



Cabinet Business Committee

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Title **Minimum Wage Review 2005**

Purpose The paper presents the results of the 2005 minimum wage review and presents a range of options for increases in the adult minimum wage.

Previous Consideration In October 2000 the Cabinet Finance, Infrastructure and Environment Committee agreed to objectives of the minimum wage to be used for the annual review of the minimum wage [FIN (00) M 29/1].

Summary The Minister of Labour is required under the Minimum Wage Act 1983 to review the minimum wage by 31 December each year. The 2005 review has been undertaken in the context of the government's aspirational goal of achieving a minimum wage of \$12 an hour (for those aged 18 and over) by the end of 2008, economic conditions permitting.

The Minister considers that there are benefits to be gained in identifying and signalling an intended path to reach the government's aspirational goal, including the level of increases and when they will happen.

The 2005 review of the minimum wage considered a range of paths towards achieving the aspirational goal: smooth progression, front loading or backloading. At the macroeconomic level there is little difference between these options. There are however different costs and benefits for employees and employers associated with the different options. More income and social benefits will accrue to minimum wage and low paid workers from frontloaded options. Backloaded options may mean that fewer people are impacted by the change. Smooth options would spread the costs and benefits over the timeframe.

In this context, the 2005 review considered a range of options for change to the minimum wage for 2006, from 'no change' through to an immediate increase to \$12 an hour.

- Retaining the existing minimum wage (\$9.50 per hour) would erode the real value of the minimum wage and would not contribute to the government's goal. There would, however, be no constraint on job growth or other impacts

on employers and employees.

- An increase in the minimum wage to maintain relativity to average wages (\$9.83 per hour) would preserve the real value of the minimum wage and could be made with confidence in the current economic and labour market conditions.
- An increase in the minimum wage above the rate needed to maintain relativity to average wages (e.g. \$10 per hour or more) would signal a stronger message about a commitment to reach the aspirational goal. An increase above \$10.50 an hour could mean a higher risk that the rate of growth of minimum wage jobs would slow.
- The relativity between the adult and youth minimum wages and training minimum wage should be retained and the youth minimum wage should continue to apply for 16 and 17 year olds at this time.

Baseline Implications

There are a number of state sector employees that earn wages of \$12 per hour or less. Future increases in the minimum wage are likely to have direct costs for some state sector employers. Organisations may seek additional funding to compensate for these increases.

Legislative Implications

Changes to minimum wage rates are implemented by Order in Council.

Timing Issues

Minimum wage changes generally come into force in March, following Cabinet authorisation, drafting and the 28-day waiting period for regulations.

Announcement

The Minister will make a media statement following Cabinet confirmation.

Consultation

The Treasury, Education, MSD, Youth Development, TPK, Women's Affairs, Pacific Affairs, the Office for Disability Issues, DPMC, NZCTU, Business New Zealand and the Small Business Advisory Group have been consulted. Submissions were invited from a number of organisations as part of the review.

The Minister of Labour indicates that the submission has been the subject of consultation with the government caucuses and that consultation is not required with other parties represented in Parliament.

The Minister of Labour recommends that the Committee:

Communication of size and timing of minimum wage adjustments to 2008

1 **EITHER**

- 1.1 agree that the size and timing of the adjustments to the minimum wage to the end of 2008 (if economic conditions permit) should be publicly signalled to allow affected sectors and firms time to plan for the adjustments;

OR (*Treasury*)

- 1.2 note that communication of an intended pathway for the minimum wage to the end of 2008 may have some benefits for business planning, but will also reduce Ministers' flexibility to modify the pathway at future reviews in response to economic circumstance; and
- 1.3 agree to publicly communicate 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;
- 2 note that, if Cabinet agrees to recommendation 1.1 above, the Minister of Labour intends to make an announcement about the size and timing of intended incremental adjustments to the minimum wage at the same time as she makes a media statement about Cabinet's decision with respect to an increase in 2006;

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

3 **EITHER** (*Treasury*)

- 3.1 agree 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;

OR

- 3.2 agree in principle to aim for a progression towards the aspirational goal of \$12 an hour minimum wage rate for adults to be achieved through the following adjustments to the minimum wage:

EITHER

- 3.2.1 a \$0.63 increase to be implemented in March 2006 followed by a \$0.62 increase, a \$0.63 increase, and a \$0.62 increase, by the end of 2008, if economic conditions permit ('smooth' option – in relation to 2006 recommendation 8.4 below refers);

OR

- 3.2.2 a \$0.75 increase taking effect in 2006 followed by a second \$0.75 increase, a \$0.50 increase, and ending with a second \$0.50 increase, by the end of 2008, if economic conditions permit (a 'frontloaded' progression – in relation to 2006 recommendation 8.5 below refers);

OR

- 3.2.3 a \$0.75 increase taking effect in 2006 followed by a \$0.50 increase, followed by a \$0.50 increase, and ending with a \$0.75 increase, by the end of 2008, if economic conditions permit ('double spiked' progression - in relation to 2006 recommendation 8.5 below refers);

OR

- 3.2.4 a \$0.75 increase taking effect in March 2006, followed by a \$1.00 increase to take effect in March 2007, and ending with a \$0.75 increase taking effect in March 2008 ('bell-shaped curve' progression - this option corresponds to option 8.5 below in relation to 2006);

- 4 agree that the above paths should be subject to assessment in future minimum wage reviews in light of prevailing economic conditions;

Options for the 2006 adjustment

- 5 note that the Minister of Labour considers that an increase in the minimum wage in 2006 to maintain relativity to average wages (\$9.83 per hour) will:

- 5.1 preserve the real value of the minimum wage;
- 5.2 could be made with confidence in the current economic and labour market conditions;
- 5.3 will provide benefits to an estimated 28,400 recipients with minimal likelihood of constraining job growth;

- 6 note 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):

- 6.1 could be made with confidence in the current economic and labour market conditions;
- 6.2 would reflect a stronger view of the contribution of the minimum wage to its objectives;
- 6.3 would communicate a stronger message about reaching the government's aspirational goal for the minimum wage.

- 7 note that:

- 7.1 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;
- 7.2 an increase in the minimum wage in 2006 above \$1.00 would, however, involve increased likelihood of constraining potential job growth;

- 8 note 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;

9 agree that the adult minimum wage rate for 2006 should be:

EITHER

Option 1 – Status Quo

9.1 \$9.50 per hour or \$380 for a forty hour week (Business New Zealand, Federated Farmers, Hospitality Association and Small Business Advisory Group position);

OR

Option 2A

9.2 \$9.83 per hour or \$393 for a forty hour week (same increase as the increase in average hourly earnings between June 2004 and June 2005, Retailers Association position);

OR

Option 2B

9.3 \$10.00 per hour or \$400 for a forty hour week;

OR

Option 3A

9.4 \$10.13 per hour or \$405 for a forty hour week;

OR

Option 3B

9.5 \$10.25 per hour or \$410 for a forty hour week;

OR

Option 3C

9.6 \$10.50 per hour or \$420 for a forty hour week;

OR

Option 4

9.7 \$12.00 per hour or \$480 for a forty hour week (NZCTU position);

10 agree 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;

- 11 agree 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

- 12 note 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;
- 13 agree 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);
- 14 note that the Department of Labour is undertaking work to:
- 14.1 identify leading indicators of employment, and that leading indicators could be used in future reviews to provide disaggregated information around economic conditions;
 - 14.2 review the relativities between adult, youth and trainee minimum wages, to provide more advice on this matter in the 2006 minimum wage review paper;
- 15 note that the issue of minimum wages for young people under the age of 16 years will be reconsidered once government has reached a decision around ratification of ILO Convention 138 (minimum age for employment);
- 16 note 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;
- 17 note that the Department of Labour is to undertake work to evaluate minimum wage increases, including:
- 17.1 case studies of adjustment to the change of particular firms in the sectors where most minimum wage workers are to be found;
 - 17.2 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;
 - 17.3 examination of PAYE/LEED data to explore pay changes;
 - 17.4 examination of ‘flow on’ effects up the earnings distribution by looking at changes in the Income Supplement of the HLFS earnings distribution;
 - 17.5 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;

- 18 invite the Minister of Labour to provide drafting instructions to Parliamentary Counsel implementing the decisions made above;
- 19 note that the Minister of Labour indicates that the submission has been the subject of consultation with the government caucuses and that consultation is not required with other parties represented in Parliament.

Nick Markwell
for Secretary of the Cabinet

Copies to:

Cabinet Business Committee
 Chief Executive, DPMC
 Director, PAG, DPMC
 Secretary to the Treasury
 Chief Executive, Ministry of Education
 Chief Executive, Ministry of Pacific Island Affairs
 State Services Commissioner
 Chief Executive, Ministry of Economic Development
 Chief Executive, Te Puni Kokiri
 Minister of Labour
 Secretary of Labour
 Chief Executive, Ministry of Social Development (Office for Disability Issues)
 Minister for Social Development and Employment
 Chief Executive, Ministry of Social Development
 Minister of Women's Affairs
 Chief Executive, Ministry of Women's Affairs
 Minister of Youth Affairs
 Chief Executive, Ministry of Social Development (Youth Development)
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