



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission
to the
Minimum Wage Review
2019

29 October 2019

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1. Introduction

- 1.1. The New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU) welcomes the opportunity to make a submission as part of the 2019 minimum wage review. The CTU is the internationally-recognised confederation of trade unions in New Zealand and represents 27 affiliated unions. With over 310,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 1.2. 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.
- 1.3. In this submission we support the Government's stated objective of raising the minimum wage significantly over the next two years. For a fuller analysis of considerations supporting the Minimum Wage, please see our longer submission of 2015¹.
- 1.4. New Zealand workers have low wages by the standards of developed countries. The problems this is causing are well known. Three actions are vital in lifting the low wage levels in New Zealand.
- 1.5. Firstly, the minimum wage must be lifted significantly. It represents the wage 'floor'.
- 1.6. 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, and to which are pleased to see a commitment from the Government, especially through the Future of Work Tripartite Forum process and tripartite Industry Transformation Plans.
- 1.7. Thirdly, we need to ensure that productivity is passed on to workers in their wages. This has not been the case in recent years. The most important and effective step to do this is to strengthen collective bargaining, and particularly industry or sector based bargaining.
- 1.8. An increased minimum wage level is needed as a contribution towards:

¹ Available at <http://www.union.org.nz/151019-minimum-wage-review/>

- Addressing the needs of many low income workers
- Compensating for rising costs
- Narrowing the wage gap with Australia
- Providing a safety net for many vulnerable workers
- Encouraging employers to invest in raising productivity
- Raising New Zealand's low general wage levels
- Maintaining domestic demand and employment levels
- Reducing New Zealand's high income inequality
- Reducing poverty and especially child poverty
- Reducing the imbalance in wages between genders
- Improving the position of Māori and Pacific workers
- Increasing labour participation rates, particularly of disadvantaged groups.

2. The minimum wage level

- 2.1. 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 2019 we estimate this to be \$21.80. It is calculated as follows: the average ordinary time wage as at March 2019 in the Quarterly Employment Survey was \$32.00 an hour and we allow for the 3.2 percent increase in average ordinary-time hourly wages in Treasury's Budget Economic and Fiscal Update (BEFU 2019) to take it to \$33.02 by the end of March 2020. Taking 66 percent of this amounts to \$21.80.
- 2.2. An alternative would be to move to this position over three years. Using the BEFU 2019 forecast increases of 3.48 percent for the year to March 2021 and 3.45 percent for the year to March 2022, the average wage would reach \$35.35 in March 2022. This would imply a target of a minimum wage of \$23.33 as from 1 April 2022. Three equal percentage increases of 9.6 percent in the interim would take it to \$19.41 as from 1 April 2020, \$21.28 as from 1 April 2021, and \$23.33 as from 1 April 2022.
- 2.3. This is higher than the Government's stated intention which is to raise the minimum wage "to \$20 per hour by 2020, with the final increase to take effect in April 2021". The Government has stated its intention to increase it from the current \$17.70 to \$18.90 (that is, by \$1.20) in 2020, and to \$20.00 (by \$1.10) in 2021.

2.4. Without prejudice to our preferred rise in the minimum wage, we submit that the proposed steps from the current \$17.70 to \$20.00 in April 2021 should be accelerated to recognise both the urgency of improving wages and incomes to low households and to recognise that average wage growth is faster than Treasury's forecasts. The minimum wage is therefore not advancing relative to the average wage as fast as anticipated over the period since the Government declared its commitment to the sequence of rises to \$20.00. As the table below shows, Treasury Budget forecasts for wage growth increased between Budget 2018 and Budget 2019 (both forecasts were made after the Government had announced its intentions for minimum wage rises). In the case of June 2019, even its higher 2019 forecast was lower than the actual outcome measured by the Quarterly Employment Survey. We therefore submit that the minimum wage should increase by \$1.30 to \$19.00 in April 2020, and that the adequacy of the \$20.00 target be reviewed next year in the light of rising wages and costs.

Treasury forecasts for annual growth in the average ordinary time hourly wage

Sources: Forecasts from Fiscal Strategy Model Economic Forecasts from 2018 and 2019 Budgets. Actual from Quarterly Employment Survey². 'Nowcasts' are in blue and forecasts in red.

Forecast from	Year to June		
	2019	2020	2021
Budget 2018	2.8%	2.9%	3.3%
Budget 2019	3.0%	3.2%	3.5%
Actual	3.5%		

3. The problem of low wages

3.1. Some employer groups will suggest that significant minimum wage increases impose unbearable costs on employers. But low wages in New Zealand are more than a social issue or a debate about the balance of competing interests. Low wages have become an intrinsic barrier to economic development in New Zealand with international salary differentials limiting New Zealand's ability to attract or retain (particularly) skilled workers.

3.2. The public picks up the tab from poor pay and poor business practices through wage subsidies (such as Working for Families), through the greater demands on the

² Treasury models an average of the QES annual increases for each year for its average hourly wage forecasts, and that is how the Actual increase is calculated. For example the year to June 2019 increase is an average of the four increases September 2018 to September 2019, December 2018 to December 2019, March 2018 to March 2019 and June 2018 to 2019.

welfare system exacerbated by low incomes with their attendant health and education problems, and through poor productivity performance in firms relying on low pay rather than adding greater value.

- 3.3. Employment law changes and policy settings over the years of the previous Government exacerbated this situation. These included insufficient and unfocused support for the development of higher productivity industry, increasing impediments to collective bargaining and union development, reduced protection against dismissal, high levels of low-skill immigration, minimal support for displaced workers, punitive social welfare policies and tolerance of continuing high levels of inequality and poverty. These failed to build a foundation of rising productivity, damaged the transmission mechanisms for fully passing on productivity increases to workers and weakened their bargaining power relative to employers, and undermined the social wage in the form of social support which underpins the wage structure.
- 3.4. We are hopeful that the present Government's policy changes in numerous areas including regional and economic development, improved employment law, fair Pay Agreements, better managed immigration, stronger support for skill acquisition by Kiwi workers, and improvements in social support for workers and families, will help to turn the situation around. Interventions including significant increases in the minimum wage are essential in achieving that.
- 3.5. In this section we sketch some of the evidence for the low wage situation.

Productivity performance is poor

- 3.6. New Zealand's low productivity ranking in the OECD is well known. New Zealand's labour productivity was 24th out of 36 OECD countries in 2017 according to OECD data³ but that obscures the fact that a large number of relatively low productivity countries including Mexico, Chile, and eight from Eastern Europe joined the OECD from the mid-1990s. Among the 23 countries which were in the OECD in 1990 and for which data is available for the period, New Zealand was 21st in 2017. On the same productivity measure, our productivity growth since 1990 was also among the lowest.

³ GDP per hour worked, US dollars, constant prices, 2010 PPPs, downloaded 19 October 2019..

3.7. Productivity growth in New Zealand has continued to be low or very low over the last decade according to Statistics New Zealand’s measures. Labour productivity growth from 2008 to 2018 was somewhat lower at an average of 1.0 percent per year, than between 2000 and 2008 when it grew at 1.3 percent per year.



3.8. There are two main points to take from this poor

performance. Firstly, we should not be satisfied with the light-handed regulation, hands-off government approach which has predominated for the last three decades (but which we hope the current Government will continue to change). Contrary to claims, these policies have not boosted productivity, but have tolerated or encouraged poor management practices, poor safety standards, and exploitation of workers and consumers.

3.9. Secondly, employer claims that higher minimum wages and changes in industrial relations to strengthen collective bargaining will damage productivity have a hollow base. Current labour regulation, which is strongly biased towards individual employment agreements and at best single-employer collective bargaining has produced poor productivity performance. There is little productivity performance to damage. We suspect that employers are in fact defending their rates of profit (which we return to below). Higher profits at the expense of wages are not higher productivity.

Wages are low by international comparison...

3.10. As might be expected from New Zealand’s labour productivity performance, New Zealand’s wages are low by OECD standards, particularly compared to the 23 countries in the OECD in 1990. A comparison of the purchasing power of annual average wages for full-time equivalent employees between OECD countries in 2018

shows New Zealand's wages are 18th highest among 35 OECD countries⁴. But among the countries which were in the OECD in 1990, we have 6th lowest wages. In 1990 New Zealand was genuinely middle of the bunch at 13th of the 23 countries then members. We have fallen to 6th lowest among them.

- 3.11. Our wages have steadily fallen behind countries like Denmark (we were 9% behind in 1990, deteriorating to 28% behind in 2018), Norway (we were 4% ahead in 1990 but 20% behind in 2018), Finland (11% ahead in 1990; 4% behind in 2018) and Sweden (10% ahead in 1990; 4% behind in 2018). Compared to Australia we went from 20% behind in 1990 to 26% behind in 2018, but would have been closer to 36% behind (where they were in 2013) if Australian wages hadn't fallen with the end of the mining boom and a variety of government measures weakening collective bargaining and employment protections there. All have a history over that period of much stronger collective bargaining, including industry bargaining or extension of bargaining, than New Zealand. Our relativity has deteriorated with the great majority the 1990 OECD countries.
- 3.12. Productivity is therefore not the only factor in determining wages.
- 3.13. In addition the "social wage" provided by the welfare system has deteriorated relative to most of these countries as well.

... and wages are low in terms of what New Zealand's economy can afford

- 3.14. This is demonstrated by the low share of New Zealand's total domestic income that wages receive. As Figure 2 shows, the wage share of New Zealand's net domestic income fell sharply from the early 1980s⁵. After accounting for consumption of fixed capital⁶, the wage share peaked at 71% of domestic income in 1981 but it collapsed in the face of repressive employment legislation and a wage freeze. It then

⁴ OECD annual wage series data is at https://stats.oecd.org/Index.aspx?DatasetCode=AV_AN_WAGE. To compare countries, current price wages are converted using corresponding US dollar Purchasing Power Parities for private consumption expenditures at https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE4. For further details see the August 2018 *CTU Monthly Economic Bulletin* available at <http://www.union.org.nz/economicbulletin202/>.

⁵ These results including Figures 4 and 5 come from Rosenberg (2017a).

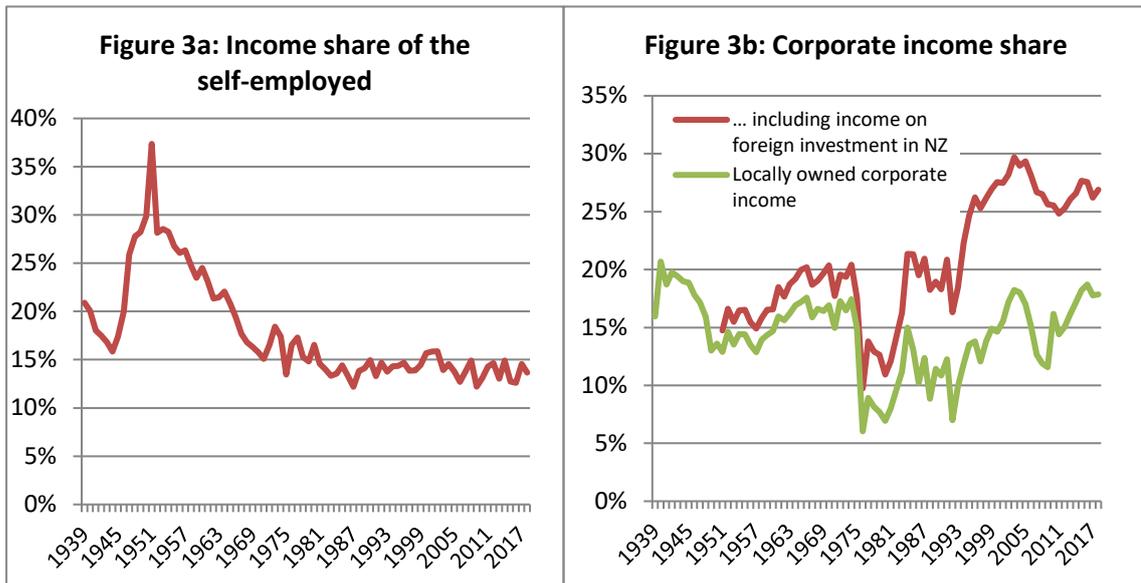
⁶ In the National Accounts (which provide the data for these calculations) depreciation is called "consumption of fixed capital" which is wider than the accounting concept, including destruction of machinery, buildings etc in natural disasters. Gross Domestic Income less consumption of fixed capital gives Net Domestic Income.



continued to fall until 2002 in the face of commercialisation and privatisation of the state, deregulated industrial relations under the Employment Contracts Act, halving union membership rates and crippling effective collective bargaining, severe cuts in the welfare system and high unemployment. A partial restoration of collective bargaining through the Employment Relations Act 2000, low unemployment and strong rises in the minimum wage contributed to a rise in the wage share until 2009 since when it has fallen again.

- 3.15. While falling company profits as a result of the Global Financial Crisis contributed to a peak in 2009, weakening of the Employment Relations Act and higher unemployment under the previous Government meant that by the year to March 2018 the wages share was down to 59.1% of Net Domestic Income.
- 3.16. This general picture is true whether looking at the full economy (as in Figure 2) or only the market economy.
- 3.17. If the wage share had remained at 71%, the average wage and salary earner in 2017 would have been \$12,500 better off per year. Each percentage point of wage share is worth approximately \$1,000 per worker per year.
- 3.18. Who benefited from this fall? As figures 3a and 3b show, it was not the self-employed: their share of income has steadily fallen since 1951, partly because they became wage and salary earners (a significant contributor to the rise in wage share during the 1960s and 1970s) or corporatised their businesses. After accounting for imputed income to home owners equivalent to the rent payments they are avoiding, the remaining portion of the nation’s income goes primarily to the owners of

corporates, both locally and foreign owned. They have been the principal beneficiaries of the falling share of income of wage and salary earners.



3.19. This is confirmed by Statistics New Zealand’s Annual Enterprise Survey which shows that company profits have been rising strongly since 2013 and that wages have not shared in that income growth. An analysis⁷ of Annual Enterprise Survey statistics for the years 2013-2018⁸ shows that taking all industries together, although wages per employee rose, total wages paid fell steeply as a proportion of the income the employees created in them (profits plus wages). The wage share fell from 59.1 percent of income to 55.4 percent between 2013 and 2018 before capital gains and losses were counted. If the share had not fallen, average annual wages and salaries would have been \$3,900 higher than they actually were. Return on equity rose strongly from 10.6 percent to 12.2 percent. If the wage share had not fallen, the return would still have risen, to 11.2 percent.

3.20. The picture is even starker after taking account of capital gains and losses over this period of rapidly rising asset prices. The wage share taking these greater profits into the calculation fell from 60.1 percent of income down to 51.9 percent between 2013

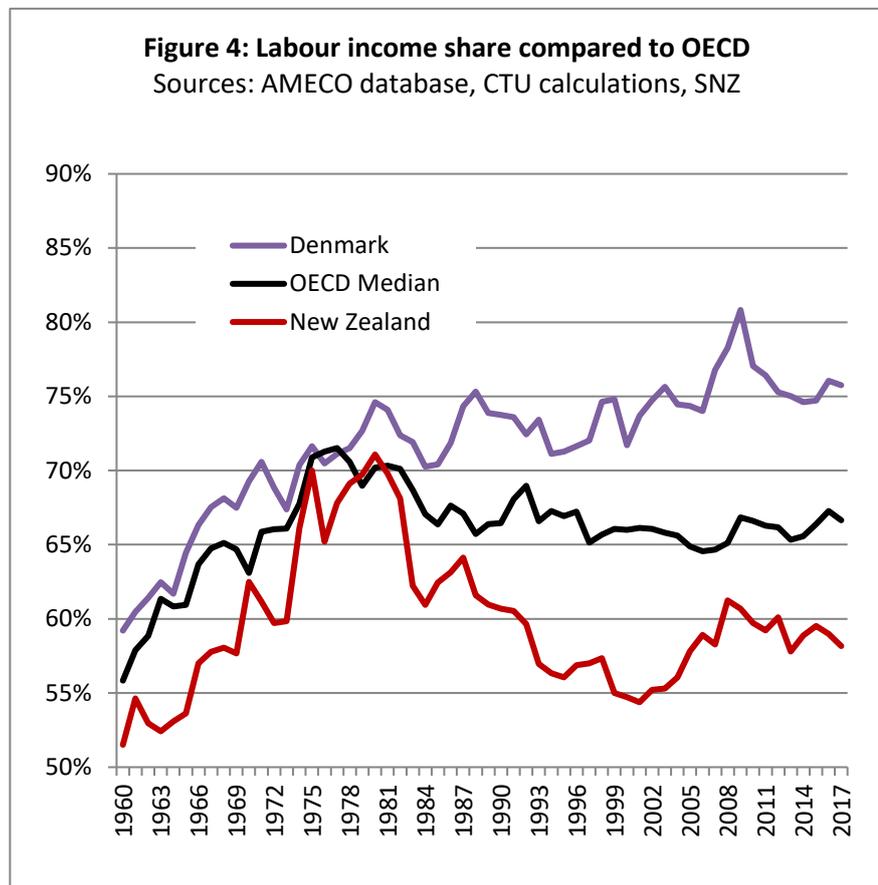
⁷ For more detail see the *CTU Monthly Economic Bulletin*, July 2019, available at <http://www.union.org.nz/wp-content/uploads/2019/08/CTU-Monthly-Economic-Bulletin-213-August-2019-1.pdf>

⁸ The AES surveys “economically significant enterprises” (484,946 “kind-of-activity units” in 2018), so very small enterprises are not represented. It mainly uses tax data, but also surveys some companies, covering businesses with balance dates between 1 October and 30 September. It excludes “non-market government units” though it covers private not-for-profit organisations such as charities. What is termed here as capital gains and losses is “non-operating” expenses and income in the AES, which in this period is largely capital gains.

and 2018. If the share had not fallen, average annual wages and salaries would have been \$9,100 higher than they actually were. Return on equity rose strongly from 10 percent to 14 percent. If the wage share had not fallen, the return would still have risen, to 11.6 percent.

- 3.21. This shows that most firms can well afford pay rises, whether due to an increase in the minimum wage, through collective bargaining or to attract scarce skills.
- 3.22. New Zealand’s wage share not only fell sharply since the 1980s but it is a low share by international standards. Figure 4 compares New Zealand’s wage share to the median in the OECD and to Denmark⁹.

- 3.23. Two features are important. Firstly, the rise in New Zealand’s labour share in the 1960s and 1970s was not unusual internationally. Contributing factors were the move of many self-employed people into wage and salary employment (often out of agriculture) and the oil crisis of the 1970s which cut deeply into company profits in OECD countries. Secondly, New Zealand’s



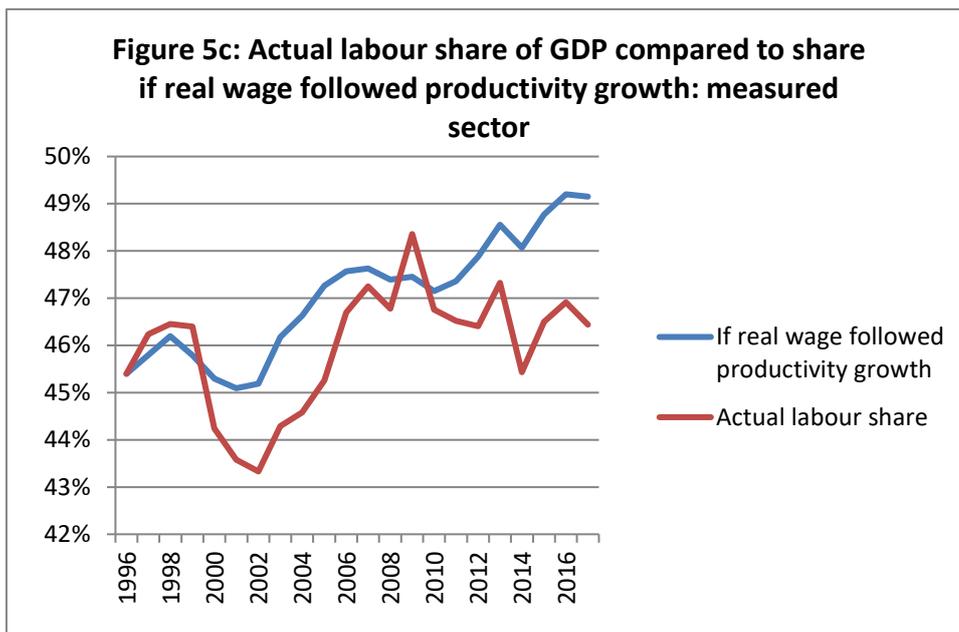
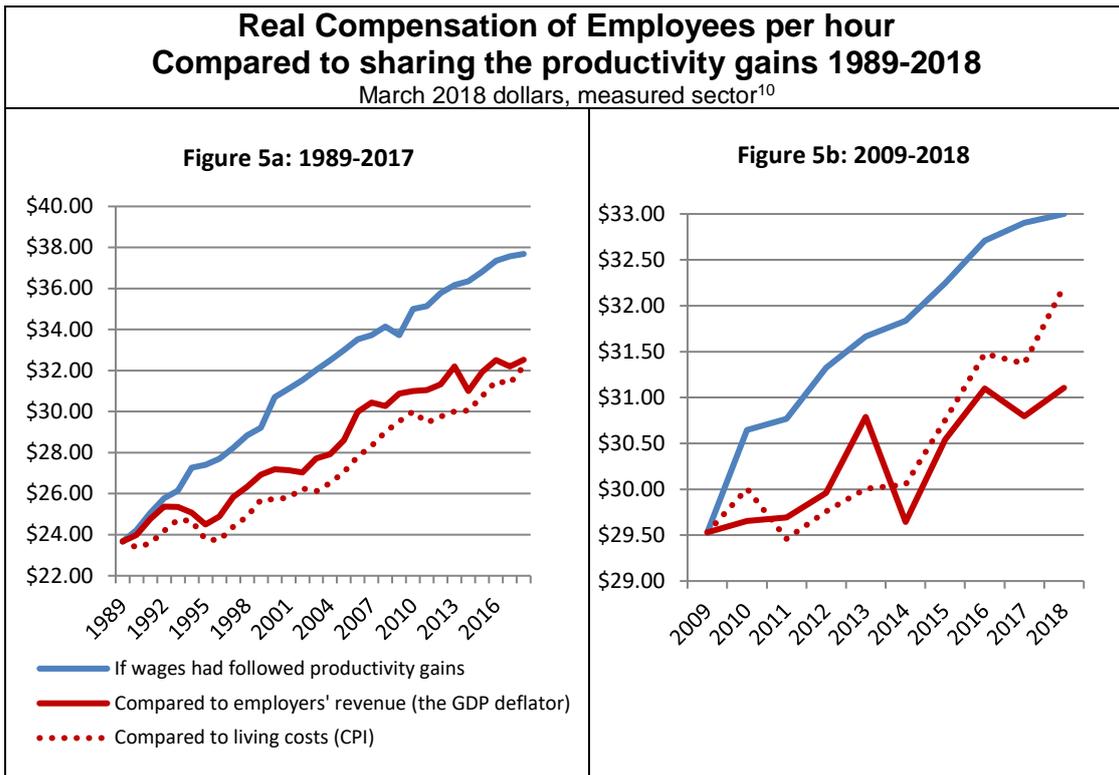
⁹ Figure 4 uses the AMECO database, produced by the European Commission and available at <http://tinyurl.com/ycyxn199>. Wage shares are calculated from AMECO series UWCD (Compensation of Employees) and UOND (Net Operating Surplus) for countries other than New Zealand, and from Statistics New Zealand’s National Accounts, InfoShare series SNE087AA for New Zealand. Income shares are at factor prices, excluding taxes on production (such as GST) less subsidies.

wage share fell much more steeply than most and remains far below its peak and well below the OECD median. It is lower still compared to Denmark, a highly productive, high value economy with high levels of union membership and collective bargaining providing good wages and quality of life to its people. Denmark's wage share has remained at similar levels to the 1970s peak. It cannot therefore be asserted that the fall in labour share in New Zealand is somehow a reversion to some "natural" level.

- 3.24. The wage share of income has another interpretation: it is approximately equal to the real wage cost to employers of a unit volume of production, the 'real unit labour cost'. Low wage share therefore implies employers have low labour costs – yet another way of saying New Zealand has low wages.
- 3.25. Put another way, a falling labour income share means that real wage growth is falling behind labour productivity growth. Figure 5a compares a broad wage measure (compensation of employees per hour worked), to Statistics New Zealand's measure of labour productivity for the market ('measured') sector¹⁰. It is notable that since 2009 the gap between growth in labour productivity and real wages has widened further, which is shown in figure 5b.
- 3.26. However, the labour income share does not exactly represent the effect of real wages falling behind labour productivity growth. Labour productivity is real output (GDP) divided by hours worked by the labour force, and the labour force includes the self-employed as well as wage and salary earners. Therefore with a falling share of hours worked by the self-employed, as is the case, the labour income share (of wage and salary earners) would be expected to *rise* (not remain level) if real wages kept up with labour productivity growth. The falling labour share therefore *underestimates* wage and salary earners' income loss to compared to a fair wage, illustrated in figure 5c.¹¹

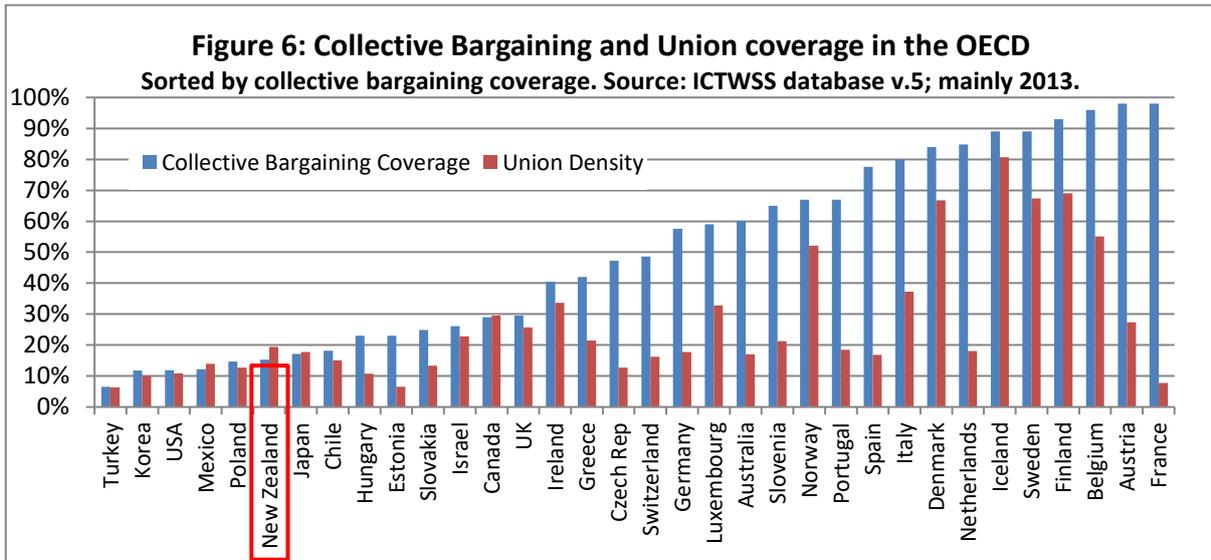
¹⁰ Labour productivity is from Statistics New Zealand's Infoshare series PRD019AA for the 'measured' (market) sector from 1996, extrapolated back to 1989 using their 'former measured sector' series PRD014AA. The wage measure is Compensation of Employees divided by hours paid for the measured sector, calculated from series SNE089AA and data provided by Statistics NZ respectively, deflated by the GDP Deflator for the measured sector. 2018 is estimated using the increase in the Quarterly Employment Survey average total hourly wage and the GDP Expenditure Deflator.

¹¹ A mathematical proof of this was provided to MBIE at a meeting earlier this year and is available on request.



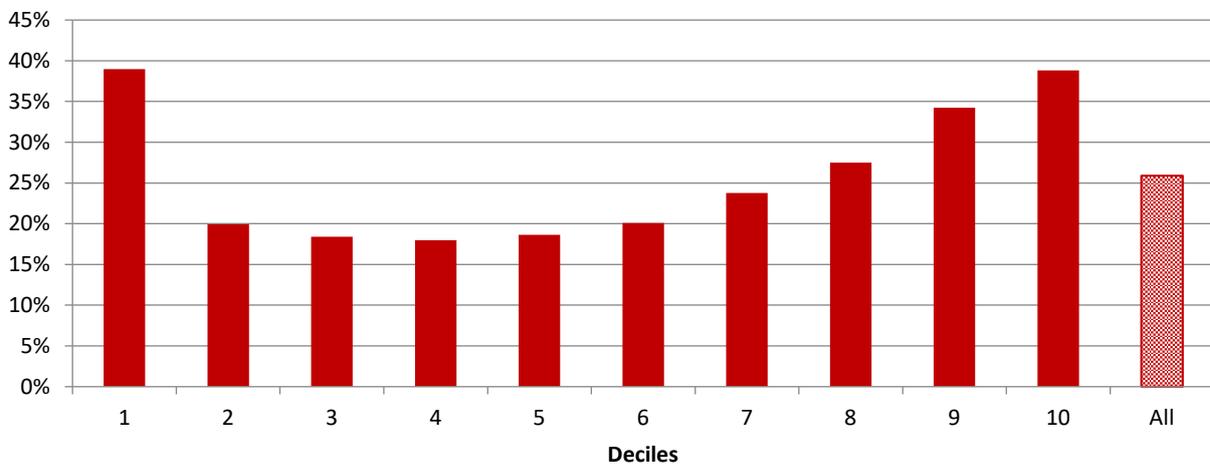
Weak collective bargaining

3.27. Low levels of collective bargaining by OECD standards (see figure 6) are also suppressing wage growth. Though reports of skill shortages are now widespread, wage growth is still subdued except in those groups benefitting from increases in the minimum wage, pay equity settlements, and collective agreements such as in teaching and nursing.



3.28. While minimum wage rises are important for maintaining and raising the wage floor, without collective bargaining it may only compress the wage distribution (particularly at the lower half of the wage scale) rather than raise the entire wages structure. Evidence for this is found in an examination of wage rises by decile. Figure 7 is reproduced from research published in August 2017 (Rosenberg, 2017b). It shows the real increase in hourly wages between 1998 and 2015 by wage decile. Decile 1 is dominated by the minimum wage, which in most years is its upper boundary. While rises in the minimum wage since the early 2000s have been successful in raising it comparatively rapidly (at the same rate as the top wage decile), wages immediately above the minimum rose at only half the rate. The minimum wage rises are being passed on little, if at all.

Figure 7: Real increase in average hourly wage in each decile for employees 1998-2015



- 3.29. The minimum wage therefore needs to be accompanied by strengthened collective bargaining to ensure low and middle income earners also benefit from rising wages. The introduction and implementation of Fair Pay Agreements would be a significant step in this direction.
- 3.30. Over the 1998-2015 period, decile 1 rose by 39 percent but wage rates for the next 50 percent of employees (deciles 2 to 6) rose much more slowly than the wage rates of higher income wage and salary earners: the real average hourly wage of the top 10 percent rose by 39 percent while the low and middle income 50 percent rose by 18-20 percent between 1998 and 2015 in real terms. On the whole, the more highly paid employees were, the faster their hourly wage rates increased, creating growing inequality. There is a ‘hollowing out’ of the wage scale in the sense that the low and middle income half of employees were getting much lower real increases in pay rates than the top 40 percent – and that higher income group is becoming increasingly unequal.
- 3.31. New Zealand’s wage system has not ensured that a fair share of the growth in productivity flowed into workers’ bank accounts. The minimum wage is currently the only direct means the government has to address this misallocation of resources and should use it to do so. We are not suggesting that the minimum wage can or will fix the breadth and depth of this problem, which requires changes to employment law to strengthen collective bargaining, especially sector collective bargaining among other measures, but strong rises in the minimum wage are an important and useful step.

Other employment effects

- 3.32. We observe that the 4.8 percent rise in the minimum wage from 1 April 2018, a rise which in nominal and real terms was the greatest since 2007, plus an even larger rise of 7.3 percent from 1 April 2019, have taken the ratio of the minimum wage to the median wage (from the annual HLFS income survey) to 69.4%, easily the highest since 1998 when the median wage was first reported. The ratio to the QES average ordinary time wage was at 54.7% as at June 2019, the highest since September 1974. This is the “Kaitz index” and is an international indicator of the relative level of the minimum wage.
- 3.33. Yet this strong growth in the minimum wage has been followed by a fall in unemployment to the lowest since 2008 at 3.9% according to the Household Labour Force Survey (HLFS), and strong employment growth (0.8%, seasonally adjusted, in

the June 2019 quarter, 1.7% in the year to June 2019 and 5.4% in the two years from June 2017).

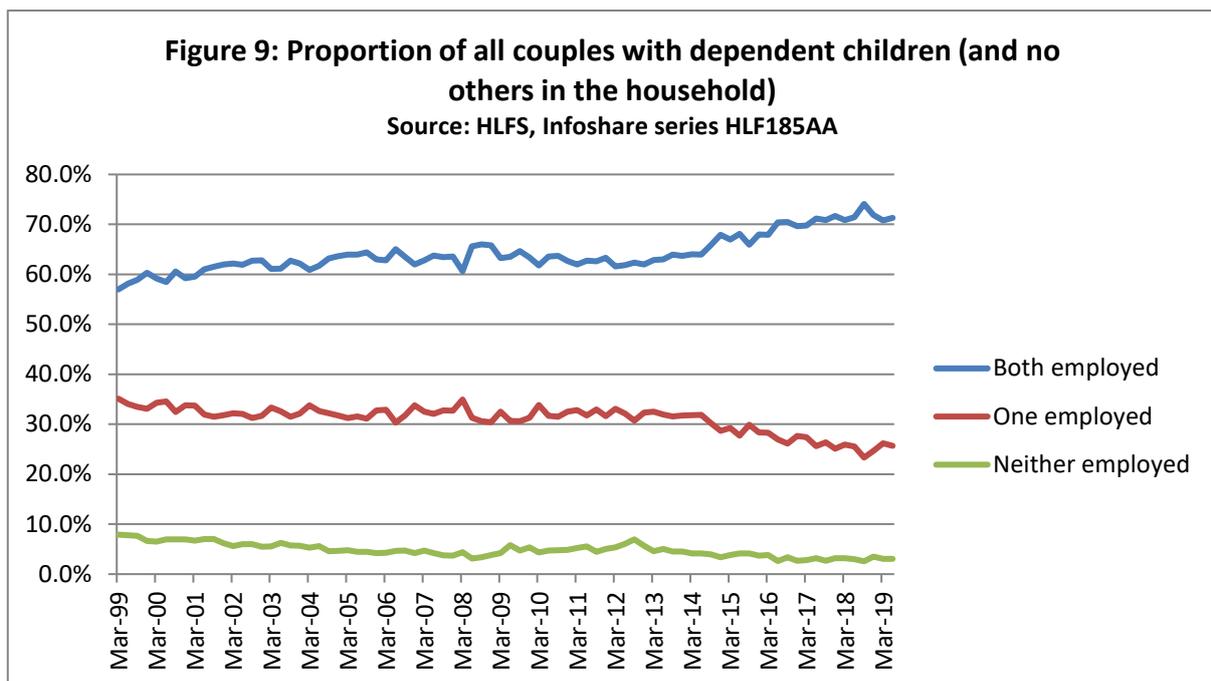
- 3.34. Youth unemployment has fallen for both 15-19 year olds and 20-24 year olds between June 2018 and June 2019. The seasonally adjusted NEET rate (the proportion of people not in employment, education or training) for 15-24 year olds has fallen from June 2017 to June 2018, and again from June 2018 to June 2019 and in the last quarter. In the last year and the last quarter, the fall in unemployment has been mainly driven by falling youth unemployment (10,800 out of the 15,900 fall over the year, and 5,900 out of the 13,400 fall over the quarter, not seasonally adjusted).
- 3.35. This contrasts with the MBIE forecast of a fall in employment of 8,000 (reported in the Cabinet Paper) resulting in the increase to \$17.70. While there are many factors at work here, and there can be some fluctuation in Statistics New Zealand's HLFS results (indeed MBIE's forecast 8,000 fall in employment would be statistically indistinguishable from zero in the survey) the result does renew confidence that employment is not at risk, and again calls into question the validity and accuracy of MBIE's forecasting model.
- 3.36. Further, the two industries with the most minimum wage workers expanded employment in the June 2019 quarter after the largest increase in the minimum wage in several years.
- 3.37. By industry, the HLFS showed an increase in employment of 3,000 in the three months to June 2019 (not seasonally adjusted) was made up of both gains and losses by industry. Easily the largest gain was 10,100 in Retail trade, Accommodation, and Food services, which is notable because these industries often reduce employment in the June quarter, near the seasonal low point, and they are the industries which have by far the largest proportion of minimum wage employees. Last year, Retail and "Hospitality" employed 65% of all minimum wage workers according to MBIE's Regulatory Impact Statement for the 2018 Minimum Wage Review.
- 3.38. Our 2015 submission presented and updated the now strong international evidence that rises in the minimum wage have very small or no effect on employment or unemployment. There are now hundreds of studies internationally and a consensus that the effect of moderate changes to the minimum wage has little or no effect on employment. One of the most recent and comprehensive studies was published in

August this year in the *Quarterly Journal of Economics* by Doruk Cengiz, Arindrajit Dube, Attila Lindner and Ben Zipperer (Cengiz, Dube, Lindner, & Zipperer, 2019). They examined the effect of 138 state-level minimum wage changes in the USA by comparing jobs lost just below the new minimum wage with those added at or just above the minimum. They report:

We find that the overall number of low-wage jobs remained essentially unchanged over the five years following the increase. At the same time, the direct effect of the minimum wage on average earnings was amplified by modest wage spillovers at the bottom of the wage distribution. Our estimates by detailed demographic groups show that the lack of job loss is not explained by labor-labor substitution at the bottom of the wage distribution. We also find no evidence of disemployment when we consider higher levels of minimum wages.

- 3.39. They found “no relationship between the employment estimate [i.e. any disemployment effects] and the Kaitz index up to around 59%”, the maximum index they found (in this case they calculated the Kaitz index as the ratio of the minimum wage to the median wage, but the absence of an employment impact is the important finding).
- 3.40. To the extent that there are concerns for particular population groups with the strong increase in the minimum wage planned, this should be monitored and action taken to support such workers with training to improve vocational skill levels, assistance with career planning and job search if necessary.
- 3.41. We reiterate our concern that the model used by MBIE to estimate the employment effects of increases in the minimum wage takes the latest research sufficiently into account. In 2015 we made a number of recommendations regarding it, including full publication of the model’s methodology and results. MBIE has stated that some change has been made to the modelling but it is not clear what changes have been made to assumptions and methodology. We renew those 2015 recommendations.
- 3.42. Rising labour market participation rates are affected by punitive social welfare policies (now being slightly eased), low incomes and very high housing costs. There is evidence of widespread financial stress in New Zealand households.

3.43. As figure 9 illustrates, the proportion of two-earner households is rising after levelling or falling in the previous decade. Record household debt levels (164 percent of household disposable income in June 2019)¹², rapidly rising housing costs and a sharp increase in numbers of applications for hardship withdrawals from Kiwisaver accounts are other indicators of household stress. In the year to March 2018, 21 percent more members (16,968) made withdrawals from their Kiwisaver accounts because of significant financial hardship, with the withdrawn total rising 7 percent to \$107.9 million in 2019, after a rise of 25 percent to \$101 million in 2018 and by nearly 25 percent, from \$65 million to \$81 million the previous year.¹³ Food banks report increased demand that they cannot meet¹⁴. Hardship assistance granted by the Ministry of Social Development has doubled from \$79.4 million in September 2017 to \$167.3 million in September 2019, and 290,683 grants to 573,588 grants, reflecting both high need and the suppression of access to such grants under the previous Government¹⁵.



¹² Reserve Bank series C21 to June 2019, released 6 September 2019.

¹³ Kiwisaver Annual Reports 2017, p. 13, 2018, p.9 and p.19, and 2019, p.3 available at <https://fma.govt.nz/news-and-resources/reports-and-papers/kiwisaver-report/>

¹⁴ For example “Auckland’s bare food bank shelves leave groups crying out for support this winter”, 27 June 2019, available at <https://www.stuff.co.nz/auckland/113815262/aucklands-bare-food-bank-shelves-leave-groups-crying-out-for-support-this-winter>

¹⁵ “National level data tables - September 2019”, Ministry of Social Development, available at <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html>.

Related matters

- 3.44. It is important to acknowledge the ability of wage rises to encourage productivity growth. We address this reverse causality, from wage rises to productivity gains, in more detail in our 2015 submission. For further detail also see Rosenberg (2017c). 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.
- 3.45. A higher minimum wage continues to have 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 extensive 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.
- 3.46. Rises in the cost of living do not affect all workers equally. The Household Living-cost Price Index (HLPI) published by Statistics New Zealand shows that from June 2008 to June 2019, the lowest income 20 percent (quintile) of households experienced annual inflation at a considerably higher rate than the highest income 20 percent: prices for the lowest income quintile grew 23.2 percent over that period, an average annual inflation rate of 1.9 percent compared to a total 14.8 percent for the highest income quintile, or 1.3 percent annually (on a payment-based framework, so not directly comparable to the CPI).
- 3.47. This does not include the cost of purchasing an existing home (other than interest payments) which is becoming increasingly unaffordable.
- 3.48. Given the evidence that higher minimum wages increase equity and can improve productivity, and considering the relative strength of New Zealand's economy, the minimal real wage increases since the global recession and the history of low wages in New Zealand, we strongly support the New Zealand Government signalling that low wages will not be tolerated in this country through a significant rise in the minimum wage.

4. Other considerations

International conventions

- 4.1. 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. Changes to the minimum wage setting process are a step backwards.
- 4.2. 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."
- 4.3. 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 should begin towards ratifying it.
- 4.4. As we note below, ensuring equal pay for work of equal value is an essential element of the major international Conventions that New Zealand has ratified: The Declaration on Fundamental Principles and Rights at Work; The Convention for the Elimination of Discrimination against Women; and two of the core 8 ILO Conventions: 100 Equal Remuneration and C 111 Discrimination (Employment and Occupation). Gender equality is one of the Sustainable Development Goals on which New Zealand is required to report as part of its international obligations.
- 4.5. The minimum wage must also be seen in the context of progressing the United Nations Sustainable Development Agenda 2030¹⁶, which has been ratified by all Member States including New Zealand, and came into effect earlier this year. Ensuring decent employment conditions to sustain healthy people and healthy

¹⁶ <http://www.un.org/sustainabledevelopment/development-agenda/>

development is an integral part of the suite of economic, social and environmental objectives to reduce inequity within and between nations, end poverty, and ensure a sustainable future for the planet and its inhabitants. Goal 8 calls for nations to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” and has relevant sub-goals. In addition “crucial aspects of decent work are broadly rooted in the targets of many of the other 16 goals”.¹⁷

The Living Wage

*“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.”*¹⁸

- 4.6. The strong yet simple belief that people should have an income – a Living Wage - that provides for the necessities of life and enables social inclusion has taken firm hold in Aotearoa New Zealand. The Living Wage rate is now a recognised social and economic expectation as well as a wage benchmark in New Zealand. The Living Wage rate for 2019 is \$21.15 per hour, \$3.45 more than the minimum wage.
- 4.7. The growing and strong public support for the Living Wage concept comes from three main concerns: deep concerns about poverty and inequality; that thousands of workers in Aotearoa New Zealand are on wages that do not enable them to meet basic living standards and that a worker’s wages should be adequate to provide for a reasonable standard of living.
- 4.8. The Living Wage, calculated independently each year by the New Zealand Family Centre Social Policy Unit, reflects the basic expenses of workers and their families on food, transportation, housing, childcare, payment for some of the normal activities of living such as children attending a school trip, having a computer in the home and the ability to make consideration for the future e.g. a modest insurance policy.
- 4.9. The total number of employers who are Living Wage accredited employers is now over 120. Major traction has been gained over the last several years with a focus by Living Wage advocates and unions on local and city councils. Major credit for the progress must go to the sustained and organised work of Living Wage Aotearoa who have targeted and worked with these democratically elected organisations to

¹⁷ <https://sustainabledevelopment.un.org/topics/employment>

¹⁸ <https://www.livingwage.org.nz/about>

introduce Living Wage rates, examine contracting out processes and to promote Living Wage accreditation.

- 4.10. In September 2018 Wellington City Council (WCC) achieved the significant milestone of not only being the first Council to be Living Wage accredited but also the country's largest employer to achieve accreditation status. Another Council which has made significant progress on Living Wages is Dunedin City Council which became an accredited employer in September 2019. Christchurch City Council has all directly employed staff being paid Living Wages but re-elected Mayor, Lianne Dalziel, indicated support for extending the Living Wage model to council-controlled organisations. Returning Auckland Mayor Phil Goff has also promised stronger commitment to extend the Living Wage to contractors. Other Councils are in various stages of considering and implementing the Living Wage and there are some new areas such as South Canterbury Councils showing interest.
- 4.11. There is an increasing number of employers who are embracing the principle of the Living Wage, who are considering implementation and who realise the benefits from the Living Wage of decreased turnover, higher morale and productivity gains. For workers, working for employers with Living Wage accreditation status provides transparency, an assurance of wage increases in line with increases in living expenses and a reduction in hours. In the words of one worker who moved to a Living Wage:
- “I know that to get a decent wage on the minimum wage you have to work 65 hours per week, because I used to do that.”
- 4.12. The signing up of some large corporates is promising and needs to be also recognised as a major shift in approach to employment, wages and attitudes. In February 2019 Westpac became one of the country's biggest private sector employers in announcing it was applying for Living Wage accreditation. The insurance firm AMP Capital is also another significant employer who is recently Living Wage accredited.
- 4.13. The Living Wage concept has been important in highlighting sectors where there are needs not only to lift wages but also to improve the conditions of work and methods of industrial representation. Both a security firm and a cleaning firm – two areas signalled for Fair Pay Agreements - have become Living Wage employers and have been emphatic in the benefits from Living Wage status.

- 4.14. The CTU and its affiliates strongly support the Living Wage as an effective mechanism to increase and improve wages for Aotearoa New Zealand workers and their families.
- 4.15. Last year the Government announced that all directly employed workers in the core public sector will move to the Living Wage rate and that the three Government parties were committed to extending the Living Wage to contracted-out workers within this term. The payment of Living Wages to contracted-out staff is an essential component of a commitment to a Living Wage. If contracted-out workers are not included it only serves as an incentive to increase contracting out and this undermines the very goal that the Living Wage process seeks to achieve of lifting wages and improving working conditions.
- 4.16. Pressure to pay Living Wages will continue. The Living Wage movement enjoys strong and broad community and public support. We note that our position for the minimum wage hourly to be set at two-thirds of the average wage, is close to the current Living Wage rate.

Equal Pay

- 4.17. The re-setting and review of the minimum wage is long recognised as an important component and tool in addressing structural gender inequality in the labour market.
- 4.18. Women face wage discrimination and inequality in the workforce and the labour market due to the undervaluation of their skills, effort and because of occupational segregation. For decades despite experience and skills, women working in the aged care and health and disability care sectors were trapped on minimum wage rates. The landmark case ***Terranova v Bartlett*** finally settled that the wage inequality caused by the undervaluation of women's skills and efforts in the care and support sector was in breach of the Equal Pay Act 1972. Other equal pay claims have also established that same pattern of historical undervaluation and underpayment.
- 4.19. The Crown, recognising its legal obligations under the Equal Pay Act 1972 convened two working parties – the Joint Working Group (JWG) and the Reconvened Joint Working Group (RJWG) – to establish processes to ensure the legal rights of women workers to equal pay for work on equal value. The processes established by these two working groups are still working their way through legislation in the form of an amended Equal Pay Act.

- 4.20. Some progress has been made with five equal pay claims settled through collective negotiation processes using the JWG principles. The Care and Support Settlement covering 55,000 workers in aged care and disability was enacted in July 2017. Over 5,000 vocational support workers and mental health support workers were added to that claim the following year. In August 2018 an equal pay case was settled for approximately 350 special education support workers and in October 2018 the equal pay claim for 1300 social workers employed at Oranga Tamariki was ratified.
- 4.21. More than 16 other equal pay claims have been raised and processes are underway to advance these although progress has been and is painfully slow on some claims. A number of these claims have workers at or near minimum wage rates. The claim by the New Zealand Education Institute Te Riu Roa (NZEI) for 18,000 teachers' aides has at least 20 percent of that workforce on minimum wages. The minimum wage rate has been the wage setting mechanism for unqualified staff in the early child education sector – another NZEI equal pay claims with many of these workers on or close to minimum wage rates. The Public Service Association (PSA) equal pay claim for administration workers in NGOs shows a similar picture of the widespread use of the minimum wage as the wage fixing mechanism.
- 4.22. Gender inequality as measured by the gender pay gap is clearly evident in labour market statistics. In June 2019 the Income supplement to the Household Labour Force Survey showed New Zealand women earning on average \$28.59 an hour from wages and salaries, compared with \$32.44 an hour on average for men. That is, women are earning 88.1 percent of men's earnings, a gap of 11.9 percent. This is a 2 percentage point improvement on the June 2018 figure (women \$27.41, men \$31.82).

All Women	All Men	% difference
Average hourly earnings		
28.59	32.44	11.9%

- 4.23. The ethnic gender pay gap is even starker.

	Women	Men	% difference	% difference to Pakeha Men
Average hourly earnings				
Pakeha	29.75	34.39	13.5%	13.5%
Māori	25.27	26.84	5.8%	26.5%
Pacific	24.17	25.76	6.2%	29.7%
Asian	26.75	29.04	7.9%	22.2%

- 4.24. The largest two gender pay gaps are for Māori and Pacific women. Income figures for 2019 showed a gender pay gap of 26.5 percent between Māori women and Pakeha men and 30 percent between Pacific women and Pakeha men.
- 4.25. The Government has made commitment to lifting the pay and addressing pay inequality of Māori and Pasifika women. The Waitangi Tribunal claim being taken by Māori as part of the Mana Wāhine claim has been allocated a \$6.2 million research grant into investigating inequality. The CTU Te Rūnanga o Ngā Kaimahi Māori o Aotearoa and the PSA Te Rūnanga o Ngā Toa Āwhina are claimants to the Mana Wāhine claim. Research into the employment of Māori women and pay is critical to know where work should be targeted and what approaches need to be taken to address the very low pay of Māori and Pasifika women.
- 4.26. Even with new equal pay and pay equity legislation in place, claims increasing and succeeding, and equal pay being picked up by employers as a legal right, there will for be sectors of the workforce where wage levels are still affected by the undervaluation of women’s work and skills. A variety of approaches need to be considered including equal pay claims. But some sectors and workers will remain dependent on lifts in the minimum wage and the establishment of a fair minimum wage rate to improve sector wages and to respond to pay inequity. The minimum wage must be set at a sufficiently high level to lift the pay of women workers.
- 4.27. As noted above, ensuring equal pay for work of equal value is an essential element of the major international Conventions that New Zealand has ratified: The Declaration on Fundamental Principles and Rights at Work; The Convention for the Elimination of Discrimination against Women; and two of the core 8 ILO Conventions: 100 Equal Remuneration and C 111 Discrimination (Employment and Occupation). Gender equality is one of the Sustainable Development Goals on which New Zealand is required to report as art of its international obligations.

The starting out and training rates

- 4.28. The CTU opposes the ‘Starting Out’ and training rates and advocates moving back to the position where the minimum wage applies fully to all paid work.
- 4.29. We note that the Workplace Relations and Safety Minister announced in December 2017 that “within the first 12 months of this Government’s term we will abolish starting-out rates and consider changes to the training wage” (Lees-Galloway,

2017). We support this proposed action and ask when they will occur and request to be consulted.

- 4.30. To support the restoration of the full minimum wage for trainees and apprentices, the CTU recommends that Government undertake further work to consider a top-up wage subsidy in the first year of employment that forms a necessary part of a recognised qualification or apprenticeship.
- 4.31. According to the National Survey of Employers 2017/18 (Ministry of Business, Innovation and Employment, 2019, p. 20) the starting out rate and training rates are seldom used. Only 5 percent of employers had used the starting out rate in that year. Only 4 percent of employers with eligible trainees used the training rate, or 0.04 percent of all employers given that just 10 percent had such trainees.
- 4.32. There is no evidence that the Starting Out rate improves employment outcomes for young people. Analysis prepared for the New Zealand Treasury of the effect of removing youth minimum wage rates in 2001 found that the increase of the minimum wage for 16 and 17 year old workers had a positive effect on employment for these groups (Hyslop & Stillman, 2004). Hyslop and Stillman (2011) also analysed the very large April 2008 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). The results showed no increase in unemployment for this group, though there were some shifts in employment between groups while some loss of employment by 16-17 year old students was more than offset by an increase in those studying and not working. It is worth underlining that these small effects were in the context of an exceptionally large increase in the minimum wage affecting the young workers. These findings are very consistent with the usual findings of no, or small employment impacts of minimum wage changes.

Low Pay and Insecure Work

- 4.33. Low wages tend to coincide with insecure work. Analysis of the Survey of Working Life in 2016 found that temporary workers were paid on average 12.9 percent to 17.1 percent less than permanent workers (Pacheco & Cochrane, 2015, p. 20). Minimum wage settings therefore need to take account of the fact that workers at the lower end of the wage scale are especially likely to have insecure work.

- 4.34. The combination of low wages with insecure work leads to economic precarity for workers, characterised by material deprivation and social exclusion, as well as by a lack of resilience.
- 4.35. For workers in insecure work, an increase in wages can decrease precarity and improve resilience by allowing workers and their families to meet their basic needs as well as to save for unforeseen costs.
- 4.36. The current minimum wage protection provisions exclude an unacceptable number of workers and are increasingly ineffective at extending protection to non-standard working arrangements like contracting. The growth of non-standard work undermines healthy and safe working conditions and secure and acceptable incomes.
- 4.37. Low wages force workers into insecure employment and to work very long hours or taking on other jobs. It remains common for low-paid cleaners, aged care and home support workers to be working long hours, day and night in multiple jobs.
- 4.38. Together low wages and insecure work undermine the purpose of a minimum wage, which is to ensure people have enough to live on. For that, the number and certainty of hours matter as well as the hourly wage rate.
- 4.39. Changes in welfare policy have contributed to an even more problematic interaction between low pay, insecure hours, and the taxation system. We referred to this in our 2015 submission. This theme was picked up in the report of the Welfare Expert Advisory Group, Whakamana Tāngata, which comments on the effect of abatement thresholds in creating high rates of effective marginal tax for people on low incomes.
- 4.40. Alongside increases in the minimum wage, the recommendations of the Whakamana Tāngata report should be fully implemented to ensure equitable outcomes for people on low incomes.
- 4.41. There is insufficient information on the relationship of low wages to employment conditions, health and safety, and employment representation, protection and rights in New Zealand.
- 4.42. We reiterate our recommendation for a government agency to be gathering both quantitative and qualitative information about the prevalence of low pay in New Zealand including the ethnic, migrant and gender aspects of low pay, and to monitor, collect and publish this information.

Minimum Wage Exemption Permits

- 4.43. For many years the CTU has called for the repeal of Minimum Wage Exemption (MWE) permits. These permits are issued by Labour Inspectors to employers to enable the payment of wages well below minimum wages to "employees who have a disability that limits them carrying out the requirements of their work".
- 4.44. The right to at least the minimum wage for people with disabilities is an issue of both equity and income security. Around 900 disabled persons currently have a MWE permit. Many of them are on appallingly low wages – 70 percent receive under \$5 an hour. Our 2018 Minimum Wage submission listed the number of permits in force. This is unlikely to have changed.
- 4.45. The MWE permit process conflicts with our obligations under the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD). The right to just and favourable conditions of work is also protected under Article 7 of the International Covenant of Economic Social and Cultural Rights – a Convention that New Zealand has signed.
- 4.46. We have advocated for a review and repeal of MWE permits in all recent Minimum Wage Annual Reviews and have been frustrated by the slowness of government agencies to take any action on this. We therefore welcomed the announcement in February 2019 by the Minister for Disability Issues, Carmel Sepuloni, and Workplace Relations Minister, Iain Lees-Galloway, for the plan to replace the MWE permits and ensure all disabled New Zealanders who are in employment are paid at least the minimum wage. The Government statement made a commitment to action and a pathway to abolish the current MWE permit system and linked to a Consultation Paper.
- 4.47. The Consultation Paper proposes a wage supplement approach to ensure that disabled people who are currently on a MWE permit are provided with job security, rewarding work and fair wages. The Consultation Paper sought advice on the methods of calculating and paying a wage supplement.
- 4.48. The CTU submitted on this consultation process and strongly supported the removal of MWE permits and the proposal to establish a fairer wage assessment process that was government-mandated to ensure consistency of wage tools and also to provide for career opportunities for disabled people in employment.

- 4.49. Some of our affiliated unions are directly involved with this sector having had representation in the former business enterprises. We seek clarification on the status of this work and urge speeding up of this process. We also request that unions be involved in developing a new wage assessment tool to ensure that the implementation of a new tool and system is inclusive of the expertise of unions and recognises the role of unions in the protection of disabled workers' rights.

Enforcement

- 4.50. In addition to recommending settings for the 2018 Minimum Wage Order, the review should consider options to improve compliance and enforcement.
- 4.51. The CTU has welcomed recent increases to the capacity of the Labour Inspectorate. However, resources remain stretched and labour inspectors are not able to respond to all complaints. They are regularly finding egregious breaches of minimum employment standards, including the minimum wage. Significantly more inspectors are needed.
- 4.52. The Minimum Wage Review should assess what further resources would be required for the Labour Inspectorate to respond in a timely manner to all complaints of non-payment of minimum wages.
- 4.53. Rosenberg (2017b, pp. 12–14) found that between 1998 and 2016, the lowest decile of wage and salary earners (by hourly earnings) is closely aligned to the adult minimum hourly wage.

In every case, the upper boundary of Decile 1 is equal to or above the adult minimum hourly wage. Since 2006 the two have been within 25 cents of each other and for five out of the 11 years 2006 to 2016 the two have been identical. The average hourly wage within Decile 1 has however been significantly lower than the adult minimum. It has averaged 10 percent lower, ranging from 5 percent (in 2001) to 15 percent (in 2006 and 2007) lower. This means a significant number of employees were paid below the minimum wage.

- 4.54. The numbers apparently below the adult minimum wage, where they could be estimated, were substantial, exceeding those on the adult minimum wage. There are some explanations for this, including youth and training minima, self-employed people miscategorised as wage and salary earners, and misreporting by respondents, but they did not appear sufficient to account for the large numbers. That would imply widespread illegal underpayment of the minimum wage by some

employers. The situation calls for specific research to estimate the degree to which illegal underpayments are being made.

- 4.55. We observe that wider union coverage would reduce the need for more inspectors. Helping enforce legislative entitlements is a core role of unions and is one of the reasons why they have a strong public good element.

Minimum Wage Amendment Order 2014

- 4.56. In May 2014 the Government passed the Minimum Wage Amendment Order introducing a new fortnightly threshold for assessing hours worked where the wage was not expressed hourly, daily, weekly or as a piece rate.
- 4.57. The consequence of a move to fortnightly averaging was to allow an employer to offset payment payable to a worker for work in one week against payments due to the worker in the following week towards the minimum wage rate.
- 4.58. A simple example illustrates this. An adult worker earns \$670 in one week and \$470 dollars in the next week. Under the current law, they have a claim in relation to the second week and under the proposal they do not.
- 4.59. This change affects many of the lowest paid workers in the country. In several industries it has the potential to become the norm.
- 4.60. 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. Those who should justifiably expect its protection should not be turned away from it by the technicality of an employer's choice of an annual salary as the method of remuneration payment.

- 4.61. We understand that the changes were proposed as a result of lobbying by dairy farmers. Tipples, Trafford and Callister (2010, p. 6) noted:

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.

4.62. Callister and Tipples (2010, p. 12) noted that:

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).

4.63. At the time of introduction of the change, enforcement action by MBIE showed that almost three quarters of dairy farmers (31 of 44 inspected) are not complying with basic employment law protections. Laws should not be tailored to the actions of the worst employers.

4.64. We understand that dairy farmers suggested that they may casualise their workforce if the law is not amended. However, fixed terms must be for genuine reasons under s 66 of the Employment Relations Act 2000 and such actions would likely be independently unlawful.

4.65. Arguably, the amendment to the Minimum Wage Order 2014 was *ultra vires* in relation to the Minimum Wage Act 1982 at the time in any event. The Minimum Wage Act 1982 permits only a single annual review of minimum wage rates and in 2014 two were conducted.

4.66. The new calculation represents an example of very poor policy making under lobbying pressure. We urge the Minister to amend the Minimum Wage Order to remove the unnecessary and destructive fortnightly rate.

5. The Objectives of the Minimum Wage Review and Questions

5.1. The Government's objective for the Minimum Wage Review was stated in the letter from the Minister to us as

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

- 5.2. This is the same objective as the previous Government used, and the CTU continues to hope that it will be substantially revised for future years. The objective 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”: in other words, to rise only in line with living costs. This fails to recognise the significance of the minimum wage as a lever to address issues of social justice, income inequality, poverty and improvement of the position of disadvantaged groups.
- 5.3. 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.
- 5.4. The second flawed assumption is that increasing the minimum wage leads to significant job losses. See above and Section 5 of our 2015 submission for further details.
- 5.5. We urge the Government to explicitly 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. As our submission above describes, there are also other factors concerning the design of the minimum wage which also need consideration. We hope that MBIE will consult on a thorough revision of the objectives for future Reviews.
- 5.6. 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. The criteria and a limited review are inconsistent with this.
- 5.7. A number of questions were asked in the invitation to contribute to this year’s review. In the main, they are answered in the body of the submission above. Some specific responses are as follows.
1. ***What impacts have you observed as a result of changes to the minimum wage? (You may wish to comment on the April 2019 increase, and/or increases over the past 5 years. Please define the time period you are commenting on.)***

- 5.8. Evidence of the impacts of changes to the minimum wage are spread throughout our submission above and in our 2015 submission.
- 5.9. We have provided evidence that the minimum wage needs to continue to grow rapidly and that that needs to be accompanied by improvements in collective bargaining.
- 5.10. 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.
- 5.11. 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.
- 5.12. Evidence is clear that increases in the minimum wage have not appreciably increased unemployment nor impacted employment. There are much more significant effects on unemployment from macroeconomic settings, employment policy, immigration policy and harsh work requirements for social welfare beneficiaries, all of which are subject to government control and influence.
- 5.13. 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. We return to this below.

2. *What gains or positive impacts are likely from increases in the minimum wage rates for you or the people you represent?*

- 5.14. 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.
- 5.15. 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.
- 5.16. For many low paid workers, the minimum wage increase is the only increase they receive.

5.17. For low paid workers the basic issue is to gain more income for them and their families. There are growing concerns about the ‘working poor’ as we have described in the above section on the Living Wage. The MSD’s 2018 Household Incomes Report shows that “on average from 2007 to 2016, around two in five (40%) poor children still came from working families” (Perry, 2018, p. 161). Housing costs are having an increasing impact on working families.

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

5.18. We stress the importance of the government following up a minimum wage increase by funding the rise fully for state sector employers and others reliant on government funding. This includes for example schools, early childhood education centres, health and community services, and many others. If this funding does not occur then services will deteriorate, and staff experience increase workloads and deteriorating working conditions.

5.19. Some of our affiliates 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 an increase in the minimum wage.

5.20. The compression of the wage scale from the bottom will start to impact on skill differentials.

5.21. Effective collective bargaining is becoming increasingly urgent to resolve both these issues.

4. *What would you consider an appropriate setting for the 2018 adult minimum wage? Why?*

5.22. See section 2.

5. *The Government has published indicative rates of \$18.90 for 2020 and \$20 for 2021 for the adult minimum wage. What impacts do you anticipate if the indicative rates become the adult minimum wage?*

5.23. See section 2.

5.24. We note that in the Regulatory Impact Statement for the 2018 Minimum Wage Review, MBIE stated (p.8):

Employers and employees reported more interest in having the pathway to reach the \$20 rate by 2021 signalled clearly by the Government, than which pathway was followed. Many employers stated that businesses (eg tour operators, hoteliers) often need to set prices well in advance and knowledge of future minimum wage increases, particularly when they are larger than usual, is crucial to ensuring these prices are set appropriately. It also allows businesses to build up reserves, ensure they can manage increased labour costs and better plan when making any adjustments to address gender wage disparities.

5.25. Together with the evidence we have presented above, including on the profitability of companies, we are confident that any employment impacts will be negligible.

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

5.26. 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.

5.27. 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.

6. Conclusion

6.1. The CTU has put forward this submission to be read in conjunction with our 2015 submission, making a clear case supporting significant increases in the minimum wage.

6.2. There is strong evidence that this should be accompanied by strengthening New Zealand's collective bargaining structures, particularly sector bargaining.

6.3. We look forward to the opportunity to further discuss the contents of this submission.

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