



## BRIEFING

### Minimum Wage Review 2021 – Initial decisions and direction

Date:	23 July 2021	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2122-0192

#### Action sought

	Action sought	Deadline
Hon Michael Wood Minister for Workplace Relations and Safety	<p>Note that MBIE is initiating the 2021 Minimum Wage Review</p> <p>Provide direction on the:</p> <ul style="list-style-type: none"><li>• high-level policy objectives to guide setting indicative rates for the next three years</li><li>• preferred methodology for identifying minimum wage rate options, and</li><li>• approach to stakeholder engagement.</li></ul>	2 August 2021

#### Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Chris Hubscher	Manager, Employment Standards Policy	04 901 8590	✓
Chris Pound	Principal Policy Advisor, Employment Standards Policy		

#### The following departments/agencies have been consulted

<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
		<input type="checkbox"/> Other:	Department of the Prime Minister and Cabinet		

Minister's office to complete:

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

Comments:

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### Purpose

The Ministry of Business Innovation and Employment (MBIE) is initiating the Minimum Wage Review 2021. This paper seeks your direction on the:

- high-level policy objectives to guide setting indicative minimum wage rates for the next three years to 2024
- preferred methodology for identifying minimum wage rate options – identify and consult on specific increases, use an indexing approach, or a fully negotiated approach
- approach to engaging key stakeholders, the New Zealand Council of Trade Unions (NZCTU) and BusinessNZ.

We would also like to engage with you on the longer-term approach to setting minimum wage rates, institutional arrangements and functions in the context of other employment policy proposals, such as Fair Pay Agreements. This paper contains initial material to inform that discussion.

### Executive Summary

*We intend to initiate this year's minimum wage review in August 2021, which will enable decisions to be made on minimum wage rates in late 2021*

1. The *Minimum Wage Act 1983* requires you to review the minimum wage rate by 31 December every year. There is no obligation to change the minimum wage rate or to make decisions on the rates by a particular date. In recent years, Ministers have sought Cabinet approval of rate changes in mid-December, and announced them prior to Christmas with the changes coming into effect on 1 April in the following year.
2. MBIE will provide advice and a report on the minimum wage for your review in early November 2021. As you have directed, and similar to 2017, we will provide you with advice on indicative minimum wage rates to increase progressively from 2022 through to 2024. Publishing indicative rates in advance will provide certainty for employers and workers.

*We seek your direction on the policy objectives for the minimum wage over this period*

3. We propose that the primary policy objective of the minimum wage continues to be protecting workers against unfairly low pay, by ensuring a decent return for their labour. Due to its function as a wage floor, minimum wage movements can also ripple upwards to some extent, meaning that some workers earning above the minimum wage also benefit from it increasing.
4. Alongside other government interventions, minimum wages can also contribute towards providing income support for the lowest paid workers, addressing poverty, reducing wage inequality and promoting firm productivity. Our view is that these should be secondary objectives. This is because the available evidence indicates that minimum wage movements have limited utility in achieving these objectives.
5. If you agree with our proposed objective for the minimum wage over this period, we will focus our analysis on options for incremental changes that maintain forward momentum, but equally, seek to minimise the risk of counterproductive labour market impacts. If you prefer a wider range of objectives, we will present you with a more ambitious range of options.

6. There is no consensus in the research literature on the disemployment effects of minimum wage increases. The impact depends on the size of the minimum wage increase, the economic and labour market context in which it occurs, and how employers respond to the changes. Impacts of minimum wage increases on workers also vary between different demographics with youth, Māori, Pacific peoples and women disproportionately affected. Many of the youth in question, however, live in medium and high income households.
7. All annual reviews must consider the impact of any minimum wage change on inflation, wage growth and restraint on employment, and include consultation with the NZCTU and BusinessNZ. Given the past year's economic and public health disruptions, we propose a range of additional factors for you to consider on page 10 of this briefing.

*We recommend leaving space for Fair Pay Agreements (FPAs) to deliver a wage premium*

8. FPA sector bargaining on minimum employment standards will likely include setting minimum wage rates for employees in specific industries or occupations. We expect that most of these will be above the level of the minimum wage. Over time, the statutory minimum wage may become less relevant as a universal standard and only apply in the absence of an FPA.
9. The statutory minimum wage will set the minimum benchmark from which FPA negotiations over an industry's lowest wages start from. MBIE's view is there should be some incentive for FPA bargaining to agree sector minimum wage rates that are higher than the statutory rate. This would enable agreements to better reflect the skills, conditions, job and possibly regional, characteristics of a particular industry's lowest paid workers. Setting the minimum wage rate too high will reduce the scope for FPA negotiations to agree such a premium.

*We seek your direction on your preferred approach to setting the new indicative minimum wage rates to analyse and consult with stakeholders*

10. We propose the following options for your consideration:
  - The **current review approach**, which involves modelling a range of selected minimum wage rate options that increase incrementally from the status quo. For this option, we would like to discuss your thoughts on possible rates
  - **Indexing the minimum wage against key benchmarks** that measure wages (average or median), wage growth, productivity, inflation or household or living costs/prices

Alternatively, the rate could be set against a target-focused benchmark where the minimum wage is set relative to an overarching objective. For example, the United Kingdom's objective for the National Living Wage to reach two-thirds of median earnings by 2024

  - **A negotiated process** between employers and worker representatives, which would be consistent with the approach proposed for the FPA system.
11. We anticipate the initial engagement would take around one month, but it is likely that a bargaining-style process to determine rates would extend this timeframe.
12. If indicative rates are agreed through until 2024, we suggest that the annual review process over the next three years is scaled back to provide a brief overview and advice on any pressing economic or labour market factors that would require the indicative rate for the following year to be re-considered.

*Over the coming three years, we can work on a new approach to setting the minimum wage*

13. A three year window of indicative rates provides an opportunity to work in parallel on a changed approach to setting the minimum wage, which could come into effect at the end of this window. In the first instance, your initial preferences on the options in this briefing will inform our work on the wider employment relations regulatory system, including whether there is a need for new or different institutional arrangements.

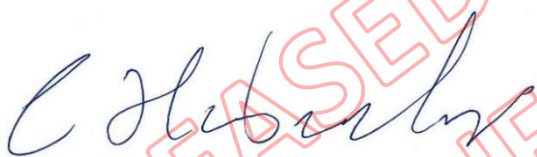
14. This strategic review also presents an opportunity to update the minimum wage purpose, objectives, expectations and guidance from the existing Cabinet decision that was agreed in 2012.
15. We would like to discuss the options for re-setting the functions and institutional settings for analysing and making decisions on the minimum wage. To inform this discussion, we have outlined these options with some initial benefits and trade-offs in Annex Four of this briefing.

## Recommendations

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The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **note** that the Minimum Wage Review for 2021 is a statutory requirement under section 5 of the *Minimum Wage Act 1983* *Noted*
- b **note** that making decisions on a new minimum wage rates for 2022 and indicative rates for 2023 and 2024 prior to the end of 2021 will provide time for businesses and workers to plan and prepare for any increases *Noted*
- c **note** that MBIE is initiating the Minimum Wage Review 2021 *Noted*
- d **discuss** your policy objectives for the minimum wage, preferred methodology for identifying minimum wage rate options, and any additional factors, options or stakeholders to be included in this review *Officials meeting*  
*OR*  
*Standalone discussion*



Chris Hubscher  
**Manager, Employment Standards Policy**

23 / 07 / 2021

Hon Michael Wood  
**Minister for Workplace Relations and Safety**

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## Background

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### ***Minimum wages protect workers against exploitative and unfairly low pay***

17. Minimum wages protect workers against unfair and exploitative low pay. They may also help, to some extent, to address bargaining imbalances between employers and workers, ensure a more equitable share of the benefits of progress, and ensure workers have an adequate minimum level of income. Alongside other policies, minimum wages can play a role in overcoming poverty, reducing wage inequality (especially for disadvantaged groups like Māori, Pacific people, youth and women) and promoting fair pay for equal value work.
18. These objectives align with the Government's key workplace priorities, which are: to invest in workers by growing their incomes and wages, especially for those earning the least; to make it easier for employees to receive fair wages and conditions; and avoid competition based on low wages. The Government has committed to achieving these priorities by continuing to lift the minimum wage and introducing Fair Pay Agreements. Next month, Cabinet decisions are being sought on the Government's commitment to set a wage floor equivalent to a Living Wage rate for cleaners, security guards and caterers working under Government contracts.

### ***The current adult minimum wage is \$20.00 per hour***

19. \$20.00 per hour is the equivalent of \$800 per week before tax for a person working 40 hours a week. This equates to 57.9 per cent of average ordinary hourly earnings (\$34.52 - from the March 2021 quarter) and 74.0 per cent of median total hourly earnings (\$27.03 - from the weekly employment indicators 19 July 2021). This is comparatively high relative to other Organisation for Economic Co-operation and Development (OECD) countries. In 2020, MBIE estimated that 57,700 workers, or approximately three per cent of total wage earners, were paid the minimum wage.
20. There are also 'starting-out' and 'training' rates, which must be no less than 80 per cent of the adult minimum wage. These are both currently \$16.00 per hour (or \$640.00 per week before tax). Relatively low numbers of youth workers are on these rates. Further information on the adult, starting-out, and training minimum wages is attached as **Annex One**.
21. For comparison, as at 1 July 2021, the gross weekly Jobseeker Support benefit is \$314.73 per week for single people 25 years or older (not including the Accommodation Supplement) and \$267.82 for single 18- to 24-year-olds who are living away from home and are not in a parent role. These benefits are indexed to annual increases in the average wage.

### ***Legislation requires the minimum wage to be reviewed annually***

22. As Minister for Workplace Relations and Safety, you have a statutory obligation under section 5 of the *Minimum Wage Act 1983* to review minimum wage rates annually by 31 December. To aid decision-making, officials undertake analysis and prepare a minimum wage review report for your consideration.
23. In 2012, Cabinet agreed that a 'comprehensive' review would be completed every four years with the next due in 2023 and 'streamlined' reviews occurring during the intervening years [CAB Min (12) 41-5 B refers]. In light of your direction to develop options for an indicative path for the period 2022-2024, however, we propose to undertake more in-depth analysis and consultation this year.
24. In previous years, the responsible Minister has recommended any changes to Cabinet for a final decision, which is then given effect through an Order in Council. There is no obligation to change the minimum wage rates but, if there are changes, these have generally come into effect on 1 April in the following year, although the timing of any rate changes is not prescribed in statute or regulations.
25. By convention, your role in the annual review process is to:



- determine the process for the review, including factors and options to be considered and consulted on, stakeholders to be engaged, and timeframes
- consider advice from officials on setting the minimum wage rate, and
- decide on the recommendation(s) to submit to Cabinet for confirmation.

***You have requested that officials undertake a broader review of the minimum wage...***

26. All annual reviews must consider the impact of any minimum wage change on inflation, wage growth and restraint of employment growth, and include consultation with the NZCTU and BusinessNZ. The additional requirements for a comprehensive review are to analyse 'other relevant factors' and consult with additional stakeholders, although no specific factors or stakeholders are prescribed.
27. To inform the review, we are looking at who receives the minimum wage in more detail to better understand its impact on workers, households, employers and firms. This will help us understand: who is vulnerable to job-loss or reduced work hours, how firms respond to minimum wage increases, and what sectors may be more at risk of business closures.
28. If you wish, this review also presents an opportunity to reset the expectations, objectives and guidance that were agreed in 2012. Cabinet's agreed objective for the minimum wage review was to *'keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses'* (CAB Min (12) 41/5B refers).

***...with a view to setting a multi-year indicative rate for the three years to 2024***

29. In 2017, the previous Government committed to increasing the minimum wage progressively to \$20.00 in 2021. At this time, employer and employee representatives expressed the desire for certainty around this intended increase, which resulted in indicative rates being specified for 2019 and 2020.
30. You have indicated that you would like to set indicative minimum wage rates for the next three years.
31. Setting indicative rates enables the Government to signal its broader intent for wages beyond what the labour market may or may not determine. It also provides greater certainty for employers, so that they can plan for upcoming labour cost increases, and more accurately estimate prices for future goods and services. For workers, indicative rates can provide greater certainty of future income. In addition, both employer and worker representatives have noted that setting indicative rates in advance would enable collective bargaining processes to proceed in an informed manner. Parties would not need to predict what the minimum wage could be in the future years so it would be covered by an agreement.
32. We are confident that employers would welcome more certainty about forthcoming minimum wage adjustments, particularly if they are affordable.

**Your choices on the high-level policy objectives for the minimum wage will guide the review and proposed indicative rates for 2022-2024**

33. We seek your direction on the policy objectives for the minimum wage that you would like to achieve, which will guide our analysis and advice on setting indicative rates to 2024. Literature on minimum wage policies identifies that minimum wages can potentially contribute to the following policy objectives:
  - Reducing potential for exploitation and ensuring a decent return for people's labour
  - Providing income support and assisting with poverty alleviation
  - Reducing income inequality, and
  - Promoting productivity growth and economic performance.

34. We think that the minimum wage's primary objective should be to protect workers from unreasonable and unfairly low pay (the first bullet above). In our view, the other factors bulleted above should be considered secondary objectives.
35. Minimum wage policies can contribute to addressing poverty, providing income support, reducing income inequality, and promoting productivity growth. MBIE's view is, however, that while the minimum wage can help to support achieving these objectives, it is not an effective tool on its own. In our view, to best achieve these objectives, minimum wage policy is best used to reinforce other social and employment policies such as those that cover labour relations, tax and benefits, employment and training and business support.

***Setting a wage floor is a balancing act***

36. The International Labour Organisation (ILO) defines the purpose of a statutory minimum wage as *"the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract"*.
37. Minimum wages are necessary as they protect workers from being paid unreasonably low wages by introducing a price floor into the wage bargaining process. This has the effect of setting a base rate or starting wage for entry-level positions and being a benchmark or baseline from which employers set other wage rates.
38. If set too low, minimum wages will have little effect in protecting workers against exploitation and provide little incentive for people to transition from unemployment into work. A minimum wage that is set too high, however, will also cause adverse consequences – such as unemployment, reduced availability of work hours, and more employment "off the books". Either way, economically disadvantaged groups such as Māori, Pacific peoples, women and recent migrants are likely to be disproportionately affected as slightly higher proportions of these workers are in minimum wage jobs than are represented in the overall workforce.<sup>1</sup> Getting the balance right, therefore, is a key policy objective.

***Minimum wage policies have a key role in preventing exploitation and ensuring a decent return for work***

39. Minimum wages have their greatest effect where workers' wages are lower than they would be in a well-functioning labour market. Malfunctioning labour markets can occur where there is limited worker mobility, where workers lack sufficient knowledge or agency to negotiate effectively, and/or where monopsonistic employers have unfair bargaining and wage-setting power.
40. A fully functioning labour market may still, however, feature wage rates that are unreasonable and unfair. In the absence of Government intervention, it is entirely possible that wages in some occupations could settle at a level close to the international reserve wage, which doesn't enable a decent standard of living in New Zealand as the cost of living is higher here than many countries.
41. In this context, the minimum wage is an important tool to protect against a level of pay that would be considered exploitative in the New Zealand context, by ensuring a reasonable return for effort. MBIE considers this to be the key objective of minimum wage policy.

***Minimum wages in New Zealand are of limited effectiveness as an income support and poverty alleviation tool***

42. International evidence suggests that under certain conditions (e.g. growing demand for labour, and no or small disemployment effects), minimum wage increases can be effective in reducing poverty. But overall, the research suggests that increasing the minimum wage on its

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<sup>1</sup> In 2020, MBIE estimated that Māori workers represented 13 per cent of total wage and salary earners and 15 per cent of minimum wage workers; Pacific peoples 6 per cent of wage and salary earners and 9 per cent of minimum wage workers; women were 50 per cent of wage and salary earners and 56 per cent of minimum wage workers.

own is not particularly effective as a means of increasing household incomes or reducing poverty.

43. The effects of minimum wage increases on poverty are highly context specific, with important interaction effects with economic conditions, employment settings, and the tax and transfer system. Minimum-wage and other low paid workers are found in households across the income distribution. Many individuals in the lowest income deciles do not work and, therefore, will not benefit from minimum wage increases. While low-income earners do benefit from minimum wage increase, in fact, the data available suggests that most of the direct benefits of increasing the minimum wage in New Zealand accrue to middle and higher income households.
44. Maré and Hyslop (2021) note that, *"In the presence of in-work income support policies, the level of the minimum wage has a direct effect on whether the costs of income support are borne by the government or by employers. By providing a wage floor, minimum wages may limit the implicit subsidy to firms, and complement tax credit policy."* In other words, increased minimum wages may be seen as, in many cases, shifting the cost of household income support from the taxpayer to employers. Perhaps more importantly, however, the net income lift for the worker(s) may be substantially less than their increased pay, due to the abatement of other benefits.
45. Analysis undertaken by MBIE and DPMC in 2018 indicated that minimum wage increases were more likely to have an impact on income poverty rates for households *without* children, with limited impacts on measured income poverty for households with children.<sup>2</sup> People on the minimum wage without children retain all of the increased income other than their increased income tax.
46. Parents in households with dependent children who are minimum wage earners<sup>3</sup>, however are affected both by income tax and by the abatement of benefits and other government support such as Working for Families and the Accommodation Supplement. This means some households will not receive the full amount of a minimum wage increase as the higher level of income reduces the amount of financial assistance they are entitled to.
47. Table 1 below illustrates this, showing that the increase in the minimum wage from \$18.90 to \$20.00 per hour (5.82%) on 1 April 2021 is not fully realised in net household earnings (after tax) due to abatements of government transfers.<sup>4</sup> Two family types living in various locations in New Zealand are shown for comparison. Further information is available in **Annex Three**.

Minimum Wage		Auckland	Ashburton	Whakatāne
<b>A couple working a combined 60 hours per week at minimum wage with two dependent children</b>				
<b>\$20.00 (+5.82%)</b>	Combined net household earnings after tax and ACC deductions	\$52,572	\$52,572	\$52,572
	Government transfers after abatements	\$18,854	\$10,456	\$11,314
	Total annual net household earnings	\$71,426	\$63,028	\$63,886
	<b>Percentage increase in annual net household earnings</b>	<b>1.51%</b>	<b>1.72%</b>	<b>1.70%</b>

<sup>2</sup> The analysis looked at whether proposed minimum wage increases put the incomes of scenario households (for different household sizes, locations and numbers of hours worked) over various standard poverty lines. Poverty lines are generally set as a proportion of median incomes (e.g. 40%, 50% or 60%), either before or after housing costs. The modelling assumed lower quartile rents and full take up of income-support entitlements such as Working for Families and Accommodation Supplement. Further information can be found in the Minimum Wage Review 2018 (MBIE, 2018).

<sup>3</sup> In 2019, 33 per cent (or 28,500) of main wage and salary workers over the age of 18 years and earning below the minimum wage lived in households with dependent child(ren). Of this group, two third (or 19,800) were in a parent role. A further 27,600 workers on minimum wage also lived in household types with dependent child(ren). About 60 per cent (or 16,600) of this group were in a parent role.

<sup>4</sup> These figures do not take account of the benefit increases that occurred on 1 April 2021 as the intent of this comparison is to show the relative effect of a minimum wage increase only and not the combined effect of this plus increases in other support mechanisms.



<b>A sole parent working 40 hours per week at minimum wage with two dependent children</b>				
<b>\$20.00 (+5.82%)</b>	Combined household net earnings after tax and ACC deductions	\$34,721	\$34,721	\$34,721
	Government transfers after abatements	\$27,991	\$20,066	\$20,451
	Total annual household earnings	\$62,712	\$54,787	\$55,172
	Percentage increase in annual net household earnings	2.09%	2.40%	2.38%

***Minimum wage increases can help reduce wage inequality but, again, the effect is limited***

48. While the workforce's lowest earners get a substantial increase when the minimum wage increases, studies have also found some "trickle through" effect, where middle earners receive a moderate increase. Top earners experience little or no rise. This means the gap between top and bottom earners reduces, thereby reducing earnings inequality.
49. The effects of minimum wage increases go beyond those workers at or just above the minimum because firms need to adjust their pay scales to maintain a wage premium for their more experienced and/or productive workers. Additionally, when low-productivity firms increase their wages to meet the new minimum, high-productivity firms increase wages too, because they want to attract employees as well. They need to outbid low-productivity firms with better pay offers than they would have made before the minimum wage increased.
50. At an economy-wide level, wage increases for workers across the income distribution, as a result of a higher minimum wage, should be seen as beneficial and evidence of the wider ripple effect of raising the wage floor. A US study identified that the highest increases occurred in the bottom 5 per cent of the wage scale. It noted that a 10 per cent increase in the minimum wage raised wages in the 5<sup>th</sup> percentile by 2.9 per cent, in the 10<sup>th</sup> percentile by 1.5 per cent, in the 20<sup>th</sup> percentile by 0.7 per cent before becoming effectively zero at the 25<sup>th</sup> percentile. This suggests there are economically meaningful ripple effects from raising the minimum wage for lower income earners that do not extend to those workers earning middle-income wages or higher, which points to reducing wage inequality.
51. The beneficial effect on equality, however, is likely to be limited by the inflationary effects of wider wage growth because, as wages rise across the economy and the ability to buy goods increase, prices will also rise. This reduces the purchasing power of low income earners relative to those people on higher incomes, which increases inequality.
52. Furthermore, at firm level, reduced income inequality can have a downside, when it manifests as 'wage compression'. Firms adjusting wages in lesser percentages for workers just above the minimum wage may also reduce incentives to train and gain seniority.

***There is limited evidence that minimum wage increases lift productivity***

53. Some overseas studies have shown that minimum wages contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level. At the enterprise level, workers may be motivated to work harder, stay longer with their employer, be more committed, and gain skills, training and experience which reduces the transaction costs of moving jobs to both employers and workers. As a result, some firms can become more efficient and productive.
54. Other research notes that productivity increases may be the result of a fall in employment or reduced hours as enterprises substitute capital for labour and adopt more capital-intensive production technologies. In cases of extinction rather than adaptation, minimum wage rises may cause low-productivity low-margin firms to exit the market altogether (voluntarily or not). This raises the average labour productivity overall, but at the expense of people's jobs.
55. There is no consensus view on productivity effects. Other research finds little empirical support for claims that minimum wage increases improve firm-level or aggregate economy-wide productivity. Treasury has noted that "*productivity is determined by many factors*

*including the political institutions and social infrastructure, monetary and fiscal policy, and macro- and micro-economic conditions. These factors are much more significant than the minimum wage, because they drive the investment in technology, management capability, and workforce skills that enable a country to make the most of its comparative advantages.”*

56. There is also an argument that lifting the minimum wage can result in increased overall consumer demand caused by minimum wage earners spending the additional money as they normally spend a high proportion, if not all, of their earnings. For this to happen, the increase in overall spending would need to be significant. As only a small number of people earn at or near the minimum wage (estimated to be 175,500 people or 9.2 per cent of all wage earners in the 2020 Minimum Wage Report), this effect is unlikely to occur in New Zealand.

**We seek your direction on the policy objectives for the minimum wage over the next three years**

57. In summary, we think that the minimum wage's primary objective should be to protect workers from unreasonable and unfairly low pay. In our view, other factors, such as providing income support, poverty alleviation, reducing income inequality, and promoting productivity growth and economic performance should be considered secondary objectives.
58. If you agree with MBIE's suggested approach to the policy objectives, we will focus our analysis on options for incremental movements that maintain forward momentum, but equally, seek to minimise the risk of counterproductive labour market effects.
59. We acknowledge, however, that the debate over the minimum wage policy's objectives is not settled. Conclusive evidence is scarce, and reasonably bold increases over recent years have not caused adverse labour market impacts, so far as we can identify.
60. If you prefer a wider range of objectives for minimum wage policy over the next three years (e.g. reducing wage inequality and increasing labour productivity), we will present you with a more ambitious range of options for increasing it.

**We propose to consider a wider range of factors in this review**

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61. We would like to discuss the factors you want considered as part of this year's review.
62. As per Cabinet's direction in 2012, MBIE will focus its analysis on the following factors:
- inflation, using the Consumer Price Index (CPI) as the indicator
  - wage growth, using the median wage as the indicator
  - restraint on employment growth.
63. We also propose taking into account other factors, including:
- the effects of minimum wage increases on personal and household incomes of minimum wage workers, after tax and social transfers
  - the relativity of the minimum wage to welfare benefits, to the average and median wages in New Zealand, in other OECD countries and to Living Wage Aotearoa's Living Wage
  - the relativity to household living costs, in particular the cost of housing, and the financial needs of workers and their families
  - impacts on specific groups, such as Māori and Pacific people, women, and those with a disability
  - the impacts on different employers, including small, medium and large businesses, export and import reliant businesses and other employers such as charities

- impacts on and viability of sectors that have been most significantly affected by COVID-19 and have high proportions of minimum wage workers, for example, tourism, accommodation, retail, hospitality, manufacturing
  - the proposed minimum wage level in 2024 and trajectory for increases in 2022 and 2023, assessed in comparison with household living and economic performance/measurement benchmarks
64. In addition, MBIE will review recent research on the economic and labour market effects of increases to the minimum wage, including:
- the size and scale of minimum wage increases over the past 20 years and the actual economic and labour market effects in comparison to those impacts estimated at the time of the review
  - an assessment of findings from international literature on recent developments in low-wage labour markets and the implications for this annual review.
65. While 2021 was scheduled to be a 'streamlined' review, we recommend a more comprehensive review. This is because we intend to provide you with options for rate increases over the next three years.

### **The relationship to FPAs and the Living Wage is relevant**

66. Another factor to consider is the place of the minimum wage in relation to FPAs. FPAs will enable employers and unions within a sector to bargain for minimum employment standards for all employees in that industry or occupation, including minimum wage rates.<sup>5</sup> Where FPA negotiations set minimum wage rates, the statutory minimum wage would not apply. Over time, and as sector agreements proliferate, the statutory minimum wage may become less relevant and only apply to jobs and sectors without FPAs. The statutory minimum wage will set the minimum benchmark level from which FPA negotiations over an industry's lowest wages are likely to start from.
67. Recent increases in the minimum wage have been relatively high (2018 – 4.8 per cent, 2019 – 7.3 per cent, 2020 – 6.8 per cent, 2021 – 5.8 per cent) but annual quarter on quarter inflation jumped to 3.3 per cent in the June 2021 quarter and is forecast to rise further by late 2021 (to 3.6 percent (Westpac) or 4.2 per cent (ANZ)) before dropping to around 2.0 percent in 2023 and rising slightly again in 2024 (to 2.2 per cent). This is likely to put upward pressure on wages and household costs over the next three years.
68. One approach to setting the minimum wage is to maintain a "holding position" until FPA legislation is in place and sector-based negotiations commence. This would provide more room for FPA sector bargaining to agree minimum rates that are higher, better reflecting the skills, conditions and job requirements of a particular industry's lowest paid workers. Setting a statutory minimum wage rate too high will reduce the scope for FPA negotiations to agree such a premium or to set individual sector-based minimum rates.
69. In August 2021, Cabinet decisions will sought to implement the Government's commitment to pay a minimum wage rate in public service departments' contracts for cleaning, catering and security services. This minimum wage rate is to be set at a "living wage" rate, in line with Living Wage Movement Aotearoa NZ's<sup>6</sup> Living Wage. It proposes to require annual increases to be calculated by a formula to be developed by MBIE that takes into account increases in this Living Wage since the contract date. Further information on the Living Wage is included in **Annex One**.

<sup>5</sup> The *Minimum Wage Act 1983* does not have provisions that enable sector-based or differential minimum wage rates to be set in specific circumstances e.g. regional minimum wages.

<sup>6</sup> Living Wage Movement Aotearoa New Zealand was brought together by community/secular, union and faith-based groups to campaign for a Living Wage in New Zealand.



70. Similar to the FPA system, the objectives behind this proposal and those behind setting the statutory minimum wage are interrelated. It also highlights that different wage floors are appropriate in different contexts. The upcoming review will address the relationship between the statutory minimum wage and other options, such as living wage rates.

## **Approach to and advice on setting indicative rates for 2022 - 2024**

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71. You have indicated that you would like to signal the annual minimum wage increases in 2022, 2023 and 2024 by publishing indicative rates, similar to the previous Government's approach in 2017. We support publishing indicative rates. Feedback from employers and workers indicates that they would both support this approach, because the certainty it provides is very useful for planning purposes.
72. While this approach provides signals of intent and certainty over future increases, however, setting indicative minimum wage rates creates expectations in the labour market. This means that, once published, it becomes more difficult for the Government to re-consider the rates should there be a significant change or economic shock, such as occurred with COVID-19.

### **Pathway to 2024 - Options for setting the new indicative rates**

#### *Identify and consult on specific increases in light of your policy objectives*

73. The current review approach involves quantitatively modelling a range of selected minimum wage rate options that increase incrementally from the status quo. The rationale for increasing the rate to these options is also qualitatively assessed against the relevant factors that have been chosen for that year. The range of options usually analysed include:
- Current minimum wage rate – the status quo
  - Current minimum wage rate adjusted for forecast inflation
  - Incremental variations between the current minimum wage rate and the Living Wage.
74. The analysis would rely on multi-year forecasts, which can be unreliable. Realistically, we can only offer best guess estimations.
75. This approach would be most effective if you make an in-principle decision on the target rate for 2024 that we then consult on. We could provide you with policy advice to support this choice, with options reflecting your broader objectives for minimum wage policy over this period. Our engagement with the social partners would then largely be on the trajectory for the interim increases in 2022 and 2023. The indicative rates can then be consulted more widely to other stakeholders prior to any final decisions.
76. It is likely that employee representatives would want to front-load the substantial part of any increases into 2022 and 2023 to ensure workers reap the benefits of higher wages earlier. Conversely, employers' representatives are likely to suggest deferring increases into 2023 and 2024 to reduce the immediate financial impact on businesses.

#### *Index the minimum wage against key benchmarks*

77. The minimum wage over the next three years could be indexed against key benchmarks that measure wages (average or median), wage growth, productivity, inflation (CPI) or household or living costs/prices (HLPI). This approach means that minimum wage increases would align with economy-led wage or price increases so workers' real income levels and purchasing power are maintained. It also aligns with Cabinet's objective for the minimum wage review.
78. The actual rate for any given year, however, would not be known much in advance as an indexing approach is necessarily backwards looking. This means there would likely be a lag effect between factors in the index moving, and the minimum wage rate catching up.
79. Indexing has the benefit of being a "fix and forget" approach that may provide process cost-efficiency gains. It is, however, more inflexible (relative to a periodic review) in considering



economics/social trade-offs at stake and may compromise the ability of Government to react to changes in the economic climate.

80. Indexing could be annualised and tied to the same percentage rate as a selected benchmark, such as CPI, household costs or median wage growth. Currently in New Zealand, increases to benefits are indexed to changes in the average wage. For this approach, MBIE's recommendation would be to index the rate increases to either inflation (CPI), to protect the real income of workers, or to median wage growth so that increases to the lowest wages keep pace with those of middle-income earners.
81. The other method is to index to a target-focussed benchmark where the minimum wage is set relative to an overarching objective that Government wants to achieve, for example as a proportion of earnings. In 2015, the United Kingdom Government set an objective for the National Living Wage to reach 60 per cent of median earnings by 2020, subject to there being sustained economic growth, which the Low Pay Commission determined was GDP growth exceeding one per cent per year. This target was reset in 2020 for the minimum wage to reach two-thirds of median earnings by 2024. The key issue with this particular benchmark for New Zealand is that current minimum wage is already 74.3 per cent of median income.
82. If this approach is selected, it will be important to ensure there is a clear policy objective and rationale behind the choice of benchmark and the target level, otherwise the figures could be perceived as being somewhat arbitrary.

#### *A negotiated outcome*

83. The final approach is to set the indicative rates through a negotiation process between employers and worker representatives, which would be consistent with the approach proposed for the FPA system. One limitation of this approach is that time is short for a fully bargained approach. The NZCTU and BusinessNZ are very committed on existing work and we think it would stretch their capacity, possibly beyond what they are able to commit to, within the available timeframe. Also, achieving a consensus would be challenging.
84. Another issue with this approach is the social partners do not represent a large proportion of NZ workers and employers, unlike other countries where this approach is used. Union membership in New Zealand just under 18 per cent of employees and over ninety per cent of businesses are small to medium enterprises, who may not be represented by BusinessNZ. This process, if used, may require representation to be beyond the two social partners. Additional consultation, however, would take more time and resource and may not deliver substantive additional benefits. It also risks becoming an unresolvable partisan discussion between ideologies, similar to that occurring about the minimum wage in scientific research.
85. This said, however, a broad consensus on minimum wage movements would be ideal. As noted below, we do propose to consult with a wide range of key stakeholders and partners.

#### *We seek your direction on which approach to pursue.*

86. We seek your direction on the proposed approach, in particular, whether our engagement should be on either:
  - an engagement/consultation process either to identify and/or discuss discrete movements in the indicative rates, similar to previous years; or
  - an indexing approach (in which case we could consult on the approach to indexing rather than on discrete movements in the indicative rates); or
  - a fully negotiated bargaining process to establish the indicative rates.
87. We anticipate the initial engagement with would take around one month, but it is likely that a bargaining-style process to determine rates would extend this timeframe.

***Having agreed indicative rates means the annual review processes over the next three years could be streamlined further***

88. While providing certainty, setting indicative rates is likely to set expectations among employers and employees that may not be easy to change. The economic pressure and disruption caused by COVID-19 did not dissuade this Government from increasing the minimum wage as was agreed in 2017.
89. We envisage that this Government will adopt a similar approach once the indicative rates to 2024 are agreed, assuming there is no further significant disruptions or lockdowns from COVID-19. This provides an opportunity to reduce the level of analysis and advice MBIE provides for you in its annual review report.
90. MBIE suggests that, if indicative rates are agreed through until 2024, the annual review process over the next three years is scaled back to provide a brief overview and advice on any economic or labour market factors that would require the indicative rate for the following year to be re-considered.

**We propose consulting with a wider range of stakeholders**

91. Initial engagement with BusinessNZ and the NZCTU can commence in August and would likely run through until September 2021.
92. Once the indicative rates (or approach to indexation) have been determined, wider consultation would focus on how stakeholders consider future minimum wage increases might affect their sectors and businesses. These stakeholders include:
  - FIRST Union
  - E tū
  - Unite Union
  - NZ Meat Workers and Related Trades Union (Inc.)
  - Small Business Advisors Group
  - Regional Business Partners Network
  - NZ Union of Students' Associations
  - Disability Rights Commissioner
  - Human Rights Commission
  - Salvation Army
  - Youthline
  - Living Wage Aotearoa
  - Tourism Industry Aotearoa
  - Hospitality New Zealand
  - Horticulture New Zealand
  - Restaurant Association of New Zealand
  - Public Service Association
  - Retail New Zealand
  - Employers and Manufacturing Association
  - Federated Farmers of New Zealand
  - Meat Industry Association of New Zealand
  - New Zealand Aged Care Association
  - EDNZ (Economic Development New Zealand)
  - Accommodation Association New Zealand
93. If you agree, we will seek stakeholders' views on the indicative rates/indexing approach for 2022-2024 following our discussions with our social partners.
94. We will also seek information from Government agencies as to any impacts on their operations.

## Next steps for this year's review

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95. We propose to provide you with advice and a draft report in mid-to-late October 2021 for your consideration that will cover minimum wage rate options for 2022 and indicative rates for 2023 and 2024. This will fulfil the review requirements of the Minimum Wage Act.
96. There is no obligation to change the minimum wage rate or a statutory date by when a decision must be made or for new rates to come into effect.
97. Indicative timelines are included in **Annex Two**. The timeline is based on last year's review and would enable you to announce any new rate before the end of 2021 and for it to take effect on 1 April 2022.
98. We will publish the annual review report on MBIE's website following the completion of the review. The Cabinet paper will be published in accordance with the Government's policy to proactively release Cabinet papers.

## Risks

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99. Initiating the minimum wage review and consulting with stakeholders could create concern from businesses about a potential rate increase. Due to uncertainty around COVID-19, there is likely to be increased sensitivity and risk associated with these discussions.
100. Any resurgence in COVID-19 could significantly impact the economy. This means any analysis contained in the review will be based on data that is very dynamic.

## Longer term approach to setting minimum wage rates

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101. A three year window of indicative rates provides an opportunity to work in parallel on a changed approach to setting the minimum wage, which could come into effect at the end of this window. In the first instance, your initial preferences on the options in this briefing will inform our work on the wider employment relations regulatory system, including whether there is a need for new or different institutional arrangements.
102. Currently, most countries (84 per cent) have statutory minimum wages that are set by governments, with or without consultation with the social partners. Only a few countries, such as Hong Kong, Jersey and Canada, have public consultation on minimum wage rate reviews. In some of these countries, such as Australia, statutory minimum wages co-exist with higher collectively agreed minimum wages in particular industries or enterprises. Around six per cent of countries have minimum wages that are negotiated and set exclusively or primarily through binding collective agreements. This includes most of the Scandinavian countries, which have higher union membership and widespread industry-level worker representation.

### ***The rollout of FPAs may change the role of the minimum wage over time***

103. In May 2018, the FPA Cabinet paper identified that New Zealand has low per capita GDP growth relative to other developed countries, poor productivity and that wages have not kept pace with the labour productivity increases that have occurred. The paper noted that the key problems driving these poor labour market outcomes are:
  - Weak collective bargaining, particularly at the multi-employer and industry level, with limited social dialogue between workers and employers concerning problems at the industry level, and
  - A 'race to the bottom' where firms compete by reducing or stagnating wages or conditions of employment. This could be driven by imperfect competition for that particular occupation or industry i.e. where incentives drive employers to compete on labour costs (which push wages down to the lowest common denominator – being the minimum wage)





s 9(2)(f)(iv)

## Annexes

- Annex One: Further information on minimum wage rates
- Annex Two: Indicative timeline for review
- Annex Three: Net weekly incomes - individual workers and households
- s 9(2)(f)(iv)

## Annex One: Further information on minimum wage rates

### Who is eligible for the various minimum wage rates?

There are currently three legislated minimum wage rates:

#### **Adult minimum wage**

This applies to all employees aged 16 and over who are not starting-out workers or trainees.

#### **Starting-out wage**

The starting out wage applies to the following workers, provided they are not involved in supervising or training other employees:

- 16 and 17 year old employees who have not yet completed six months of continuous employment with their current employer
- 18 and 19 year old employees who have been paid a specified social security benefit for six months or more, and who have not yet completed six months' continuous employment with any employer since they started being paid a benefit. Once they have completed six months' continuous employment with a single employer, they will no longer be a starting-out worker, and must be paid at least the adult minimum wage rate
- 16 to 19 year old employees who are required by their employment agreement to undertake industry training for at least 40 credits a year in order to become qualified.

#### **Training wage**

The training minimum wage applies to employees aged 20 years or over who are doing recognised industry training involving at least 60 credits a year as part of their employment agreement, and are not involved in supervising or training other employees.

The *Minimum Wage Act* requires that the starting-out wage and training wage must be no less than 80 per cent of the adult minimum wage.

### What have been the recent changes to the minimum wage rates?

The table below shows changes to the adult minimum wage rate from 2007

Date of new minimum wage	Adult minimum wage	% change	Estimated number of people on the minimum wage (from the previous review year)	Percentage of total workers
April 2007	\$11.25	9.8%	-	-
April 2008	\$12.00	6.7%	-	-
April 2009	\$12.50	4.2%	-	-
April 2010	\$12.75	2.0%	-	-
April 2011	\$13.00	2.0%	-	-
April 2012	\$13.50	3.8%	-	-
April 2013	\$13.75	1.9%	84,800	3.8%
April 2014	\$14.25	3.6%	54,600	2.4%
April 2015	\$14.75	3.5%	62,700	2.7%
April 2016	\$15.25	3.4%	74,900	3.2%
April 2017	\$15.75	3.3%	73,300	2.9%
April 2018	\$16.50	4.8%	76,400	3.9%
April 2019	\$17.70	7.3%	71,500	3.5%
April 2020	\$18.90	6.8%	85,400	4.2%
April 2021	\$20.00	5.8%	57,700	3.0%

## Updates to the Living Wage

The Living Wage Movement Aotearoa New Zealand has developed an hourly Living Wage for New Zealand that is described as *'the income necessary to provide workers and their families with the basic necessities of life...[and] to live with dignity and to participate as active citizens in society.'* It was first suggested in 2012, and was calculated based on the income necessary to meet specific expenses of a family of two adults and two children, with one full-time earner and one half-time earner.

The Living Wage Movement Aotearoa New Zealand was brought together by community/secular, union and faith-based groups to campaign for a Living Wage in New Zealand.

From 2012 to 2017, this Living Wage was adjusted each year based on any annual percentage movement in average ordinary time hourly earnings. Therefore, the wage was not based on inflation of the price of goods, but rather the movement of average wages.

In 2018, a comprehensive review of this living wage was carried out to recalculate the expenditure categories used to determine a living wage rate. The rate calculated by this comprehensive review was \$20.55, which took effect from April 2018.

On 1 September 2019, this living wage was updated to \$21.15, an increase of 60 cents, which reflects a 3.0 per cent increase in the average ordinary time hourly earnings between June of 2017 and June 2018. The current Living Wage hourly rate is \$22.10.

Living Wage Movement Aotearoa New Zealand's Living Wage hourly rate for 2021/22 is \$22.75, which will come into effect on 1 September 2021.

New Zealand organisations can seek to become an Accredited Living Wage Employer. To be eligible, they must pay all employees and contractors at least the living wage, provide workers with access to a union and must not reduce employees' terms and conditions. There are currently over 250 Accredited Living Wage Employers.

## **Annex Two: Indicative Timeline for the Minimum Wage Review process**

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## Annex Three: Net weekly incomes - individual workers and households

Note: Figures show net weekly income (including government transfers, after tax), actual and percentage increase from \$18.90 to \$20.00 (+5.82 per cent gross) and \$22.10 (+16.93 per cent gross).

Household configuration	Minimum wage options		
	Status quo (2020)	1 April 2021	Living Wage
Adult minimum wage (hourly rate)	\$18.90	\$20.00	\$22.10
<b>Full time single employee</b> receiving no tax credits or other income support	\$632 (\$0.00) 0%	<b>\$668</b> <b>(\$35.69)</b> <b>5.65%</b>	\$736 (\$103.83) 16.43%
<b>Auckland based sole parent</b> , earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,181 (\$0.00) 0%	<b>\$1,206</b> <b>(\$24.68)</b> <b>2.09%</b>	\$1,237 (\$56.11) 4.75%
<b>Auckland based couple</b> , both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,353 (\$0.00) 0%	<b>\$1,374</b> <b>(\$20.54)</b> <b>1.51%</b>	\$1,413 (\$59.74) 4.42%
<b>Ashburton based sole parent</b> , earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,029 (\$0.00) 0%	<b>\$1,054</b> <b>(\$24.69)</b> <b>2.40%</b>	\$1,085 (\$56.11) 5.45%
<b>Ashburton based couple</b> , both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,192 (\$0.00) 0%	<b>\$1,212</b> <b>(\$20.53)</b> <b>1.72%</b>	\$1,268 (\$72.23) 6.06%
<b>Whakatāne based sole parent</b> , earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,036 (\$0.00) 0%	<b>\$1,061</b> <b>(\$24.69)</b> <b>2.38%</b>	\$1,092 (\$56.11) 5.41%
<b>Whakatāne based couple</b> , both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families and Accommodation Supplement	\$1,208 (\$0.00) 0%	<b>\$1,229</b> <b>(\$20.53)</b> <b>1.70%</b>	\$1,268 (\$59.73) 4.94%

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## BRIEFING

### Minimum Wage Review 2021 – Advice on minimum wage rate options

Date:	3 September 2021	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2122-0530

Action sought		
	Action sought	Deadline
Hon Michael Wood Minister for Workplace Relations and Safety	<b>Note</b> that MBIE has initiated the Minimum Wage Review 2021  <b>Provide direction</b> on which minimum wage rate option(s) to consult on.	8 September 2021

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Chris Hubscher	Manager, Employment Standards Policy	04 901 8590	s 9(2)(a)	✓
Chris Pound	Principal Policy Advisor, Employment Standards Policy		s 9(2)(a)	

The following departments/agencies have been consulted					
<input type="checkbox"/> Treasury	<input type="checkbox"/> MoJ	<input type="checkbox"/> NZTE	<input type="checkbox"/> MSD	<input type="checkbox"/> TEC	<input type="checkbox"/> MoE
<input type="checkbox"/> MFAT	<input type="checkbox"/> MPI	<input type="checkbox"/> MfE	<input type="checkbox"/> DIA	<input type="checkbox"/> TPK	<input type="checkbox"/> MoH
<input type="checkbox"/> Other:		Department of the Prime Minister and Cabinet			

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments:

# BRIEFING

## Minimum Wage Review 2021 – Advice on minimum wage rate options

<b>Date:</b>	3 September 2021	<b>Priority:</b>	Medium
<b>Security classification:</b>	<b>In Confidence</b>	<b>Tracking number:</b>	2122-0530

### Purpose

This paper seeks your direction on which of the minimum wage rate options, and economic indices on which to base them, we should consult on in the 2021 minimum wage review. The review report will provide you with a recommended rate for 2022, and a potential track of indicative increases for 2023 and 2024.

### Recommendations

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **note** that MBIE has initiated the Minimum Wage Review 2021 *Noted*
- b **indicate** which minimum wage rate options and economic or wage indices you would like us to consult on *Indicate by circling your preferences in Table One*
- c **note** that we will be consulting on the rate for 2022, and a potential track of increases in 2023 and 2024 *Noted*
- d **note** that we will consult first with the New Zealand Council of Trade Unions and BusinessNZ, and then more widely with business, unions, government departments and other interested organisations. *Noted*



Chris Hubscher  
**Manager, Employment Standards Policy**  
Labour, Science and Enterprise, MBIE

3 / 09 / 2021

Hon Michael Wood  
**Minister for Workplace Relations and Safety**

..... / ..... / .....

## Background

2. On 23 July 2021, MBIE advised you it was initiating the Minimum Wage Review for 2021 and sought your direction on the:
  - high-level policy objectives to guide setting indicative minimum wage rates for the next three years to 2024
  - preferred methodology for identifying minimum wage rate options
  - approach to engaging key stakeholders, the New Zealand Council of Trade Unions (NZCTU) and BusinessNZ
  - s 9(2)(f)(iv)
3. You requested further advice on minimum wage rate options that could be discussed with stakeholders, including high-level estimates of their potential employment effects in 2022. In this briefing, we provide a range of rate options for the period 2022-2024 that could inform those discussions and preliminary analysis of the potential employment restraint<sup>1</sup> of these options in 2022.
4. You also confirmed that the development of the longer-term approach to setting minimum wage rates, including future decision-making arrangements and functions, will be integrated into the broader work on institutional structures associated with Fair Pay Agreements (FPAs).

## Minimum wage rate options for 2022, 2023 and 2024

- [illegible]

<sup>1</sup> Restraint on employment is the net employment growth that may have taken place if not for the minimum wage increase. It includes unemployment, potential labour supply and underutilisation, but not aspects of underemployment due to reduced hours worked because of minimum wage increases – particularly for those not voluntarily seeking a reduction in work hours.

### Initial analysis of the potential employment effects of the options in 2022

10. When the minimum wage increases, labour costs for businesses increase either directly as they employ minimum wage workers, or indirectly because of flow-on effects to the wages of workers paid close to the minimum wage. Material and service supply costs can also increase as higher labour costs further up the supply chain are passed on. Employers may respond by absorbing the rises by accepting lower profits or by increasing the price of goods produced or services provided.
11. Employers may also respond by reducing their highest input costs, which is usually labour. Negative labour or dis-employment effects resulting from this include job losses, lower job growth, unfilled vacancies and reduced hours of work. The extent of these effects will depend on the size of the minimum wage rate increase, the economic and labour market context such as the general wage increase during the period in which the minimum wage increase occurs and how firms respond.
12. MBIE's minimum wage model uses economic and employment data by earnings to predict the employment effects of different increases to the minimum wage as well as the incidence of the different minimum wage options. The model estimates employment impacts with respect to changes in the relativity between the minimum wage and the average wage. This analysis focusses on groups that are most sensitive to changes in the minimum wage (e.g. youth, females, and Pacific people). The employment impacts reported are the sum of the impacts on these groups or the effects assessed on the total number employed directly or in relation to the average (general) wage increases.
13. The model provides estimates for three groups:
  - **Groups most affected:** The model produces predicted employment impacts for aggregate groups most affected by minimum wage changes (16-17 year olds, 18-19 year olds, females, Māori, Pacific peoples)
  - **16-64 year olds (relative impact):** All workers aged between 16 and 64 years old are included and the impact of the change to the minimum wage relative to the average wage is used to assess the employment effects

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<sup>2</sup> The 2021/22 rate calculated and published by the Living Wage Movement Aotearoa from 1 September 2021.



- **16-64 year olds (direct impact):** All workers aged between 16 and 64 years old are included and the model captures the direct employment effect of the proposed minimum wage increase as well as the increase to the average wage included separately rather than relative to each other or as a ratio.

14. Of these groups, MBIE uses the figures modelled for the 16 to 64 year olds 'relative impact' since we consider this to be the best estimate of the likely impacts. The other two model options provide a range that identifies the extent to which other workers may be affected by minimum wage increases.

15. s 9(2)(f)(iv)

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20. Domestic and international literature identifies that significant restraint on employment is only likely to occur when the percentage increases in the minimum wage rate are larger than increases in the average wage. This logic suggests that increases to the minimum wage beyond \$21.25 will have more substantial restraint effects on employment that may not be absorbed by job growth in the labour market. This could possibly result in additional unemployment and workforce under-utilisation.

<sup>3</sup> S represents a number that has a cell value that is lower than 1,000, which we consider to be a negligible impact.

## Forecasting indicative minimum wage rates for 2023 and 2024

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21. MBIE's model predicts the impact of a single change as a one-off event, which is consistent with the *Minimum Wage Act 1983* (the Act) and the requirement that the minimum wage is reviewed annually.
22. Modelling these effects beyond 2022 is not very reliable as the level of uncertainty with the estimates rises considerably with limited data on the wage distribution and the incidence of the minimum wage in 2023 after the 2022 rate is implemented. The model does not provide estimates on the flow-on economic impacts aside from inflation. It is based on a number of assumptions and assessments, based on previous employer responses to changes to the minimum wage and their impact on employment restraint in the labour market and the wider economy over the following year.
23. The future impacts of a series of successive minimum wage changes are not captured, also because there is little international or domestic evidence to provide guidance on how successive minimum wage increases across multiple years are likely to affect and contribute to future employment effects. Attributing potential employment effects to an increase in the minimum wage is difficult, especially when other economic or other factors and conditions (such as a construction boom, a pandemic, or a change in immigration settings) can have a more significant effect on the labour market than the minimum wage rises.

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### Next steps for this year's review

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27. We propose to provide you with advice and a draft report s 9(2)(f)(iv) for your consideration that will cover minimum wage rate options for 2022 and indicative rates for 2023 and 2024. This will fulfil the review requirements of the Minimum Wage Act.
28. There is no obligation to change the minimum wage rate or a statutory date by when a decision must be made or for new rates to come into effect.
29. We will publish the annual review report on MBIE's website following the completion of the review. The Cabinet paper will be published in accordance with the Government's policy to proactively release Cabinet papers.

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<sup>4</sup> The Living Wage Movement New Zealand has developed an hourly Living Wage for New Zealand that is described as 'the income necessary to provide workers and their families with the basic necessities of life... [and] to live with dignity and to participate as active citizens in society.' The calculation is based on the income necessary to meet specific expenses of a family of two adults and two children, with one full-time earner and one half-time earner.

## Risks

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30. Initiating the minimum wage review and consulting with stakeholders could create concern from businesses about a potential rate increase. Due to uncertainty around COVID-19, there is likely to be increased sensitivity and risk associated with these discussions.
31. Any resurgence in COVID-19 could significantly impact the economy. This means any analysis contained in the review will be based on data that is very dynamic.

## Annexes

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- Annex One: Factors to be considered in the 2021 review – for your reference

■ s 9(2)(f)(iv) [REDACTED]

■ [REDACTED]

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## **Annex One: Factors to be considered in the 2021 review**

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On 23 July 2021, MBIE advised you on the factors against which the rate options would be considered in the 2021 minimum wage review [Briefing 2122-0192 refers].

As per Cabinet's requirements, MBIE will focus its analysis on the following factors:

- inflation, using the Consumer Price Index (CPI) as the indicator
- wage growth, using the median wage as the indicator
- restraint on employment growth.

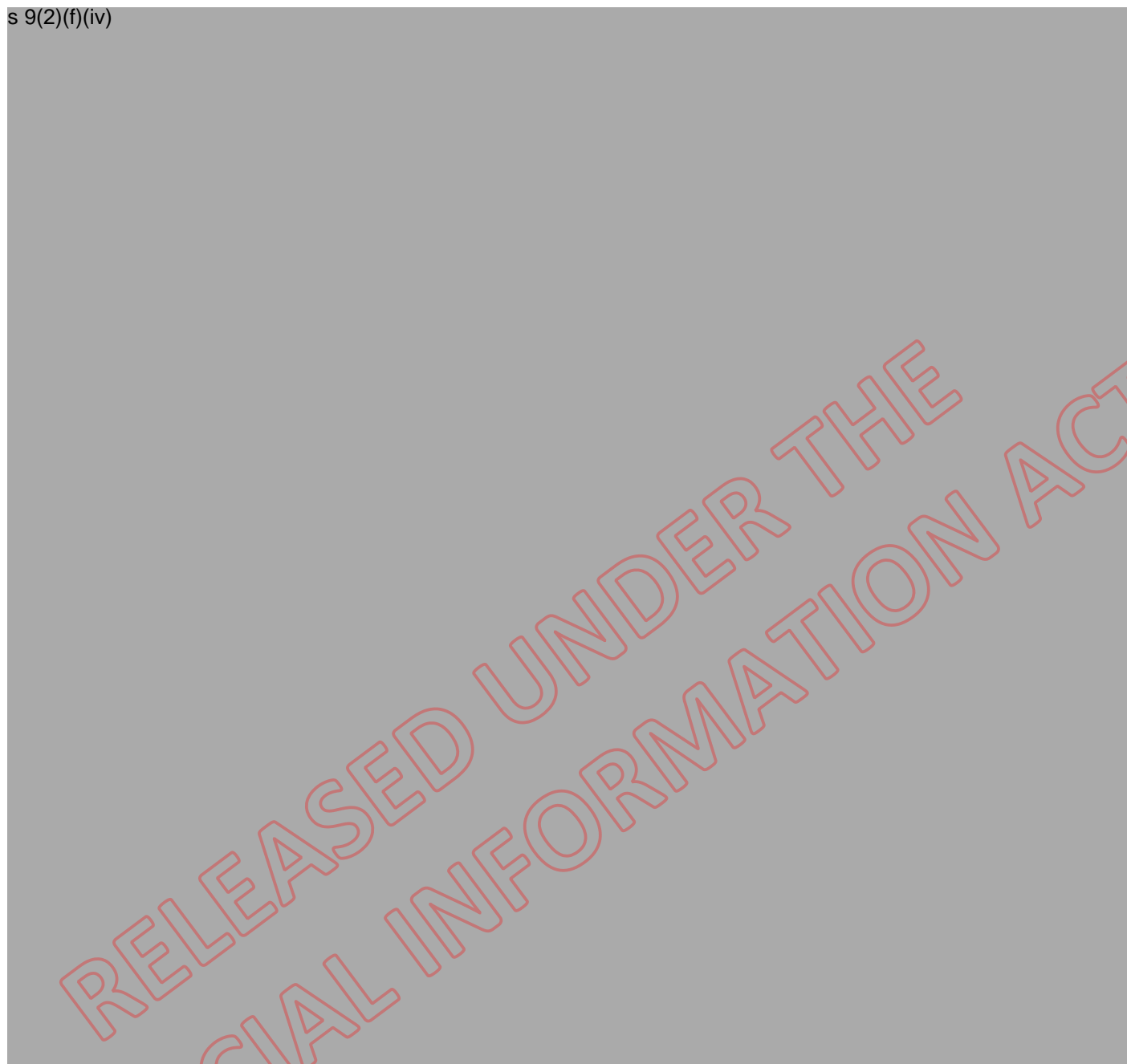
MBIE will also take into account the following additional factors:

- the effects of minimum wage increases on personal and household incomes of minimum wage workers, after tax and social transfers
- the relativity of the minimum wage to welfare benefits, to the average and median wages in New Zealand, in other OECD countries and to Living Wage Aotearoa's Living Wage
- the relativity to household living costs, in particular the cost of housing, and the financial needs of workers and their families
- impacts on specific groups, such as Māori and Pacific people, women, and those with a disability
- the impacts on different employers, including small, medium and large businesses, export and import reliant businesses and other employers such as charities
- impacts on and viability of sectors that have been most significantly affected by COVID-19 and have high proportions of minimum wage workers, for example, tourism, accommodation, retail, hospitality, manufacturing
- the proposed minimum wage level in 2024 and trajectory for increases in 2022 and 2023, assessed in comparison with household living and economic performance/measurement benchmarks

MBIE will review recent research on the economic and labour market effects of increases to the minimum wage, including:

- the size and scale of minimum wage increases over the past 20 years and the actual economic and labour market effects in comparison to those impacts estimated at the time of the review
- an assessment of findings from international literature on recent developments in low-wage labour markets and the implications for this annual review.





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