



Cabinet Business Committee

CBC Min (05) 19/13

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Minute of Decision

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Minimum Wage Review 2005

On 12 December 2005, the Cabinet Business Committee:

Options to reach the government's goal of \$12 an hour (adult rate) by the end of 2008, if economic conditions permit

- 1 **agreed** that the government will make decisions each year about an appropriate adjustment to the minimum wage within the context of the goal of reaching \$12 an hour (adult rate) by the end of 2008 if economic conditions permit;

Options for the 2006 adjustment

- 2 **noted** that the Minister of Labour considers that an increase in the minimum wage in 2006 to maintain relativity to average wages (i.e. an increase to \$9.83 per hour):
 - 2.1 will preserve the real value of the minimum wage;
 - 2.2 could be made with confidence in the current economic and labour market conditions;
 - 2.3 will provide benefits to an estimated 28,400 recipients with minimal likelihood of constraining job growth;
- 3 **noted** that the Minister of Labour considers that an increase in the minimum wage in 2006 above the rate needed to maintain relativity to the average wage (e.g. a \$0.75 increase on the current rate):
 - 3.1 could be made with confidence in the current economic and labour market conditions;
 - 3.2 would reflect a stronger view of the contribution of the minimum wage to its objectives;
 - 3.3 would communicate a stronger message about reaching the government's aspirational goal for the minimum wage;

- 4 **noted** that:
- 4.1 the current labour market and economic conditions are likely to be able to accommodate a larger increase now than in the coming years, if there is an economic downturn or the economy softens;
- 4.2 an increase in the minimum wage in 2006 of more than \$1.00 would, however, involve increased likelihood of constraining potential job growth;
- 5 **noted** that women, younger workers, Maori, Pacific peoples, disabled people, recent migrants, the low skilled and people with non-English speaking backgrounds are over-represented amongst the low paid workforce, and that they would be expected to benefit from any resulting wage increases;
- 6 **agreed** that the adult minimum wage rate for 2006 should be 10.25 per hour, or \$410 for a forty hour week;
- 7 **agreed** that the youth minimum wage rate should continue to apply for 16 and 17 year old employees and remain at 80% of the adult rate for 2006;
- 8 **agreed** that the training minimum wage rate should remain at 80% of the adult rate for 2006;

Future minimum wage reviews to the end of 2008

- 9 **noted** that the ILO Convention 26 “Minimum Wage Fixing Machinery”, Article 3 requires that consultation with employers and employees takes place in determining minimum wage rates as part of wage fixing machinery;
- 10 **agreed** that reviews to 2008 continue to assess minimum wage rates against the government’s agreed objectives and goals for the minimum wage (including an assessment against corresponding benchmarks, for example relativity with the average wage);
- 11 **noted** that the Department of Labour is undertaking work to:
- 11.1 identify leading indicators of employment, and that leading indicators could be used in future reviews to provide disaggregated information around economic conditions;
- 11.2 review the relativities between adult, youth and trainee minimum wages, to provide more advice on this matter in the 2006 minimum wage review paper;
- 12 **noted** that the issue of minimum wages for young people under the age of 16 years will be reconsidered once the government has reached a decision around ratification of ILO Convention 138 (minimum age for employment);
- 13 **noted** that the Department of Labour will work with the Ministry of Social Development to provide firmer modelling in the 2006 review around the impact of minimum wage increases on Working for Families recipients following the implementation of Working for Families phase 2;

- 14 **noted** that the Department of Labour is to undertake work to evaluate minimum wage increases, including:
- 14.1 case studies of adjustment to the change of particular firms in the sectors where most minimum wage workers are to be found;
 - 14.2 an HLFS time series econometric study of employment rates of potentially vulnerable groups (women, youth, Maori and Pacific peoples, recent migrants, etc.) along the lines of previous Chapple (1997) and Maloney (1995) work which is now outdated;
 - 14.3 examination of PAYE/LEED data to explore pay changes;
 - 14.4 examination of 'flow on' effects up the earnings distribution by looking at changes in the Income Supplement of the HLFS earnings distribution;
 - 14.5 further work to monitor and explain the high levels of non-compliance with the minimum wage that are reported in the income supplement to the HLFS, with a view to more advice on this matter in the Department of Labour's 2006 minimum wage review report;
- 15 **invited** the Minister of Labour to provide drafting instructions to Parliamentary Counsel implementing the decisions made above;
- 16 **noted** that the Minister of Labour indicates that the government caucuses have been consulted, and that consultation is not required with other parties represented in Parliament.

Geoff Daniels
Secretary

Reference: CBC (05) 357

Present:

Rt Hon Helen Clark (Chair)
Hon Dr Michael Cullen
Hon Jim Anderton
Hon Steve Maharey
Hon Annette King
Hon Trevor Mallard
Hon Pete Hodgson
Hon Parekura Horomia
Hon Mark Burton
Hon Ruth Dyson
Hon Chris Carter
Hon Rick Barker
Hon David Benson-Pope
Hon Lianne Dalziel
Hon Damien O'Connor
Hon David Cunliffe (part of item)
Hon David Parker
Hon Nanaia Mahuta
Hon Clayton Cosgrove

Officials present from:

Department of the Prime Minister and Cabinet
Office of the Prime Minister