submission on the gender pay gap we describe in more detail the salient points of the Terranova vs. Bartlett case. But the impact of this case has clearly been widely felt and within Government circles and, as is publically known, unions have been approached to discuss the wider case of care-givers' wages.

11.10. Recognising the seriousness of the issues facing the aged and disability sector, an initiative called the Kaiawhina workforce action plan, established by the Ministry of Health and the Industry Training Organisation Career Force has made some significant progress in developing an action plan for this "unregulated" workforce which has greatly expanded in size. The Kaiawhina Workforce Action Plan includes recommendations around pay, training, qualifications and career pathways. This positive initiative, widely supported in the health sector, shows the strong agreement about the need for solutions to address the difficulties that have been caused by decades of sustained low wages and the negative employment effects of low wages in the sector.

11.11. Immigration is often quoted as solution to skill and worker shortages. The CTU does not support immigration as the predominant response to skills shortages. While needs of the Christchurch rebuild are without precedent and required an immediate surge in the labour force, opportunities were missed to provide training and good jobs to a greater number of New Zealanders. There are multiple stories, many in Christchurch, of immigrant workers being exposed to unscrupulous employers, poor working conditions and poverty wages. A review of case law of recent Employment Relations Authority determinations provides examples of extreme exploitation of migrants (see above).

11.12. A major objective from the work of the Welfare Working Group (WWG) was to increase the labour force participation of solo parents. We have detailed our concerns in above and in numerous reports and submissions both to the WWG and in the subsequent legislative changes about the ruthless determination to reduce the number of people on domestic purpose benefits without consideration of the social impacts let alone the labour market impacts.

11.13. Given that 2 out of every 5 children who live in poverty are in a family where at least one adult is in full-time paid employment or self-employed, the argument that paid employment is necessarily a way out of poverty has to be rejected. There are many circumstances when solo parents should not be forced into work and given the additional costs of work, and the very high abatement rates and the complicated and often unfair tax/benefit interface, there are serious questions about this policy. But where people can go into work, and this includes solo parents, the big issue is to ensure that the working conditions they can obtain support them and do not make their demanding lives even more difficult.

11.14. Stricter work testing for solo parents and an increase in the hours of work have been introduced in an employment climate of high of unemployment, widespread low wages and a growing prevalence of insecure employment. As we have already noted, the investment approach in MSD does not concern itself with the quality of employment or wage rates of people going off the benefit. We do know however that there is a significant churn of people in between low paying jobs and the benefit (Raubal & Judd, 2014a).

11.15. Raising the minimum wage is unlikely to have an adverse effect on school leaving rates, and the contrary may well be the case. The research by Hyslop and Stillman confirms this (see Section 5). According to the Household Labour Force Survey, in calendar year 2014, 58 percent of those aged 15-24 were in education, a proportion which has changed only a little since 2004 (55 percent) when the series (Infoshare HLF153AA) began. By comparison, MBIE's report for the 2014 Minimum Wage review (Ministry of Business, Innovation and Employment, 2014a, p. 21, Table 8) shows 60.9 percent of 16-24 year olds on the minimum wage were studying. So the proportions are very similar and do not suggest the minimum wage has a marked effect on study behaviour.

11.16. Higher wages may in fact enable students to replace work time with study time. Studies by Hyslop and Stillman (2004) and Pacheco and Cruickshank[77] 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.

11.17. Disabled people experience serious labour market disadvantage. The 2013 Disability Survey [78] showed that half (50 percent) of all disabled adults were participating in the labour force – either employed or unemployed as compared to a 68.6 overall percent labour participation rate (September 14).

11.18. There is an urgent need to improve the participation of disabled people in the paid workforce and to address the fundamental inequities faced by disabled people in employment. One of the most iniquitous is minimum wage exemption permits (MWEPs).

11.19. The CTU has submitted in the Minimum Wage Review for the last 3 years that there is a need for a review of the Minimum Wage Exemption Permits

---

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

[78] Disability and the Labour Market: Findings from the 2013 Disability Survey, Statistics New Zealand.

(MWEP) for workers with disabilities. Some changes were made in 2013 in the way permits were issued including an ability to issue exemptions for two years rather than one year. But they don't deal with the fundamental problems. The two year period may in fact exacerbate the problems.

11.20. New Zealand's signed the United Nations Convention on the Rights of Persons with Disabilities on 30 March 2007 and ratified it in 26 September 2008. New Zealand's signing of the Convention has brought much greater awareness about the employment rights of people with disabilities and mechanisms to achieve the realisation of disabled persons' rights.

11.21. Article 27 of the Convention sets out disabled people's rights to equal employment opportunities and conditions of work which are that disabled people have the same access to work-related safeguards as all other workers. These include trade union rights, holidays, health and safety, and protection against harassment and unfair dismissal. Wage rates, including minimum age rates make no distinction between disabled and non-disabled people.

11.22. As part of New Zealand's compliance with the requirements of the Convention, an Independent Monitoring Mechanism (IMM) has been set up to monitor our compliance with this Convention. This group is made up of three independent partners: the Human Rights Commission; the Ombudsman and the New Zealand Convention Coalition. The IMM publishes an annual report each year. In 2013-14 report it was reported that "(IMM) understands that the effectiveness of the minimum wage exemption process has yet to be reviewed.[79]

11.23. The 2014 IMM report identified that in the period 2012- 2013 that 1039 MWEPs permits had been issued. This was down 13 on the number in the 2011-2012 period from 1052. By any standard this is an inadequate reduction. The IMM report states its concerns that the Labour Inspectorate have increased responsibility and power over a group of disabled people who have very limited employment opportunities and rely on others for advocacy and support.

11.24. There was no information in the IMM report about the wage levels of people on MWEPs. The last information was from the EEO Commissioner in 2014 [80] who reported on the over 1000 MWEPs and that 53 percent of the people subject to them were paid less than $3.00 an hour. Rates of pay varied from just under the minimum wage to less than $1.00 an hour (and as low as 15c an hour).

---

[79] Annual report of the Independent Monitoring Mechanism of the Convention on the Rights of Persons with Disabilities July 2012 – December 2013 available at: https://www.hrc.co.nz/files/8014/2357/0686/Making-disability-rights-real-full-report.pdf

[80] Human Rights Commission op.cit.

11.25. It is concerning that there has not been a review of the MWEP systems as recommended by the IMM in 2012[81]. Not surprisingly, the IMM has renewed that recommendation (Recommendation 28) in their 2013-2014 annual report:

> That the Ministry of Business, Innovation and Employment working with the Disability Employment Forum, conduct a full review of the minimum wage exemption permits by 31 December 2014 to ensure it reflects the best approach to employment rights for disabled people.

11.26. The CTU was represented on the MSD and MBIE Working Party to look at MWEP and we share the frustration of Disabled Persons Organisations on the lack of progress in this issue. The minimum wage exemption permit system is not protecting workers' rights, is administered inconsistently across the country and is a far cry from enabling disabled persons to participate in society equally with basic human and employment rights.

11.27. If there is to be any change in the process, there needs to be resources and funding to implement change and a commitment to the recommendation of the IMM on MWEPs. The working parties set up as part of the MSD and MBIE group had some constructive suggestions but the process is currently completely stalled by what seems like a view that it is too difficult and too costly to make changes and a lack of commitment to meeting international obligations.

12. Social justice and inequality

12.1. 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.

12.2. A fair minimum wage level plays an important role in reducing inequalities. International evidence shows that changes in the minimum wage level are inversely correlated with the level of wage inequality (see for example Autor, Manning, & Smith, 2010; Charnoz, Coudin, & Gaini, 2011; DiNardo, Fortin, & Lemieux, 1995; DiNardo & Lemieux, 1997; Garnero, Kampelmann, & Rycx, 2014). This is confirmed in the 2015 OECD Employment Outlook, and by Jaumotte and Buitron (2015) in a study including New Zealand among other OECD countries.

12.3. In the decade from the mid-1980s to the mid-1990s, New Zealand had one of the biggest increase in inequalities of any developed country. New Zealand's rates of inequality jumped dramatically from relatively low levels early to mid-1980s to the mid-1990s with a rapid transition from well under the OECD average to well above.

---

[81] Annual report of the Independent Monitoring Mechanism of the Convention on the Rights of Persons with Disabilities July 2011 – December 2012.pdf

12.4. From 2004 to 2007 inequality fell in New Zealand primarily as a result of the introduction of the Working for Families package. There are signs inequality is rising again. The Ministry of Social Development's Household Incomes Report 2015 (Perry, 2015) showed that household income inequality rose in the year to June 2014, and by one measure (the P80/P20 ratio before housing costs) to an historic high.

12.5. Working for Families is not a panacea to poverty. Perry (2015, p. 115) states that "Working-age adults in single-person households have the second highest poverty rate of all household types, after sole-parent households", with 30 to 32 percent in poverty – and they receive no assistance through Working for Families.

12.6. While Working for Families softens the effects of low wages for those households who qualify, some minimum wage workers do not qualify and its benefits are weakening as a result of thresholds not being adjusted for inflation. In any case, a higher minimum wage still has an important role to play in reducing New Zealand's high level of inequality. It raises the wage floor and, indirectly, wage expectations. It tends to compress the wage distribution, particularly in the lower half of the distribution. Belman and Wolfson (2014, p. 336) conclude from their survey of research on the minimum wage and wage inequality that "higher minimum wages reduced wage inequality by raising the wages of those in the lower tail of the earnings distribution", including "spillover into higher deciles of the wage distribution, particularly among women". Maloney and Pacheco (2012) show that in New Zealand, the strong rises in minimum wages over the 2000s disproportionately benefitted low income households.

12.7. The unequal distribution of wealth in New Zealand is even more extreme than income inequalities. The wealthiest 1 percent of adults own 16 percent of the country's total wealth, the top 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 (Rashbrooke, 2013).

12.8. New Zealanders are concerned about growing inequality. The August 2013 Roy Morgan opinion poll found 15 percent of those surveyed believed that "Poverty / The Gap Between Rich and Poor / Imbalance of Wealth" is the most important economic issue the country faces. This is greater than the number who responded than the economy and unemployment were the most important issue.

12.9. A second poll conducted in 2013 confirmed New Zealanders' concerns. The UMR poll showed that 24 percent of New Zealanders believe New Zealand is an egalitarian society; 71 percent believe the gap between rich and poor is widening and 78 percent believe that the overall effect of that widening gap is bad[82].

12.10. The book *The Spirit Level* (Wilkinson & Pickett, 2010) marshalled strong evidence to show that wealthy societies with very wide income inequalities have worse outcomes than less wealthy societies with smaller inequalities. The book*, Inequality, A New Zealand Crisis* (Rashbrooke, 2013) focused on not just the growth but the effects of inequality in New Zealand.

12.11. Max Rashbrooke, the editor of *Inequality, A New Zealand Crisis,* continues to bring the spotlight and lens on inequality in New Zealand with his blogs and commentaries and focuses on the increasing divide between very high earners and very low earners and the incomes of very rich people. Rashbrooke argues that capital gains and the wealth gap have to be addressed when discussing inequality as people in the top 10 percent income bracket have made very large capital gains from the housing market.

12.12. This inequality of wealth is reflected in the MSD Household Incomes Report (Perry, 2015) showing that the richest 10 percent accounted for around 50 percent of the total wealth - the average for the OECD - while the top 10 percent of earners accounted for 25 per cent of the total income.

12.13. Rises in the cost of living do not affect all workers equally. Statistics New Zealand is planning to publish price indexes for different households, including by income. Research it carried out in preparation for this decision (Statistics New Zealand, 2014, p. 33) shows that between June 2008 and September 2012, the lowest income 20 percent of households experienced annual inflation at almost twice the rate of the highest income 20 percent: at an annual rate of 2.55 percent compared to 1.33 percent (on a payment-based framework, so not directly comparable to the CPI). In addition, home ownership though becoming increasingly unaffordable, is not well represented in these price indexes.

12.14. 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.

12.15. In 2012 a report by an Expert Advisory Group (EAG) "*Solutions to Child Poverty in New Zealand: Evidence for Action",* was released. This report was unequivocal about the need to find solutions to child poverty stating, "Poverty costs. It harms those directly affected and the wider society. It undermines children's rights to develop their gifts and talents. It reduces opportunities, stifles educational achievements, reduces labour productivity and increases health care costs".

---

[82] Inequality in New Zealand (2013) UMR research: http://umr.co.nz/sites/umr/files/final_inequality_mar-14_1.pdf

12.16. The follow up report by the EAG, in 2013[83] identified some areas where it assesses progress has been made, but it states that none of the recommendations in the initial EAG report to address income adequacy have been undertaken and comments that many families in New Zealand experience financial shocks. The report notes that for families on low incomes with limited financial literacy, such shocks can lead to problem debt which in turn can lead to material hardship.

12.17. Poverty results in an 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 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.

12.18. It is these concerns that, as noted in Section 6, have led to the concept of a Living Wage being widely accepted as a necessary step in reducing inequality and poverty in society and to the growth of the Living Wage movement in New Zealand. The Living Wage is now on the employment and political agenda. This campaign has changed the debate about wages with a fast growing acceptance that earnings should be based on what workers need to survive and participate in society and not on the market alone.

12.19. Pay matters. Poor quality employment and enduring low wages increase social inequalities. We are very concerned that changes in social security legislation that have introduced new work expectations and work preparation expectations will effectively force solo parents into low-paid work. The probability of solo parents being in low paid work and poor quality work is high with the return to work being strewn with obstacles such as unaffordable or unreliable childcare, inflexible workplace practices, high work-related costs. [84]

12.20. As the Review of Health Inequalities in England commented, "Getting people off benefits and into low paid and insecure and health damaging work is not a desirable option." (Marmot, 2010) This is discussed more fully in section 12 above. 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.

12.21. 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 if it raises the wage floor. Housing is the largest item of household expenditure. Housing is unaffordable for an increasing number of New Zealanders and house prices are expected to remain high for the foreseeable

---

[83] Child Poverty in New Zealand Building on Progress to Date (2013) Expert Advisory Group,

[84] More Than Just Another Obstacle: Health, Domestic Purposes Beneficiaries, And The Transition To Paid Work (2004) Baker M, Tippin D.,

future. Again the 2014 Demographia International Housing Affordability Survey reported that housing in New Zealand remains severely unaffordable[85]. The table below shows the categories used in this survey.

Table ES-1 *Demographia International Housing Affordability Survey* Housing Affordability Rating Categories	
Rating	Median Multiple
Severely Unaffordable	5.1 & Over
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 & Under

12.22. New Zealand's only major metropolitan market, Auckland, was severely unaffordable, with a median multiple of 8.2. Auckland has been rated severely unaffordable in all 11 *Demographia International Housing Affordability Surveys.*

12.23. Overall, housing in New Zealand was severely unaffordable, with a median multiple of 5.2. Christchurch had severe housing affordability, with a median multiple of 6.1, while Wellington was also severely unaffordable, at 5.3. There were no moderately affordable or affordable markets in New Zealand. Demographia reports that "housing affordability has declined materially in New Zealand's three largest markets over the last decade"

12.24. 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.

12.25. The MSD Household Incomes Report (Perry, 2015) stated that "High housing costs relative to income are often associated with financial stress for low- to middle-income households. Low-income households especially can be left with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education for household members. Just over one in four Quintile 1 households reported spending more than half their income on accommodation which was a rise from one in five from 2004 to 2009 and higher than any time since the time series begins in 1988."

12.26. The Child Poverty Monitor Technical Report in 2013 reported that 94 percent of Accommodation Supplement recipients who were in rental accommodation

[85] "11th Annual Demographia International Housing Affordability Survey: 2015", Demographia, available at http://www.demographia.com/dhi.pdf

spent more than 30 percent of their income on housing with 48 percent spending more than 50 percent of their income on housing. [86]

12.27. Increasing costs for households are reflected in increasing child poverty rates. Housing costs are an important factor in child poverty rates as housing costs generally make up a greater proportion of household income for lower income than for higher income households.

12.28. A report into children and housing confirmed found that some children in New Zealand are “exposed to housing in poor condition, housing that is unaffordable, housing that has insecure tenure and households that are crowded”.[87] Living in a crowded household is particularly bad for health. A 2003 report established that crowding is more common among low–income households, households in rental accommodation (particularly state owned rental accommodation), younger households, single parent households, households with more dependent children, and households that include two or more families. [88]

12.29. Meanwhile Increases in house prices in the last decade 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.

13. Gender Pay Gap

13.1. Reducing the gender pay gap is an essential consideration in making an adjustment to the minimum wage increase. We have noted our concerns previously about the removal of the gender pay gap as a criterion in deciding the level of the minimum wage. A comprehensive review of the minimum wage must include the impact of a minimum wage adjustment on the gender pay gap and by implication gender equity.

13.2. The major contributor to the gender pay gap is the undervaluing and underpayment of women in low-paid female dominated occupations. Evidence shows that as occupational groups become more female-dominated, the pay rate for the work lowers, resulting in a declining relative wage as the female workforce increases.[89]

---

[86] Children’s Social Health Monitor (2012), Update: http://www.nzchildren.co.nz/document_downloads/2012CSHM3_Child_Poverty_and_Living_Standards.pdf

[87] James B, Saville–Smith K. (2010). Children's Housing Futures. Wellington: Centre for Housing Research Aotearoa New Zealand.

[88] Statistics New Zealand. 2003. Chapter 3: Characteristics of Crowded Households. *In* What is the extent of crowding in New Zealand? An analysis of crowding in New Zealand households 1986–2001. Wellington: Statistics New Zealand.

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

13.3. A lift in the minimum wage is a mechanism to decrease the gender pay gap and to improve the position of low paid women workers in the labour market. In New Zealand, increases in the minimum wage have been shown to make a small but important contribution in reducing the gender pay gap.[90]

13.4. Female labour force participation was at 64.0 percent in the June 2015 quarter (up from 63.1 percent in June 2014, but down from 64.2 percent in March 2015, seasonally adjusted).

13.5. New Zealand researcher Maire Dwyer[91] notes 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.

13.6. A survey undertaken in 2014 [92] into the aged care sector interviewing 900 home and community care workers and residential aged care employees found that a high number of participants identified themselves as the main earner in their households. Not surprisingly the survey respondents reported on significant dissatisfaction with low wages. Of community care sector workers 73.3 percent were paid less than $15 an hour (the minimum wage was then $14.25 an hour). A further 20 percent of workers in the home/ community care sector received $16-$19 an hour.

13.7. In the aged residential care sector 37.7 percent of caregivers who completed the survey were on an hourly rate of less than $15.00 and 59.4 percent received between $15.00 and $19.00 an hour. And yet the work being undertaken by these caregivers, many of whom are on wages close to the minimum wage is not unskilled work. The report confirmed that the work has got physically and emotionally harder as older people are frailer when they enter care now. There is some evidence that tasks carried out by registered nurses in the past are now being delegated to caregivers.

13.8. Along with low wages there is also employment insecurity in this sector. Many workers do not have guaranteed hours per week even when they are permanent employees. Underpayment of wages and very low wages lead to not only an undervaluation of the job but also to the way workers are perceived and treated.

---

90 "Understanding Reductions in the Gender Wage Differential -1997- 2003", by S. Dixon, paper at New Zealand Conference for Pay and Employment Equity,2004, Wellington.

91 "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.

92 Ravenswood, K, Douglas, J, and Teo, S. (2015). *The New Zealand Aged Care Workforce Survey 2014*. New Zealand Work Research Institute: AUT.

13.9. Women are more likely to be in low paid work than men. Māori and Pacific women are particularly over represented in low waged work. The minimum wage has an important role in reducing not only gender discrimination in the labour market but also in reducing ethnic discrimination.

13.10. Women who predominate in lower paid part-time work are penalised in 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.

13.11. Different surveys report different gender pay gaps depending on the measure used. The issue is, however, the persistence of the gender pay gap and all survey data is consistent in showing lack of any real change.

13.12. The CTU favour the use of the average hourly earnings to examine the gender pay gap. We do so because using the average hourly rate encapsulates the full labour market and the pay rates of all salary and wage earners including higher earners where some of the largest differentials lie. In comparison the median is relatively insensitive to differences and so is less informative than the average. There are also longer series for average hourly earnings so they are able to show the persistence of the gender pay gap.

Average hourly earnings comparisons by main gender and ethnic groups of wage and salary earners: NZ Income Survey June 2015 [93]

	Women	***Men***	***All***
Pakeha	$26.13	$31.08	$28.66
Māori	$22.46	$24.48	$23.48
Pacific	$20.83	$22.80	$21.87
All	$25.35	$29.44	$27.46

Women's pay by ethnicity relative to other groups

		Relative to:				
		Pakeha women	**Māori men**	**Pacific men**	**Pakeha men**	**All men**
Women	**Pakeha women**	100.00%	106.7%	114.6 %	84.0%	88.7%
	Māori women	85.9 %	91.7 %	98.5%	72.2%	76.2%
	Pacific women	79.7%	85.0%	91.3%	67.0%	70.7 %

13.13. For several years women's average ordinary time hourly pay rate has hovered around 85-86 percent of men's. There was an improvement from 85.9 percent

[93] Statistics NZ, New Zealand Income Survey, June quarter 2015, Table 10

in June 2011 to 87.3 percent in June 2012 but that is thought to have been partly due to stagnation in average wages for Pacific and Asian men that year.

13.14. The 2015 annual New Zealand Income Survey showed women earn on average $25.35 an hour compared with $29.44 an hour on average for men. That is, women earn 86.1 percent of men's earnings, a gap of 14 percent. This is the same as last year and down from 87.3 percent in June 2013. There is no evidence of any overall trend in the reduction of the gender pay gap.

13.15. 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.

13.16. Having no other recourse, given the disestablishment of all other structural measures to address pay and employment inequity, unions have taken to litigation to recognise the undervaluation of women's work in the aged care sector in order to raise pay levels in this female dominated work area.

13.17. In 2012 the Service and Food Workers Union (SFWU) took the case of Kristine Bartlett to the Employment Court. At that time, Kristine, despite twenty years of experience caring for frail and elderly patients in aged care residential facilities was being paid $14.46 – just 71 cents above the minimum wage.

13.18. The case is a claim for better wages for one of the lowest paid groups in the country "whose pay scales reflect an historic systemic undervaluing of the caring role played by women".[94] It was also a rally cry against the poverty among working families and the poverty wages that women who work in the caring sector are being paid.

13.19. In 2014 the Court of Appeal dismissed the Terranova Homes and Care Ltd appeal against the Employment Court which was favorable to Kristine and her union, the SFWU. The Court of Appeal stated that the Employment Court's answers were correct with the decisions "driven by the language and purpose of the Act itself"[95]. The Court of Appeal referred to selecting comparators and evaluating the work though the employers have argued this is a major problem. The case is now moving to a hearing of the Principles of the Equal Pay Act which is set for March 2016.

13.20. The aged care employers' organisation, the New Zealand Aged Care Association, has publicly accepted that care workers deserve a pay increases

---

[94] Caring Counts Tautiaki tika. Report of the inquiry into aged care. (2012) Human Rights Commission, Wellington.

[95] http://img.scoop.co.nz/media/pdfs/1410/Terranova_Homes__Care_Ltd_v_Service__Food_Workers_Union_Judgment.pdf

and that they should be receiving as much as those in the DHB/ public health sector which is around $2- $3 an hour more. Despite this, even though some of them work for very profitable multinational corporations, care workers are not getting the increases in wages and tens of thousands of care workers remain on minimum wages or close to minimum wage levels.

13.21. This case continues in the Employment Court, though a potential breakthrough has come with the Government indicating that it is prepared to negotiate on the caregivers' case. This is still under discussion as this submission is written.

14. International commitments – UN & ILO

14.1. New Zealand has committed to provide fair just and favourable conditions of remuneration to all workers by ratification of several binding international instruments including:

- The International Covenant on Economic, Social and Cultural Rights (ICESCR);
- The United Nations Convention on the Elimination of all forms of Discrimination Against Women (CEDAW);
- The International Convention on the Elimination of all forms of Racial Discrimination (CERD);
- The United Nations Convention on the Rights of Persons with Disabilities (CRPD);
- The United Nations Convention on the Rights of the Child (CROC);
- The ILO Declaration of Philadelphia;
- ILO Convention No. 26 on Minimum Wage Fixing Machinery (C26);
- ILO Convention No. 99 on Minimum Wage Fixing Machinery (Agriculture (C99);
- ILO Convention No. 100 on Equal Remuneration (C100);
- ILO Convention No. 111 on Discrimination (Employment and Occupation) (C111);

14.2. Article 7(a) of ICESCR mirrors the language of article 23 of the Universal Declaration of Human Rights in calling for State Parties to recognise the right of everyone to "[f]air wages and equal remuneration for work of equal value without distinction of any kind" and a "decent living for themselves and their families."

14.3. The constitution of the ILO incorporates the Declaration of Philadelphia. Article III(d) of the Declaration states that governments have a responsibility to pursue "policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection."

14.4. Article 11 of 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".

14.5. New Zealand took a leading role in the development of CRPD. Article 27 of CRPD 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.

14.6. As noted in section 11, as part of New Zealand's compliance with the requirements of the CRPD, an Independent Monitoring Mechanism (IMM) has been set up to monitor our compliance which reports annually. We support the calls from the IMM to review the Minimum Wage Exemption Permitting scheme.

14.7. C26 and C99 set out the requirements for New Zealand to operate a central wage fixing system and which sectors it may apply to. Article 3 of C26 holds that workers and employers must be consulted on the operation of that machinery.

14.8. C26 came into force in 1940 and was ratified by New Zealand in 1948. Since then, the ILO has created an updated Convention No. 131 on Minimum Wage Fixing in 1970 (C131). C131 provides a more modern framework for consultation on wage fixing and consultation than C26. C131 mandates a more principled review process than C26. For example, article 3 states:

> 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.

14.9. The ILO has urged New Zealand to consider ratification of this convention for years. We believe there are few and minor obstacles to ratification and **recommend** that steps are taken to ratify C131.

15. Addressing the Minimum Wage Review Objectives and Questions

15.1. The process for the Minimum Wage Review's objective is:

> To keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses.

15.2. This contains two flawed assumptions. The first is that the minimum wage is currently at the correct level and therefore should only be increased in order "to protect the real incomes of low-paid workers." This fails to recognise the significance of the minimum wage as a macroeconomic lever to address issues of social justice, income inequality, poverty and improvement of the position of disadvantaged groups.

15.3. We do not believe that this narrow consideration adequately guarantees citizens' rights to "a just and favourable remuneration" under article 23(2) of the Universal Declaration of Human Rights or to provision of an adequate living wage under the Declaration of Philadelphia.

15.4. The second flawed assumption is that increasing the minimum wage leads to significant job losses. See above for further details.

15.5. We encourage the Government to recognise the importance of increasing the minimum wage as a tool to improve social outcomes, productivity and social justice and to recognise these as 'other factors' in terms of the criteria for assessment.

15.6. The minimum wage review is a significant annual opportunity for the Government to intervene to support those on low incomes. That requires a broad-based enquiry against rigorous and balanced criteria along with widespread consultation. Narrowing the criteria and limiting the depth of the review are retrograde steps.

15.7. A number of questions were asked in the invitation to contribute to this year's review. Our responses are as follows. Please also refer to submissions from our affiliates. Some but not all of their comments are incorporated below. While we do not repeat all the issues from last year's submission, the problems they illustrate have not disappeared.

1. What impacts have you observed as a result of changes to the minimum wage? (You may wish to discuss the April 2015 increase, and/or increases over the past 5 years. Please define the time period you are discussing).

15.8. Evidence of the impacts of changes to the minimum wage are spread throughout our submission above.

15.9. We have provided evidence that the minimum wage is too low in relative terms and that growth in the minimum wage has slowed significantly (or reversed in the case of the minimum wage for young people) since 2008.

15.10. The slow growth of the minimum wage disproportionately affects part-time workers, women, under-25s, Māori, Pacific, Asian and other ethnic minorities along with those in service-related, residential care, retail and hospitality industries.

15.11. A low minimum wage keeps New Zealand's general wage levels low and traps many workers and employers in a low-wage low-skill equilibrium. It consequently has negative consequences for productivity, equality, poverty, the gender pay gap and labour participation rates.

15.12. Evidence is clear that increases in the minimum wage have not appreciably increased unemployment nor impacted employment. There are much more significant effects currently on unemployment from high net immigration and policies harsh work requirements for social welfare beneficiaries, both of which are subject to government control or influence.

15.13. For many workers on or near the minimum wage their pay is kept low not only by their employer but by the level of government funding of their employer. This is particularly true in the aged and home care sectors.

15.14. One of our affiliates, the Service and Food Workers Union Nga Ringa Tota (SFWU), which covers many low paid workers, reports that the recent changes in the minimum wage have meant employers have improved their wage rates at the bottom higher than they normally do. For instance, in the commercial cleaning sector the minimum rate of pay in all the major cleaning companies (thorough the Cleaning Industry MECA) is now set at a margin above the minimum wage, so that if the minimum wage increases, so automatically do all the cleaning rates. This is because the major cleaning companies do not want to be known as minimum wage employers and say that their clients also appreciate this fact and are more ready to pass-on the extra cost for this purpose.

2. What are the gains or positive impacts likely to be from a moderate increase in the minimum wage rates for the people you represent? (The minimum wage rate increased by 50 cents per hour in 2015).

15.15. The use of the term "a moderate increase in the minimum wage" suggests some predetermination in the minimum wage review or begs the question of what constitutes a moderate increase.

15.16. An increase in the minimum wage that is greater than the increase in the cost of living and raises the minimum wage towards two-thirds of the average wage will assist in making New Zealand a more equal society including by narrowing the gender pay gap. It is likely to assist in raising productivity.

15.17. A rise in the minimum wage towards a 'living wage' is more consistent with New Zealand's international treaty commitments and is good for New Zealand's international reputation.

15.18. For many low paid workers, the minimum wage increase is the only increase they receive.

15.19. However some of our affiliates also note that it is common for workers just above the minimum wage not to get the same increase unless it results in their pay or pay scale falling below the new rate. While unions work to remedy this, it limits the impact of a “moderate” increase in the minimum wage.

15.20. For low paid workers the basic issue is to gain more income for them and their families. As noted above, 40 percent of children in poverty have at least one full-time worker in their household so any increase goes to the children as well as the adults.

3. What costs or negative impacts are likely from a moderate increase in the minimum wage rates for the people you represent?

15.21. See discussion of “moderate increase” under question 2 above. We do not believe an increase of that size sufficiently addresses the problems faced by low income workers and the other issues we have discussed, including low wages more generally. It would only marginally assist low income workers. For many, it is still a poverty wage. Employers who pay close to the minimum wage only match the new rate.

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

15.22. It is important to consider the underlying reason for minimum wage laws: it is to ensure workers have enough to live on. As Chief Judge Colgan stated in *Law (and others) v Board of Trustees of Victoria House* [2014] NZEmpC 25 at [54]:

> [54] The MW Act exists to provide minimum essential terms and conditions of employment and to avoid the exploitation of employees with little or no bargaining power. It should be interpreted accordingly and not so artificially that it could easily be rendered impotent. The MW Act can hardly be said to create a bonanza of riches for employees covered by it.

15.23. While we appreciate this was written in the context of interpretation of the law, it is the purposive spirit and its logical consequences that are important in the present context.

15.24. Having enough on which to live depends on hours worked as well as the rate paid, and on the benefit and tax systems. For many workers, there is an increasingly toxic mix of insecure hours (or indeed employment), the rules in the welfare benefit system and the taxation system, including Working for Families tax credits, that indeed tend to “render impotent” the rationale for Minimum Wage laws. This is further exacerbated by weak enforcement of the minimum wage rate, inadequate rises in the hourly rate, and artifices such as that in the Minimum Wage Amendment Order, described above, designed for employer convenience rather than employee protection.

15.25. In last year’s review we reported a number of cases where the lives of low wage workers were made even more difficult by their interactions with WINZ and IRD, and the conflicting or poorly matched policies each of them is required to follow with regard to thesholds, abatements, work requirements and so on. The Government is at pains to remove compliance costs from business (to the point at times of removing compliance) but is if anything increasing compliance costs to people accessing the social security system. For them these stresses add to the problems that forced them to access the social welfare system in the first place. We have no reason to believe this is not still happening, though it is not universal.

15.26. We emphasise that this is *not* a reason to restrict increases in the minimum wage. The problem is in the often punitive design of the welfare system, the design of Working for Families, and the administration of them by WINZ and IRD. Workers would rather get an adequate income from their employer rather than relying on state top-ups with all the difficulties this involves, especially if their hours change during the year, but it is essential to have a strong social security system.

15.27. While the Working for Families package was a significant contributor to the decline in inequality in New Zealand between 2004 and 2007, the inapplicability of the In-Work Tax Credit to beneficiary families is a significant cause of child poverty in New Zealand.

15.28. An explicit reason for this exclusion is to create an incentive to enter work. We do not give great credence to this argument, which greatly oversimplifies the reasons people have for deciding to work or not to work. In addition, data from Perry (2014 Figure C.7) show that even if the present equivalent of the Domestic Purposes Benefit was lifted by a quarter it would be no higher than the levels relative to the average wage that it was cut to in 1991. The single unemployment and invalids benefits would need an even larger rise to take them back to the 1991 relative rates, let alone the pre-1991 rates. If the levels after the benefit cuts in 1991 were enough to "incentivise" employment, then even a substantial rise in current benefit levels would do no harm.

15.29. However, whether or not credence is given to the "incentives" argument, a higher minimum wage would allow the extension of the In Work Tax Credit while giving much more substantive encouragement to enter work without requiring benefits to be kept at a level which keeps families in poverty and deprivation.

15.30. Actions taken by the Government to force more beneficiaries into work are almost certainly increasing unemployment and helping to maintain low wages while in many cases not resolving issues of poverty and lack of future prospects. Insecure employment and the Government's own law changes are adding to their problems: we note the comments in the *Benefit System Performance Report for the year ended 30 June 2013* (Raubal & Judd, 2014b, p. 33):

> 4.50 The largest portion of returning beneficiaries (44%) had been off benefit for less than one year. A further 19% had been off benefit for less than two years. Some possible causes are:
>
> - Seasonal employment in regions which have industries like agriculture, horticulture and freezing works. These workers are entitled to receive Jobseeker Support in the out of season periods off work and intervention strategies for these people during their periods off work are likely to differ from other churn clients. Seasonal employment also is evident in major centres in education,

hospitality and some retail sectors. These workers are expected to be found in the less than one year on benefit segments.

- Casual labour workers with a low skill level in low-income employment are characteristics that can create instability for people in this type of work and increase the likelihood of returning to benefit.
- The 90 day trial period also is likely to be a factor for those with barriers to sustainable employment. Figures published by the Ministry of Business, Innovation and Employment show that, in 2012, 27% of employers said they had fired at least one new employee during or at the end of their trial. For clients who have had multiple periods on and off benefits over the last five years, the greatest number of spells off benefit lasted between 31 and 90 days. Vulnerable clients with low skills and complex needs face increased barriers to staying in work.

15.31. We **recommend** that a work programme be undertaken to consider the interaction between the minimum wage, regulation of work hours, insecurity of employment and work hours, the benefit system and the taxation (and tax credit) system.

15.32. See also sections 3, 11 and 12 above for further details.

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

15.33. The growth of salarisation to reduce workers' pay following the May 2014 Minimum Wage Amendment Order is a growing concern.

15.34. Several industries with female-dominated workforces such as residential aged care have large cohorts of workers at or near the minimum wage. This has a significant impact on the gender pay gap.

15.35. There are many issues in home support where there is a preponderance of part time, casual workers with highly variable hours of work. While some (such as "in-between travel") are being addressed, many remain.

15.36. As described in the body of our submission, we are concerned about the still inadequate enforcement. The added complexity of two-week averaging, 'starting out' and trainee rates alongside the growth of non-standard work arrangements, insecure jobs and highly varying hours (including 'zero hour' contracts) make this a toxic mix which invites exploitation.

6. Do you think there are any additional issues relating to minimum wage rates that are relevant to specific groups you represent? (eg: women, Maori, Pacific Island peoples, people with disabilities, migrants, temporary workers, SME's or employers?)

15.37. The re-introduction of youth sub-minimum wages in the form of the starting out wage has significantly disadvantaged young people in a discriminatory and unfair manner. There is little or no evidence that cutting their wages will result in more work, or indeed that most employers really want it. We are strongly opposed to any form of discrimination in pay rates that lowers those rates, whether on the basis of age, disability or jobs traditionally performed by women.

15.38. Our affiliates are aware of situations where migrants have not been paid even the minimum wage.

15.39. Very low pay rates put pressures on families in other areas such as health, education and family life especially because of the long hours workers have to work to earn a liveable income. There is more impact on Māori, Pacific Island and migrant families as they are disproportionately in these groups.

15.40. The work to review Minimum Wage Exemption Permits must be carried through to its conclusion.

7. What would you consider an appropriate setting for the 2016 adult minimum wage? Why?

See section 2 (and particularly paragraphs 2.13 and 2.14).

8. Are there any other issues you would like to raise in relation to changes to the minimum wage rates?

15.41. See above. We urge the Government to reinstate wider consultation and consideration of social justice and equity factors in the setting of the minimum wage.

15.42. We believe that the Government should consider ratification of ILO Convention No. 131 on Minimum Wage Fixing as representative of best practice in this area.

9. Of the people you represent or employ:

a. What portion of workers are directly affected by the minimum wage?

b. How long do people tend to remain on the minimum wage? What factors affect the length of time someone is paid the minimum wage?

c. Are the wages of people earning above the minimum wage increased as a result of minimum wage increases? Please describe.

d. Are any changes made to improve productivity to adjust for the cost of a minimum wage increase? Please describe.

e. What effect has increases to the minimum wage had on business growth?

f. What effect have increases to the minimum wage had on the hours worked by workers?

Our affiliates are commenting on this.

16. Conclusion

16.1. We have presented a comprehensive submission making a clear case on multiple grounds for a significant increase in the minimum wage for the comprehensive review in 2015.

16.2. In the spirit of a comprehensive review we have also made some suggestions and recommendations for changes to the process and policy changes.

16.3. Despite this being described as a comprehensive review, the CTU continues to be very concerned by the Government's changes to the minimum wage review process. Even this review had narrower criteria than appropriate. This situation is even worse in the other three years of the cycle. Narrowing the criteria, limiting the depth of the review and the number of submissions and severely reducing the time frame for the review are all retrograde steps. We urge the Minister of Labour and MBIE to reconsider the nature of the review process.

16.4. We look forward to the opportunity to discuss the matters raised in this submission further. The oral submission will give provide an opportunity for affiliated unions to present the realities, impacts and difficulties for working people who live on minimum wages.

References

Autor, D. H., Manning, A., & Smith, C. L. (2010). *The Contribution of the Minimum Wage to U.S. Wage Inequality over Three Decades: A Reassessment* (Working Paper No. 16533). National Bureau of Economic Research. Retrieved from http://economics.mit.edu/faculty/dautor/papers/inequality

Belman, D., & Wolfson, P. J. (2014). *What does the minimum wage do?* Michigan, USA: W E Upjohn Institute for Employment Research.

Black, M., Guy, M., & McLellan, N. (2003). *Productivity in New Zealand 1988-2002* (Working Paper No. WP 03/06) (p. 43). Wellington, New Zealand: The Treasury. Retrieved from http://treasury.govt.nz/publications/research-policy/wp/2003/03-06

Blumenfeld, S. (2015, July). *A Post-Fordist Dilemma? Precarious Work and Employer-sponsored Training in New Zealand*. Presented at the New Zealand Association of Economists 56th Annual Conference, Wellington, New Zealand.

Blumenfeld, S., Ryall, S., & Kiely, P. (2015). *Employment Agreements: Bargaining Trends and Employment Law Update 2014/2015*. Wellington, New Zealand: Centre for Labour, Employment and Work, Victoria University of Wellington.

Brewerton, M. (2004). *Influences of maternal employment and early childhood education on young children's cognitive and behavioural outcomes* (Literature review). Wellington, New Zealand: Ministry of Women's Affairs.

Burchell, B. (2011). A Temporal Comparison of the Effects of Unemployment and Job Insecurity on Wellbeing. *Sociological Research Online*, *16*(1), 9.

Card, D., Kluve, J., & Weber, A. (2010). Active Labour Market Policy Evaluations: A Meta-Analysis. *The Economic Journal*, *120*(548), F452–F477. http://doi.org/10.1111/j.1468-0297.2010.02387.x

Chapple, S. (2013). Forward Liability and Welfare Reform in New Zealand. *Policy Quarterly*, *9*(2), 56–62.

Charnoz, P., Coudin, E., & Gaini, M. (2011). Decreasing Wage Inequality in France 1976-2004: Another French Exception? (p. 46). Presented at the CEP Labour Market Workshop, London, U.K.: London School of Economics. Retrieved from http://cep.lse.ac.uk/seminarpapers/32-01-12-MG.pdf

Conway, P., Meehan, L., & Parham, D. (2015). *Who benefits from productivity growth? –The labour income share in New Zealand* (Working Paper No. 2015/1). Wellington, New Zealand: New Zealand Productivity Commission. Retrieved from http://www.productivity.govt.nz/working-paper/who-benefits-from-productivity-growth-the-labour-income-share-in-new-zealand

Dalziel, P. (2011). *Welfare and Social Sector Policy and Reform: Options and Alternatives*. AERU Research Unit, Lincoln University. Retrieved from https://www.conferenz.co.nz/content/whitepapers/2011/DALZIEL%20Welfare%20Paper%20FINAL.pdf

DiNardo, J., Fortin, N. M., & Lemieux, T. (1995). *Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semiparametric Approach* (Working Paper No. 5093) (p. 64). National Bureau of Economic Research. Retrieved from C:\Users\wjr24\Documents\Docs\Economics\Labour. (Labor Market Institutions and the Distribution of Wages, 1973-1992, A Semiparametric Approach - DiNardo et al.pdf)

DiNardo, J., & Lemieux, T. (1997). Diverging Male Wage Inequality in the United States and Canada, 1981-1988: Do Institutions Explain the Difference? *Industrial & Labor Relations Review*, *50*(4), 629–651.

Engbom, N., Detragiache, E., & Raei, F. (2015). *The German Labor Market Reforms and Post-Unemployment Earnings* (Working Paper No. WP 15/162). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=43094.0

Galt, M., & Palmer, C. (2013). *Analysis of the Proposed $18.40 Living Wage* (No. T2013/2346). Wellington, New Zealand: New Zealand Treasury. Retrieved from http://www.treasury.govt.nz/publications/informationreleases/livingwage/pdfs/lw-2726820.pdf

Garnero, A., Kampelmann, S., & Rycx, F. (2014). *Minimum Wage Systems and Earnings Inequalities: Does Institutional Diversity Matter?* (Discussion Paper No. 8419). Bonn, Germany: Institute for the Study of Labor (IZA). Retrieved from http://ftp.iza.org/dp8419.pdf

Giotis, G., & Chletsos, M. (2015). *Is There Publication Selection Bias in Minimum Wage Research during the Five-year Period from 2010 to 2014?* (Economics Discussion Paper No. 2015-58). Greece: Kiel Institute for the World Economy. Retrieved from http://www.economics-ejournal.org/economics/discussionpapers/2015-58

Grimshaw, D., Bosch, G., & Rubery, J. (2013). Minimum Wages and Collective Bargaining: What Types of Pay Bargaining Can Foster Positive Pay Equity Outcomes? *British Journal of Industrial Relations*. http://doi.org/10.1111/bjir.12021

Haig, R. (2010). *Labour Market Dynamics and Future Challenges: An Issues Paper for the Welfare Working Group*. Wellington, New Zealand: Department of Labour. Retrieved from http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working papers/DoL-paper-on-labour-markets.pdf

Hazledine, T. (2015, June). *Tip of the iceberg? Organisational foundations of Top Pay in New Zealand listed companies, 1995-2014*. Presented at the New Zealand Society of Economists annual conference, Wellington, New Zealand. Retrieved from http://asset-lax-1.airsquare.com/nzae/library/hazeldine_tim.pdf?201506190810

Herr, H., & Kazandziska, M. (2011). *Principles of Minimum Wage Policy - Economics, Institutions and Recommendations* (Working Paper No. 11) (p. 28). Berlin: Global Labour University. Retrieved from C:\Users\wjr24\Documents\Docs\Economics\Labour\Minimum wage. (Principles of Minimum Wage Policy - Economics, Institutions and Recommendations - GLU - Hansjörg Herr and Milka Kazandziska.pdf)

Herr, H., Kazandziska, M., & Mahnkopf-Praprotnik, S. (2009). *The Theoretical Debate about Minimum Wages* (Working Paper No. 6). Berlin: Global Labour University. Retrieved from http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_115075.pdf

Hirsch, B. T., Kaufman, B. E., & Zelenska, T. (2011). *Minimum Wage Channels of Adjustment* (IZA Discussion Papers No. 6132). Institute for the Study of Labor (IZA). Retrieved from http://ideas.repec.org/p/iza/izadps/dp6132.html

Hyslop, D., & Stillman, S. (2004). *Youth Minimum Wage Reform and the Labour Market* (Working Paper No. WP 04/03) (p. 37). Wellington, New Zealand: The Treasury. Retrieved from http://treasury.govt.nz/publications/research-policy/wp/2004/04-03

James, A. (2011). Immigrant workers in New Zealand: the truly “vulnerable” employees? *New Zealand Lawyer*, (175), 18–19.

Jaumotte, F., & Buitron, C. O. (2015). *Inequality and Labor Market Institutions* (Staff Discussion Note No. SDN 15/14). Washington DC, USA: International Monetary Fund. Retrieved from http://www.imf.org/external/pubs/cat/longres.aspx?sk=42987

Johri, R. (2005). *Work values and the quality of employment: a literature review*. Wellington, New Zealand: Department of Labour. Retrieved from http://www.dol.govt.nz/publication-view.asp?ID=206

Kampelmann, S., & Rycx, F. (2011). *Are Occupations Paid What They are Worth? An Econometric Study of Occupational Wage Inequality and Productivity* (Discussion Paper No. 5951) (p. 39). Bonn, Germany: Institute for the Study of Labor (IZA). Retrieved from C:\Users\wjr24\Documents\Docs\Economics\Labour\Wages. (Are Occupations Paid What They Are Worth - an econometric study of occupational wage inequality and productivity.pdf)

Maloney, T., & Pacheco, G. (2012). Assessing the Possible Antipoverty Effects of Recent Rises in Age-Specific Minimum Wages in New Zealand. *Review of Income and Wealth*, *58*(4), 648–674. http://doi.org/10.1111/j.1475-4991.2012.00513.x

Marmot, M. G. (2010). *Fair society, healthy lives: the Marmot review ; strategic review of health inequalities in England post-2010.* London, U.K.: Marmot Review. Retrieved from http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review

Mason, G. (2013). *Investigating New Zealand-Australia productivity differences: New comparisons at industry level* (Working Paper No. 2013/02). Wellington, New Zealand: New Zealand Productivity Commission. Retrieved from http://www.productivity.govt.nz/working-paper/nz-australia-productivity-differences

Mayneris, F., Poncet, S., & Zhang, T. (2014). *The cleansing effect of minimum wage : Minimum wage rules, firm dynamics and aggregate productivity in China* (Working Papers No. 2014-16). CEPII. Retrieved from http://www.cepii.fr/CEPII/en/publications/wp/abstract.asp?NoDoc=7139

McLaughlin, C. (2009). The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark and New Zealand. *British Journal of Industrial Relations*, *47*(2), 327–348. http://doi.org/10.1111/j.1467-8543.2009.00726.x

Ministry of Business, Innovation and Employment. (2014a). *Minimum Wage Review 2014*. Wellington, New Zealand: Ministry of Business, Innovation and Employment. Retrieved from http://employment.govt.nz/er/pay/backgroundpapers/2014/Minimum-Wage-Review-MBIE-Report-2014.pdf

Ministry of Business, Innovation and Employment. (2014b). *Regulatory Impact Statement for Minimum Wage Review 2014*. Wellington, New Zealand: Ministry of Business, Innovation and Employment. Retrieved from http://employment.govt.nz/publications/general/ris-min-wage-review-2014/Minimum-Wage-Review-RIS-2014.pdf

Nicholas Jones. (2015, September 15). Immigration could have lowered wage growth - Bill English. *New Zealand Herald*. Auckland, New Zealand. Retrieved from http://www.nzherald.co.nz/news/print.cfm?objectid=11513305

OECD. (2015). *OECD Employment Outlook 2015*. OECD Publishing. Retrieved from http://ifuturo.org/documentacion/Employment%20outlook%202015.pdf

Organisation for Economic Co-operation and Development. (2011). *Divided we stand: why inequality keeps rising.* Paris: OECD. Retrieved from http://dx.doi.org/10.1787/9789264119536-en

Pacheco, G. (2011). Estimating Employment Impacts with Binding Minimum Wage Constraints. *The Economic Record*, *87*(279), 587–602.

Pacheco, G., & Cochrane, B. (2015). *Decomposing the temporary-permanent wage gap in New Zealand* (Working Paper No. 2015/07). Auckland, New Zealand: AUT University. Retrieved from http://www.aut.ac.nz/__data/assets/pdf_file/0010/581824/Economics-WP-2015-07.pdf

Perry, B. (2014). *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2013*. Wellington, New Zealand: Ministry of Social Development. Retrieved from https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html

Perry, B. (2015). *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2014*. Wellington, New Zealand: Ministry of Social Development. Retrieved from https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html

Rashbrooke, M. (Ed.). (2013). *Inequality: a New Zealand crisis*. Wellington, New Zealand: Bridget Williams Books.

Raubal, H., & Judd, E. (2014a). *2013 Benefit System Performance Report for the year ended 30 June 2013*. Wellington, New Zealand: Ministry of Social Development. Retrieved from http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/investment-approach/2013-benefit-system-performance-report.pdf

Raubal, H., & Judd, E. (2014b). *Benefit System Performance Report for the year ended 30 June 2013*. Wellington, New Zealand: Ministry of Social Development. Retrieved from C:\Users\wjr24\Documents\Docs\CTU\Welfare\Investment approach. (2013 benefit system performance report.pdf)

Raubal, H., & Judd, E. (2015). *2014 Benefit System Performance Report for the year ended 30 June 2014*. Wellington, New Zealand: Ministry of Social Development. Retrieved from http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/evaluation/investment-approach/2014-benefit-system-performance-report.pdf

Roberts, H. M. (2005). *CEO power, executive compensation and firm performance, New Zealand, 1997-2002*. Dunedin, New Zealand: University of Otago. Retrieved from http://hdl.handle.net/10523/1524

Rosenberg, B. (2014, September). Do collective agreements give bigger pay rises? *CTU Economic Bulletin*, (161). Retrieved from http://union.org.nz/sites/union.org.nz/files/CTU-Monthly-Economic-Bulletin-161-September-2014.pdf

Rosenberg, B. (2015a). *The “Investment Approach” is not an investment approach*. Wellington, New Zealand: New Zealand Council of Trade Unions Te Kauae Kaimahi. Retrieved from http://union.org.nz/news/2015/ministry-social-development%E2%80%99s-%E2%80%9Cinvestment-approach%E2%80%9D-not-investment-approach-0

Rosenberg, B. (2015b, March). The Wage Gap with Australia - No Improvement. *CTU Economic Bulletin*, (166). Retrieved from http://union.org.nz/sites/union.org.nz/files/CTU-Monthly-Economic-Bulletin-166-March-2015-2.pdf

Rosenberg, B. (2015c, August). Unions, pay and inequality. *CTU Economic Bulletin*, (171). Retrieved from http://union.org.nz/sites/union.org.nz/files/CTU-Monthly-Economic-Bulletin-171-August-2015.pdf

Schmitt, J. (2012). *Low-wage lessons*. Washington DC, USA: Center for Economic and Policy Research. Retrieved from http://www.cepr.net/index.php/publications/reports/low-wage-lessons

Statistics New Zealand. (2014). *Public consultation on CPI Advisory Committee 2013 recommendations.* Retrieved from http://www.stats.govt.nz/~/media/Statistics/browse-categories/economic-indicators/CPI-inflation/2013-CPI-review-advisory-committee/cpi-public-consultation.pdf

Tan, L. (2013, February 12). Battle for a living wage: Students obliged to take jobs at well below minimum wage. *New Zealand Herald*. Auckland, New Zealand. Retrieved from http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10864809

Treasury. (2014). *Holding on and letting go: Opportunities and challenges for New Zealand’s economic performance: A perspective from the Treasury* (Working Paper). Wellington, New Zealand: The Treasury. Retrieved from http://purl.oclc.org/nzt/big-1691

Welfare Working Group. (2011). *Reducing Long Term Benefit Dependency: Recommendations*. Wellington, New Zealand. Retrieved from http://igps.victoria.ac.nz/WelfareWorkingGroup/Downloads/Final%20Report/WWG-Final-Recommendations-Report-22-February-2011.pdf

Wilkinson, R. G., & Pickett, K. (2010). *The spirit level: why greater equality makes societies stronger*. New York: Bloomsbury Press.

Young, A. (2013, January 22). Welfare reform priority for English. *New Zealand Herald*. Auckland. Retrieved from http://www.nzherald.co.nz/news/print.cfm?objectid=10860601

Zelenska, T. (2011, July 5). *Channels of Adjustment in Labor Markets: The 2007-2009 Federal Minimum Wage Increase* (PhD Thesis). Georgia State, Georgia, USA. Retrieved from http://digitalarchive.gsu.edu/econ_diss/70/