



**Ministry of Business,
Innovation & Employment**

**REGULATORY IMPACT
STATEMENT
FOR
MINIMUM WAGE REVIEW 2012**

**Ministry of Business, Innovation and
Employment
February 2013**

Agency Disclosure Statement

- 1 This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (the Ministry). It provides an analysis of options for the minimum wage for the Minister of Labour's annual minimum wage review in 2012.
- 2 Cabinet has confirmed the new objective for the minimum wage review to be 'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses'.
- 3 A cyclical process has also been confirmed for the review of the minimum wage rate, that is, a comprehensive review will be completed every fourth year, with the other three years requiring a streamlined process.
- 4 The Ministry is only able to estimate the direct impacts of minimum wage changes. We do not have adequate data to assess any flow-on effects of an increase in the minimum wage. Apart from the direct costs provided by some government agencies, the Ministry is unable to assess other fiscal impacts, such as changes to social assistance and taxation due to lack of information. This might be a gap that the Ministry needs to fill by working with the Ministry of Social Development and the Department of Inland Revenue. However, the Ministry believes that the gap is not significant enough to affect decision on the minimum wage rate.
- 5 The minimum wage review is focused on the adult minimum wage rate only, and therefore does not consider the starting-out wage rate. A separate regulatory impact statement was completed for the starting-out wage policy in 2012.
- 6 In accordance with the Cabinet minute (EGI Min (12) 26/13 refers), consultation with stakeholders for this minimum wage review has been limited to social partners – New Zealand Council of Trade Unions (NZCTU) and Business New Zealand. The views and submissions of the social partners have been analysed in the review process.

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Note: the following table is brought forward for formatting convenience.

Table 1: Summary of the impacts of the minimum wage options for 2013

Minimum wage impact measures	Option 1 (status quo)	Option 2 (in line with CPI change in September year)	Option 3 (based on NZCTU's submission)	Option 4 (in line with Labour Cost Index in September 2012 - 1.9%)	Option 5 (recommended rate in line with forecast CPI change and median wage increase)
Adult minimum wage	\$ 13.50	\$13.60	\$15.00	\$13.75	\$13.80
Percentage increase	N/C ¹	0.7%	11.1%	1.9%	2.2%
Relativity to median wage ²	64.7%	65.2%	71.9%	65.9%	66.2%
Number of people impacted	84,800	86,200	221,000	91,500	99,100
Restraint on employment	N/C	Negligible ³	7,000	Negligible	Negligible
Economy-wide increase in wages (\$m, annual)	N/C	11	315	27	34
Inflationary impact/GDP (percentage points)	N/C	0.01	0.15	0.01	0.02
Additional costs to government ⁴ (\$m, annual)	N/C	6.02	67.87	13	13.41

¹ N/C stands for 'no change'.

² \$20.86 an hour in the New Zealand Income Survey, June 2012.

³ Negligible means the figure is under 1000.

⁴ This is the additional cost to the Ministries of Health, Social Development and Education and the Accident Compensation Corporation, from higher wage costs to service providers. It does not include any offset from additional taxes on higher minimum wages or reduced social assistance.

Status quo and problem definition

Current minimum wage

- 7 Minimum wage rates are set through an Order in Council made under section 4 of the Minimum Wage Act 1983 (the Act). The current minimum wage rates took effect on 1 April 2012 and represent an increase of 3.8 per cent from the previous minimum wage rates.
- 8 The current minimum wage rates are as follows:
- The adult minimum wage is \$13.50 an hour. It applies to all employees aged 16 years and over, who are not new entrants or trainees.
 - The new entrants' minimum wage is \$10.80 an hour.⁵ It applies to 16 and 17 year olds except for those employees: who have completed 200 hours or three months of employment, whichever is shorter; who are supervising or training other workers; or who are subject to the training minimum wage.
 - The training minimum wage is \$10.80 an hour. It applies to those employees aged 16 years and over who are undertaking at least 60 credits a year in a registered training programme.

Current labour market conditions

- 9 Economic recovery continues in 2012, but it has been more protracted than previously expected.
- 10 The labour market is still weak with the unemployment rate rising to 6.9 per cent and the employment rate falling to 62.7 per cent.⁶ The number of people in the labour force fell in the latest quarter, with falls in both the number of people employed and unemployed. As a result, the labour force participation rate fell 1.2 percentage points to 67.2 per cent. The number of people outside the labour force increased.
- 11 Wage growth and general inflation have been slow. Statistics New Zealand records that average wages and salaries rose by 2.8 per cent in the year to September 2012.

Key findings from the Minimum Wage Review 2012

- 12 The Ministry conducted the Minimum Wage Review 2012 on behalf of the Minister of Labour. The review examined the current level of the minimum wage rates in comparison with other income benchmarks and other Organisation of Economic Cooperation and Development (OECD) countries, as well as some other key features regarding the minimum wage.
- 13 Currently, amongst the 2,227,000 people employed in New Zealand, 84,800 people are paid the minimum wage (\$13.50 an hour). There are approximately 221,000 more workers earning between \$13.50 and \$15 an hour.
- 14 By comparison, the current adult minimum wage of \$13.50 an hour is higher than the unemployment benefit for a single adult.⁷ It is around 49.5 per cent of average ordinary time

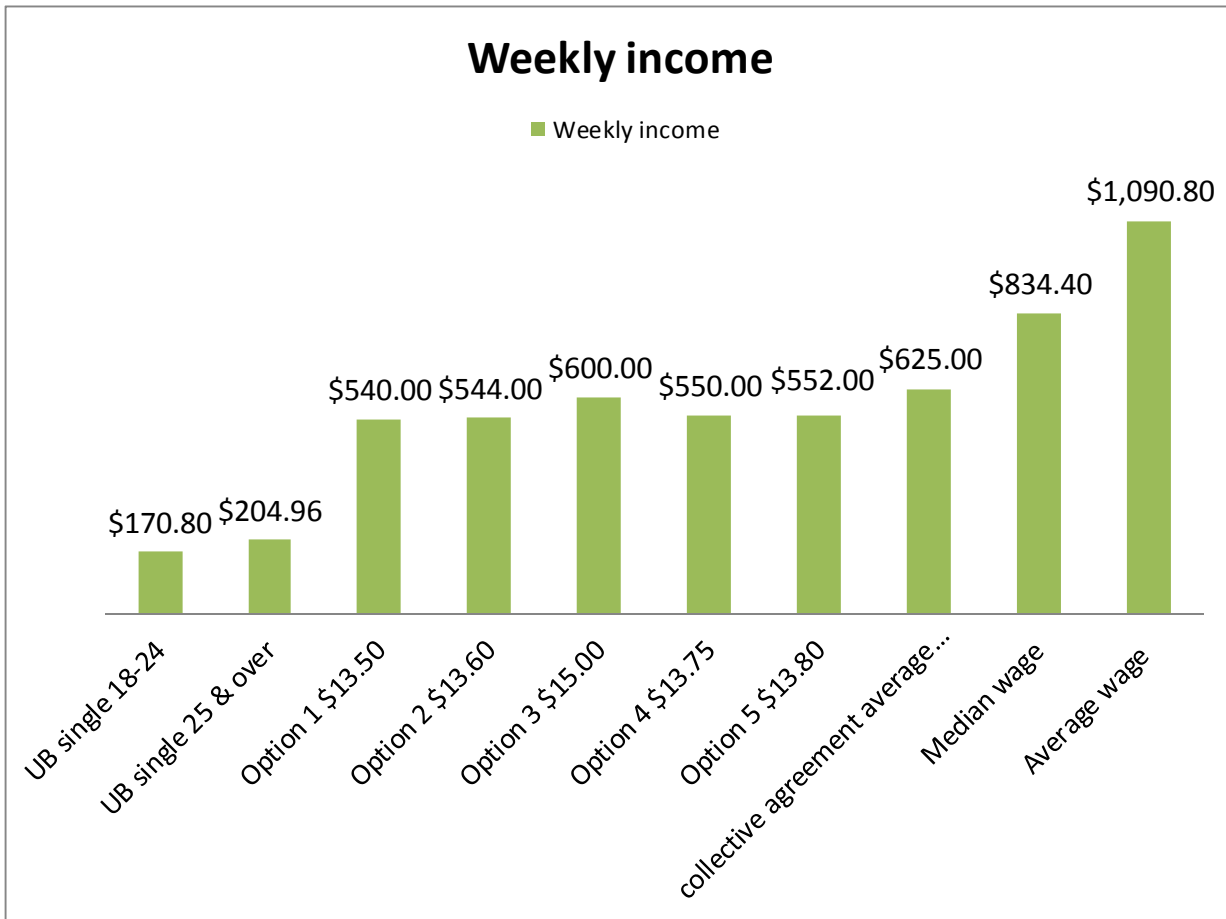
⁵ As provided for under the Minimum Wage Act 1983, the new entrants' minimum wage cannot be set at less than 80 per cent of the adult minimum wage.

⁶ Statistics New Zealand: the December 2012 quarter Household Labour Force Survey.

⁷ The benefit amounts are after tax and do not include any supplementary assistance, such as the accommodation supplement.

hourly earnings (\$27.27 an hour in the Quarterly Employment Survey (QES), September 2012) and 64.7 per cent of median total hourly earnings (\$20.86 an hour in the New Zealand Income Survey, June 2012). However, it is lower than the average minimum weekly adult wage in collective agreements, which is \$625 a week (\$15.62 an hour for a 40-hour week).⁸ The following figure compares the minimum wage rate (including new options) with other income benchmarks.

Figure 1: Adult minimum wage compared with other income benchmarks



Note: UB stands for unemployment benefit. For the purpose of comparison, the weekly median wage and average wage are calculated on the basis of a 40-hour week. The red bar is the minimum wage rate that the Ministry recommends.

Problems associated with the status quo

- 15 In the year to December 2012, the CPI increased by 0.9 per cent. The Unemployment Benefit will increase in the coming year as it is indexed to the CPI. The average wage, median wage and collective agreement average minimum wage increased, by 2.8 per cent, 2.4 per cent and 4.3 per cent respectively.⁹ If the minimum wage remains unchanged, the existing levels of real value of the minimum wage. Income inequality would increase.

⁸ S. Blumenfeld and Peter.Kiely (2012) Employment Agreements: Bargaining Trends & Employment Law Victoria University of Wellington.

⁹ The increases of median wage and collective agreement average minimum wage are calculated by the year to June 2012.

- 16 Evidence in the Ministry's 2011 review suggests that increases in the minimum wage between 2000 and 2007 led to some compression of earnings at the bottom of the distribution, and towards the median wage, but the minimum wage increases since 2007 have not led to a further compression of wages. This means even if there is a modest increase in the minimum wage, income inequality might still increase rather than decline.
- 17 Problems associated with the status quo have also been discussed by submitters during consultation. Both New Zealand Council of Trade Unions (NZCTU) and Business New Zealand commented on the problems of the current minimum wage rate and their submissions are summarised in the consultation section below.

Starting-out wage

- 18 The Government signalled its intent to introduce a starting-out wage for eligible young people as part of its pre-election policy commitments. The starting-out wage is to be set at no less than 80 per cent of the adult minimum wage for:
 - 16 and 17 year olds in their first six months of work with a new employer,
 - 18 and 19 year olds who have been paid a benefit for six months or longer, and who have not yet completed six months of continuous work with any employer, and
 - 16 to 19 year olds in training in a recognised industry training course involving at least 40 credits a year.
- 19 The Minimum Wage (Starting-out Wage) Amendment Bill is currently before select committee who are scheduled to report back to Parliament on 28 February 2013. If the amendment is passed, the starting-out wage rate will be set through an Order in Council, to take effect on 1 May 2013.
- 20 The implication of the introduction of a starting-out wage set at 80 per cent of the adult minimum wage is that it will be easier for employers to use than the New Entrants' minimum wage and therefore will encourage them to employ more individuals at the reduced minimum wage rate.
- 21 The Ministry has modelled estimated employment impacts of the starting-out wage on young people aged between 16 and 19 years. This modelling suggests that the introduction of a starting-out wage for 16 and 17 year olds may result in a net increase in employment after two years of between 200 and 1,300 for 16 to 19 year olds, based on a range of assumed "take up" rates.
- 22 The modelling only assesses the impacts of the policy of establishing a starting-out wage for 16 and 17 year olds, and the substitution impacts of this policy on 18 and 19 year olds. The Ministry has not been able to model the impacts of the policy of including, in the starting out wage, 18 and 19 year olds who have been on benefit for six months and over, or of reducing the credit requirement to, at least, 40 credits per year for 16 to 19 year olds engaged in industry training.
- 23 The Ministry's recommended option for the minimum wage rate of \$13.80 an hour is likely to align with the take up rates used for the Ministry's modelling and the general trends shown in the modelling will also hold for this rate.
- 24 The starting-out wage is unlikely to reduce the proportion of 16-to-17 year olds paid below the adult minimum wage.

Objective of the Minimum Wage Review

- 25 Under section 5 of the Minimum Wage Act 1983, the Minister of Labour has a statutory obligation to review the minimum wage rates by 31 December each year. Where there is a change in the minimum wage rate, this should be given effect through an Order in Council by the Governor-General.
- 26 Cabinet confirmed the Government's new objective for the minimum wage review which is 'to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses'(CAB Min (12) 41/58 refers).
- 27 A cyclical process for the annual review of the minimum wage rate has also been confirmed by Cabinet, that is:
- a comprehensive review (as was completed in 2011) to be completed every fourth year, with the other three years requiring a streamlined process focusing on the factors outlined above and limiting formal consultation with the social partners
 - from 2012 to 2014, the streamlined process to be undertaken
 - in 2015, the comprehensive review that considers a wide range of other relevant factors and consults more widely to be completed
 - from 2016 to 2018, the annual review process to revert to the streamlined process.
- 28 For a streamlined process, the Ministry will focus on the following factors while assessing the options of minimum wage rates for 2013:
- inflation, using the consumers price index as the indicator
 - wage growth, using median wage as the indicator
 - restraint on employment, and
 - other relevant factors.
- 29 The Ministry considers that the minimum wage rate should increase in accordance with the CPI change to fulfil the objective.

REGULATORY IMPACT ANALYSIS

Assessment of the options

- 30 To fulfil the objective of minimum wage review, the Ministry continues its practice of developing and analysing different options, and then modelling on employment impact and other impacts of the minimum wage increase. The Ministry has developed and examined the following options for the minimum wage rate for 2013:

Option 1: \$13.50 an hour (status quo)

Option 2: \$13.60 an hour (in line with CPI change in September 2012)

Option 3: \$15.00 an hour (NZCTU's proposal)

Option 4: \$13.75 an hour (this is in line with labour cost index change in the year to September 2012)

Option 5: \$13.80 an hour (in line with forecast CPI change in 2013)

- 31 These options are assessed against the objective for minimum wage review and the relevant criteria. The assessment is summarised in Table 1.
- 32 Overall, any increase in the minimum wage will increase the income for those paid at the current minimum wage. However, the impact on net income is affected by taxation and abatement for those receiving income support and tax credits.
- 33 Minimum wage increases may have employment impacts. The Ministry's modelling suggests that there would be restraint on employment growth if the minimum wage were to be set higher than \$13.90 an hour, and this would not meet Cabinet's objectives. Therefore, aside from the NZCTU proposal of \$15 per hour, options for rates higher than \$13.90 an hour have not been analysed.
- 34 An increase in the minimum wage will increase labour costs for employers, especially for those industries that employ a large proportion of minimum wage workers such as retail and hospitality, although evidence suggests the increase to the wage bill will be small apart from under Option 3 of \$15.00 an hour.
- 35 Some specific impacts of the increase to the minimum wage rate are discussed in more detail below.

Impact on wages and inflation

Wage growth and inflation

- 36 The annual median hourly earnings from wages and salaries increased by 2.4 per cent to \$20.86 an hour in the year to June 2012 year according to New Zealand Income Survey 2012.
- 37 According to the Quarterly Employment Survey, the average ordinary time hourly earnings rose 2.8 per cent to \$27.27 an hour in the year to September 2012.¹⁰ According to the labour cost index (LCI), salary and ordinary wage rates rose 1.9 per cent over the same period.
- 38 CPI increased by 0.9 per cent in the year to December 2012 quarter. It is a small annual movement. If employers and employees use the CPI to negotiate wage increases, it could be assumed that the scale of the increases would be constrained. However, CPI is forecast to increase by 1.4 per cent in the year to March 2013 and 2.4 per cent in the 2015.¹¹

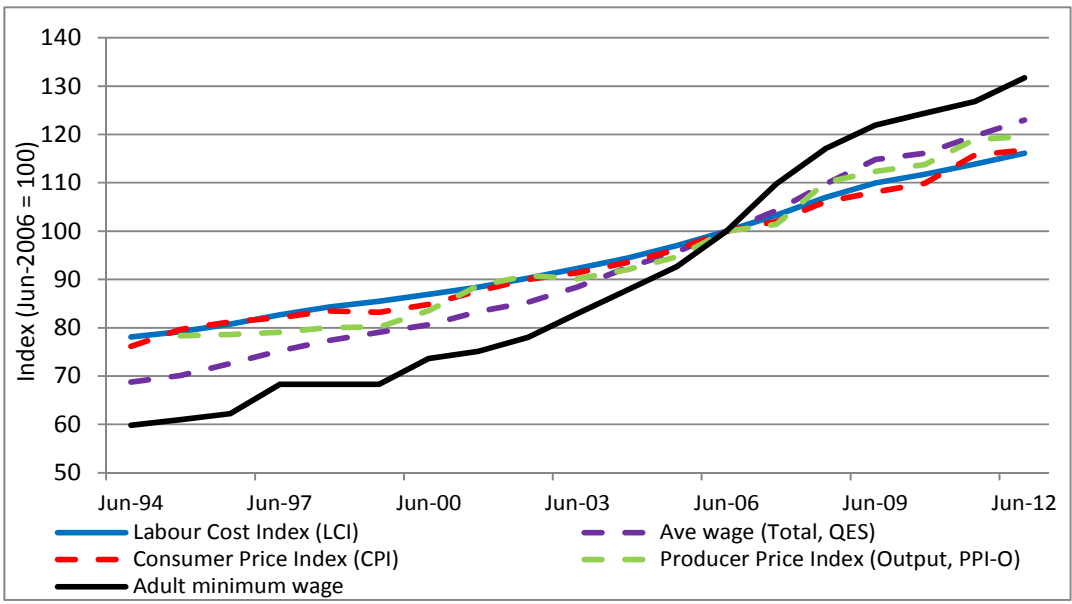
Impact of minimum wage on wage growth and inflation

- 39 Between 2000 and 2008, the minimum wage has increased at a faster rate than general wages (as measured by the LCI or QES) and general prices (as measured by the CPI), but recent increases have been more in line with price inflation. Figure 4 shows increases in the minimum wage compared with various measures of inflation over the past 15 years.

¹⁰ Sourced from www.stats.govt.nz.

¹¹ According to the consensus forecasts from New Zealand Institution of Economic Research's in September 2012.

Figure 2: increases in the minimum wage compared with various measures of inflation



40 When the price of labour rises, the price of goods produced using minimum wage labour also rises. Whether this leads to general inflation depends on the drivers of inflation. The price of minimum wage goods may increase but others may decline and therefore there may be no net impact. Table 3 shows the number of workers affected by each option, the estimated impacts on their earnings and the potential inflationary impacts.

Table 3: Economy-wide impacts of minimum wage options

Options	Workers earning between current and new options of minimum wage	Economy-wide increase in wages (\$m, annual)	Percentage Increase of inflation
\$13.50	84,800	0	0.00%
\$13.60	86,200	11	0.01%
\$13.75	91,500	27	0.01%
\$13.80	99,100	34	0.02%
\$15.00	221,000	315	0.15%

Impacts on employment

Projected employment growth and unemployment

41 Employment growth has been sluggish relative to previous recoveries from recession and the employment rate has remained fairly stable for the past 18 months. This suggests that employment growth is keeping pace with population growth. Employment growth is expected to be modest, reflecting the gradual economic recovery.

42 The Ministry forecasts annual employment growth of:

- 41,000 people (1.8 per cent) in the March 2013 year
- 46,000 people (2.1 per cent) in the March 2014 year; and
- 36,000 people (1.6 per cent) in the March 2015 year

- 43 Growth is forecast to be strongest in highly skilled occupations. However, opportunities for lower-skilled (semi-skilled and elementary) workers are expected to account for about a third of the total employment growth over the 2013/2014 period.
- 44 The unemployment rate has remained persistently high for the past two years and was 6.9 per cent in the December 2012 quarter. The unemployment rate for young people (15 to 24 year olds) remains particularly high (close to 19 per cent).

Restraint on employment growth

- 45 The Ministry's 2011 minimum wage review showed that there was a mix of views on the effects of the minimum wage on employment levels. One view was that an increase in the minimum wage would decrease employment because if labour is made more expensive employers will hire fewer people. A contrasting view argued that increases to the minimum wage increased employment.
- 46 The Ministry has analysed employment impacts with respect to changes in the relativity between the minimum wage and the average wage. The Ministry then used its employment forecasts as a benchmark to estimate the impacts of the various minimum wage options on employment growth. The benchmark projected job growth is 1.8 per cent for the year to March 2013.
- 47 Of the options explored (in this Regulatory Impact Statement), only the \$15.00 option has negative employment impacts. This is because the ratio of the minimum wage to the average wage (the Kaitz index) begins to change significantly at this point. Small increases in the Kaitz index will theoretically constrain employment growth, but given the model uses survey data, these are not large enough to report.
- 48 The Kaitz index is the most common minimum wage variable used in international literature. In a range of studies throughout the world, increases in the Kaitz index are found to reduce employment among certain groups, including youth and particular ethnic groups). The employment elasticities used in the Ministry's modelling are consistent with international findings.

Impacts on minimum wage workers

Number of people affected

- 49 Currently, amongst the 2,227,000 people employed in New Zealand, 84,800 are paid the minimum wage. The following tables estimate the number of workers aged 16 to 64 years who are likely to be affected by the minimum wage options. Table 4 shows that a much larger proportion of workers in the 18 to 24 year age group will be affected by increase in the minimum wage. Table 5 shows many 16 to 17 year olds will also be affected by increases in the minimum wage because very few young people are paid the new entrants' minimum wage. This situation might change after the starting-out wage takes effect in May 2013.

Table 4: Estimated affected adult workers (18 - 64 years)

Options	18-64		18-19		20-24		25-64	
	%	Number	%	Number	%	Number	%	Number
\$13.50	4.1	70,800	26.1	14,900	10.7	22,100	2.3	33,800
\$13.60	4.2	72,200	26.1	14,900	10.8	22,400	2.4	34,900
\$13.75	4.5	77,400	27.5	15,700	11.1	23,000	2.6	38,700
\$13.80	4.9	84,600	27.9	15,900	11.9	24,500	3	44,200
\$15.00	11.7	202,800	49.6	28,400	28	57,600	7.9	116,900

Table 5: Estimated affected young workers (16 - 17 years)

Options	New entrants' minimum		Options	Adult minimum	
	%	Number		%	Number
\$10.80	S	S	\$13.50	40.5	14,000
\$10.90	S	S	\$13.60	40.5	14,000
\$11.00	S	S	\$13.75	40.9	14,100
\$11.00	S	S	\$13.80	42.2	14,500
\$12.00	4.6	1,600	\$15.00	52.9	18,200

Source: 2012 New Zealand Income Survey

Note: S stands for 'suppressed' as the estimates are less than 1,000.

- 50 Changes in the level of the minimum wage can affect not just those receiving the minimum wage but also those whose incomes are close to it. Currently there are about 221,000 low wage workers aged between 16 and 64 years, earning between \$13.50 and \$15 an hour. Nearly half (47.1 per cent) of these workers are under 25 years old.
- 51 Data from the New Zealand Income Survey from 1997 to 2012 shows that workers who are female, Māori, Pacific peoples, without formal qualifications, part-time employees, or working in the retail and hospitality industries are more likely to be on the minimum wage. These people are generally more likely to benefit from any increase in the minimum wage. However, they may also be the first to experience any negative impacts that could result from a change in the minimum wage (e.g. reduced hours offered or substitution of some groups of workers for others). Table 6 shows the demographic and job characteristics of workers paid at the current minimum wage.

Table 6: Demographics of wage earners

Demographic	Minimum wage earners			Total wage earners
	16-24	25-64	16-64	16-64
Aged 16–24	100.0%	0.0%	60.1%	16.8%
Female	55.5%	68.2%	60.6%	49.4%
European/Pakeha	60.5%	44.8%	54.2%	68.9%
Maori	15.6%	13.0%	14.5%	12.7%
Pacific	4.0%	10.2%	6.5%	4.9%
Part-time	65.5%	49.7%	59.2%	21.2%
Studying	52.3%	11.0%	35.8%	12.6%
Total	50,900	33,800	84,800	1,768,500

Source: 2012 New Zealand Income Survey, Statistics New Zealand

Young people

- 52 Over half of those earning minimum wage are between 16 and 24 years of age, compared with around one in six workers overall. As the minimum wage increases, on the one hand, those who remain in work may see an increase in their incomes; on the other hand, young people might lose their jobs due to the disemployment effect of the minimum wage. It is expected that the starting-out wage will minimise some of the negative employment effects for youth once it is implemented.

Women

- 53 Women tend to be overrepresented in low paid jobs (e.g. part-time and service sector jobs). Table 6 shows that over 60 per cent women are minimum wage workers while they account for about half of the total workers. Therefore, more women will benefit from an increase in the minimum wage.
- 54 The Ministry calculates that, on average, the hourly wage rate for women is 87.1 per cent of the hourly wage rate for men. Thus women earn about 13 per cent less than men per hour. If we assume that the wages of all workers earning between \$13.50 and \$13.79 were raised to \$13.80, the gender pay gap would be unaffected. This is in line with previous impacts estimated by the Ministry.

Māori and Pacific peoples

- 55 Māori and Pacific peoples are overrepresented among those in low paid jobs and are more likely to benefit from an increase in the minimum wage, compared with people of European descent.
- 56 Raising the minimum wage and addressing pay inequity is likely to increase the incentive for Māori workers' labour market attachment, improve their financial independence from the welfare system and enhance their life choices and social mobility.

Part-time workers and Students

- 57 Table 6 shows that about two thirds (65.5 per cent) of minimum wage workers aged 16 to 24 years work part-time, whereas about half of minimum wage workers aged 25 years and over work full time. Therefore, an increase in the minimum wage may benefit more part-time workers, particularly those aged 16 to 24 years who might have been struggling with other commitments.
- 58 Over half (52.3 per cent) of minimum wage workers aged 16 to 24 years are in study, compared with 11 per cent of older minimum wage workers. The high proportion of young workers in part-time minimum wage jobs while studying suggests that they are likely to move into better paid, full-time jobs in the future.
- 59 The minimum wage increase can either encourage young people to enter the workforce (rather than continue in training or education) or to remain in study. The impact depends on the level of the minimum wage, the costs of education and the available job opportunities.

Impact on industries

- 60 The Ministry's survey shows that employers in the accommodation/food services, manufacturing, and wholesale and retail trade groups are more likely to employ workers on or near the minimum wage than the professional/technical services and health and social services industries.¹² These employers usually increase wages of staff above the minimum wage so the associated flow-on effect has a significant impact on their businesses.
- 61 In the survey, some employers stated regular increases in the minimum wages were useful for their internal wage-setting. The flow-on effect was also a consequence of employers benchmarking their wages to the minimum wage. Table 7 shows industries affected by a minimum wage of \$13.80 an hour by estimated number of workers.

¹² *Employers' perspectives - Part Two: The Minimum Wage System*, Department of Labour, 2012.

Table 7: Industry affected by \$13.80 option (by estimated workers aged 16 to 64 years)

Industry	Workers		Hours	Earnings
	%	Number	%	%
Agriculture	4.7	3,600	4.1	3
Manufacturing	4.7	10,200	4.1	2.2
Construction	2.1	2,500	1.7	0.9
Wholesale	2.6	2,100	1.8	0.9
Retail	15.3	27,800	12.4	8.4
Hospitality	22.8	22,200	17.4	13.6
Transport and Storage	3.6	3,300	2.7	1.4
IM and Telecommunications	4.2	1,500	1.8	0.8
Real Estate	5.1	1,100	4.5	2.5
Admin services	12.8	6,600	10.6	6
Education	2.1	3,800	1.3	0.6
Health	4.8	9,500	3.2	1.6
Arts & rec	7.1	2,000	4.4	2.8
Other services	4.2	2,700	2.5	1.5
Total	5.8	102,600	4.2	2.2

Source: 2012 New Zealand Income Survey, Statistics New Zealand

Impact on the state sector

62 Increases in the minimum wage are likely to have a direct (and possibly also indirect or 'flow-on') fiscal impact on some state sector employers. The Ministries of Health, Social Development, Education and the Accident Compensation Corporation have identified areas which would be impacted by changes in the minimum wage. For these four government agencies, total annual costs directly related to a minimum wage increase are estimated to be:

- \$ 6.02 million for \$13.60 an hour
- \$ 13 million for \$13.75 an hour
- \$ 13.41 million for \$13.80 an hour
- \$ 67.87 million for \$15.00 an hour

CONSULTATION

Feedback from submitters

63 The Government's social partners Business New Zealand and NZCTU have been consulted and their views and submissions have been analysed and assessed through the review process.

Business New Zealand

64 Business New Zealand did not make a formal submission but forwarded a copy of their submission for 2008 review. They agree with the Government's new approach of a streamlined review mixed with a full review every four years. They note the primary factors affecting the

minimum wage in 2012 were inflation and wage growth. They suggest that an adjustment to the minimum wage should not be more than what is required to preserve the real value of the minimum wage at the current level.

65 They re-emphasise the effects of minimum wage being too high a percentage of the average wage, as this creates significant flow on effects into the wider wage market and imposes costs on employers.

New Zealand Council of Trade Unions

66 NZCTU made a substantive submission for the review. They consider that an increased minimum wage level is needed as a contribution towards:

- addressing the needs of many low income workers
- compensating for rising living 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 poverty and especially child poverty
- reducing gender inequality
- improving the positions of Māori and Pacific workers
- increasing labour participation rates, particularly of disadvantaged groups.

67 NZCTU's preference is for an immediate rise in the minimum wage to 66 per cent of the average ordinary time wage (for April 2013 they estimate this to be \$18.44). However, a possible alternative, as an interim step, is to increase the minimum wage to \$15.00 from 1 April 2013 and move to the 66 per cent benchmark in April 2014.

Agency comments

68 The Treasury, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Te Puni Kōkiri, Ministry of Social Development, Ministry of Health, Tertiary Education Commission, Ministry of Education, Accident Compensation Corporation and Inland Revenue Department have been consulted on the minimum wage review. The Department of the Prime Minister and Cabinet has been informed of the review.

69 Comments from Ministry of Women's Affairs (MWA), Ministry of Pacific Island Affairs (MPIA), Ministry of Social Development (MSD) Te Puni Kōkiri (TPK) and the Treasury (TSY) are summarised in Table 8.

Table 8: Summary of agency comments

	Preferred option	Reasons given	Other comments
TSY	\$13.50	<p>While the negative employment effects from a modest increase are likely to be small, the current economic conditions create uncertainty over future growth in wages and employment.</p> <p>Data from 2011 showed that New Zealand had the highest minimum wage relative to average wages in the OECD.</p> <p>International evidence suggests that a higher minimum wage reduces income inequality to a certain degree. However, marginal increases are unlikely to lead to substantial reductions in income inequality, because many minimum wage earners (particularly youth) come from higher income households.</p> <p>A minimum wage of \$13.50 an hour takes a cautious approach in balancing economic and social objectives that is appropriate in the current environment.</p>	<p>If Ministers wish to increase the minimum wage, Treasury suggests increasing it to \$13.60, in line with the increase in the Consumer Price Index in the year to December 2012.</p>
MWA	\$13.80	<p>This option slightly increases the real value of the minimum wage without constraining employment growth.</p>	<p>MWA agrees that an increase to \$15.00 an hour in the current climate is not viable.</p>
MSD	\$13.80	<p>This option provides a greater improvement in the replacement rates (the extent to which wages “replace” benefit rates) so gives a stronger work incentive for low income people, which will better support the welfare reforms.</p>	<p>Option One would reduce work incentives so would not be supported.</p> <p>Option Two would still improve the replacement rate (as the CPI used for the annual general adjustment of benefits is adjusted to remove the effect of the cigarette and tobacco surcharge increase this year that means that instead of a 0.9% adjustment to reflect all prices, CPI movement benefit rates will increase by 0.61%).</p>

	Preferred option	Reasons given	Other comments
MPIA	\$15.00	<p>Improves Pacific peoples' incomes</p> <p>Impacts the highest number of people</p> <p>Moves the minimum wage closest to the median wage</p> <p>Pacific peoples are overrepresented in low paid jobs and are highly likely to benefit from increasing the minimum wage relative to other ethnic groups. It will reduce income inequality for Pacific peoples</p> <p>Supports MPIA's policy outcome of "improved economic wellbeing and living standards of Pacific people"</p>	<p>Pacific peoples' incomes are well below national average</p> <p>Slow economic recovery continues to affect labour market outcomes for Pacific peoples</p>
TPK	\$16.00	<p>Māori workers are overrepresented in low paid jobs and therefore are more likely to benefit from an increase in the minimum wage.</p> <p>Raising the minimum wage and addressing pay inequity is likely to increase the incentive for Māori workers' labour market attachment, improve their financial independence from the welfare system and enhance their life choices and social mobility. This will have immediate and intergenerational benefits.</p>	<p>TPK proposes that the minimum wage be raised in steps over four years to \$18.00 per hour</p> <p>TPK's preference is for a higher increase in the minimum wage accompanied by supportive, active labour market policies to improve protection for low-skilled workers, enhance social mobility for Māori and contribute to New Zealand's productivity and economic growth.</p>

70 Submitters' and government agencies' comments have been carefully considered and their concerns have been addressed accordingly. No change has been made to the proposed minimum wage options as the Ministry considers that the recommended option is still the most appropriate in fulfilling the government's objective. NZCTU's interim option of \$15.00 an hour has been assessed in the review and it is considered too risky in terms of job constraint. TPK's preferred option of \$16.00 an hour is considered to be too risky in terms of its impact on job growth.

CONCLUSIONS AND RECOMMENDATIONS

71 The Ministry's examination of the current labour market conditions suggests that the options for changes to the minimum wage could have the following effects:

- Option 1 of \$13.50 an hour will erode the real value of the minimum wage. It is estimated that there would be no impact on national weekly wage earnings or inflation. It would not constrain employment growth.
- Option 2 of \$13.60 an hour will preserve the real value of the minimum wage at its 2012 level. This option could directly affect up to 86,200 workers. It would not constrain employment growth. It could increase annual economy-wide wages by \$11million and inflation by 0.01 percentage points.
- Option 3 of \$15.00 an hour will significantly increase the real value of the minimum wage and its relativity with other income benchmarks. This option could directly affect up to 221,000 workers and constrain employment growth by up to 7,000 jobs. It could increase annual economy-wide wages by \$315 million and inflation by 0.15 percentage points.
- Options 4 of \$13.75 an hour is in line with the LCI change and will slightly increase the real value of the minimum wage. This option could directly affect about 91,500 workers. It would not constrain employment growth. It could increase annual economy-wide wages by \$27 million and inflation by 0.01 percentage points.
- Option 5 of \$13.80 an hour will slightly increase the real value of the minimum wage. This option could directly affect up to 99,100 workers. It would not constrain employment growth. It could increase annual economy-wide wages by \$34 million and inflation by 0.02 percentage points. This is the Ministry's recommended rate.

72 Setting the minimum wage requires balancing the benefits of any changes against the costs that any changes might bring. The above analysis shows that under Option 3 the costs are likely to outweigh the benefits as employment growth could be constrained by up to 7,000 jobs. However, under Options 1, 2, 4 and 5, the costs are less significant in terms of constraint on employment growth. The Ministry is uncertain if the benefits are likely to outweigh the costs.

73 The Ministry recommends that the adult minimum wage rate be increased to \$13.80 an hour. This modest increase in the minimum wage rate seeks to increase the real wage for those low-paid workers and avoid negative employment impact.

IMPLEMENTATION

74 Changes to the minimum wage rates will be implemented through an Order in Council. Historically, change in the minimum wage occurs on or before 1 April.

75 The Ministry will provide information through its website, call centre and other customer services to inform employers and employees of any change to the minimum wage before this takes effect. No additional budget is required for the purpose of implementation.

76 Some employers may choose not to comply with minimum wage legislation or delay their compliance with an increase in the minimum wage. As a usual practice, complaints of non-compliance will be dealt with by the Ministry.

MONITORING, EVALUATION AND REVIEW

- 77 It is a statutory obligation under section 5 of the Minimum Wage Act 1983 for the Minister of Labour to review the minimum wage rates by 31 December each year.
- 78 The Ministry will monitor compliance and uptake of the minimum wage through the National Survey of Employers and the New Zealand Income Survey. The Ministry will continue to collect relevant data to effectively evaluate impacts of minimum wage change and provide advice on whether the objectives of the minimum wage are met and whether further mechanism changes are needed to the Minister of Labour to fulfil the obligation.