**2022 Minimum Wage Consultation**

**About the CTU**

We are an umbrella organisation for 30 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 310,000 members, the CTU is one of the largest democratic organisations in New Zealand.

The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

**CTU Position:**

The CTU and its affiliates together support a common policy position for the minimum wage. **This paper proposes that the minimum wage in 2022 should be set at the same rate as the Living Wage – which is currently $22.75 an hour**. That wage ensures that they have the needs to pay for the necessities of life. That they can participate as an active citizen in the community. It reflects the basic expenses of workers and their families such as food, transportation, housing and childcare.

The rationale for moving to this position comes from multiple sources. Firstly, inflation has been affecting those with the lowest incomes the most. Inflation over the past ten years has been running nearly 40% higher for those with the lowest 20% of incomes[[1]](#footnote-1), than for the those with the highest 20%. Core inflation – food, fuel, rent, rates – has been running well ahead of general inflation. Workers on the minimum wage are facing higher cost of living increases than those on higher incomes.

Secondly, COVID-19 has demonstrated to New Zealand that essential workers are often minimum wage workers. They are the people who stacked shelves during level 4. They are cleaners, security guards, public transport workers. They placed their safety and their whanau’s safety on the line so that New Zealand could continue to live as normally as possible during lockdown. Ensuring that these workers receive an adequate reward for their efforts during COVID-19 is the last that we could do to recognise their contribution in the fight against COVID-19.

Thirdly, the historically low levels of unemployment should give comfort that a higher level of minimum wage would not reduce employment. Unemployment is at 3.4%, and there are high levels of demand in the labour market. There is increasing evidence that higher levels of minimum wages are not linked to higher levels of unemployment. Two recent New Zealand based economic reports[[2]](#footnote-2) have also questioned this link.

Finally, the move to a standard which is set by a third party is an important step in moving to a new system for setting the minimum wage. The CTU has agreed to a policy for a new tripartite body to set the minimum wage in the future, modelled on those currently used overseas – particularly the UK.

This paper also reaffirms the position of the CTU that youth and training rates should be abolished, with all workers being paid at least the minimum wage.

**Economic Context:**

*Inflation*

Over the past year inflation has increased significantly, with the Consumer Price Index now nearing[[3]](#footnote-3) 5% on annual basis. Although this increase is likely to be short-lived, the impact will be significant on low-income household budgets already stretched by COVID-19.

*Annual CPI Inflation - Statistics New Zealand*

*Household Living Price Index*

At a household level, inflation has been felt very differently in different income groups. The Household Living Price Index shows how inflation has affected the lowest and highest earners over the past ten years. Put simply, those with the lowest incomes have faced an inflation rate much higher than those with the highest rates of income. The gap in that inflation rate has grown over time, and there appears to be little convergence even with higher general inflation.

This demonstrates one of the most important ways in which the minimum wage can work. Low-income workers have higher general rates of inflation than high income earners. Changing low-income earners wages through the minimum wage protects them higher inflation values. It also targets the money where it is needed the most. Without faster than general inflation increases, these workers would have been even poorer in real terms than they are today.

*Household Living Price Index - Statistics New Zealand*

*Rental Prices*

One of the core elements driving inflation changes over the past few years has been the cost of housing, and in particular rental dwellings. Rents have continued to outpace general inflation, as demand for housing has increased alongside limited supply. Evidence[[4]](#footnote-4) of this can be found from the increased waitlist for social housing, which has risen more than 600% since 2016 to 24,474 households. Evidence[[5]](#footnote-5) can also be found from the monthly rental price data, which reached a peak of 7.7% annual rental price growth nationally in September 2021.

*Wages*

On average, wages have not kept up with the latest round of inflationary pressures. Using the latest labour market data[[6]](#footnote-6), 82% of New Zealanders received a pay rise lower than inflation last year. 42% of New Zealanders did not receive[[7]](#footnote-7) a pay rise at all last year. The Labour Cost Index measures changes in pay for the same job (so it measures essentially the change in what you would need to pay the same worker to do the same task each year). According to the LCI wages increased by 2.4% last year. This is lower than in pre-COVID periods and is around the historical average for the past 5 years.

*Labour Cost Index Annual Change - Statistics New Zealand*

The other measure of wages is the Average Hourly Ordinary Hours from the Quarterly Employment Survey. This is a more volatile measure and typically higher measure than the LCI as it captures greater changes in terms of employee’s compensation – including promotions. Even this is still below current inflation and is not significantly high by recent historical standards.

*QES Ordinary Time Hourly Earnings – Statistics New Zealand*

*Unemployment*

Despite dire warnings from economists and the Treasury that unemployment would rise significantly because of COVID-19, there is now a tight labour market with relatively low unemployment. The current rate of unemployment is a record low of 3.4%, with male unemployment being 3.3% and female unemployment being 3.4%. Māori, Pacific Peoples, and youth unemployment is also lower than in pre-covid periods.

*HLFS Unemployment – Statistics New Zealand*

The labour market has instead been showing consistently high levels of demand for new workers and new employees. The MBIE jobs on-line data[[8]](#footnote-8) shows that online job advertisements grew by 17% during the June 2021 quarter, and by 93% over the year. Vacancies grew over the June 2021 quarter in all regions, and nationally in all occupations, all skill levels and all industries. The Quarterly Survey of Business Opinion by NZIER in June 2021 said “the scarcity of skilled and unskilled labour is at the most acute on record over the history of the survey, with firms finding it particularly difficult to hire skilled labour”.

*Recent economic reports*

Two pieces of economic research have a particular relevance to the debate on how the next minimum wage should be set. NZIER economists have recently examined the data on the minimum wage and concluded[[9]](#footnote-9) that “The evidence, particularly internationally but also in New Zealand is that no, the minimum wage doesn't have large impacts on employment”. Startlingly, they conclude that if the minimum wage is kept to within what they call[[10]](#footnote-10) the “goldilocks zone” of up to $25 an hour then it will have no or negligible employment impacts.

Secondly, economists at MOTU have published research looking at the impact of the minimum wage over time. They have examined the data since 2000 and come to the conclusion[[11]](#footnote-11) that “we find no clear evidence that increases in the minimum wage have led to adverse employment effects”. Instead of the standard economic approach which would see minimum wage increases leading to reductions in employment, they state that the “minimum wage impact is not a dominant factor in employment growth”. This suggests that not only are minimum wage increases not significant factors in employment loss, they are also not a significant factor restraining employment growth.

Finally, we should also note that this year the Nobel Prize for Economics[[12]](#footnote-12) was awarded to David Card for his work on the minimum wage and employment. His seminal 1993 paper[[13]](#footnote-13) “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania” showed that “We find no indication that the rise in the minimum wage reduced employment”. Instead they found that “we find that the increase in the minimum wage increased employment”.

**Recommendations:**

The CTU Is proposing that :

1. The minimum wage for 2022 should be $22.75 – the level of the current Living Wage.
2. That youth and training rates should be abolished, with all workers being paid at least the minimum wage
3. That a new tripartite body be responsible for establishing the minimum wage recommendation to the Minister of Workplace Relations in the future
1. Household Living Price Index – Statistics New Zealand

2 <https://nzier.org.nz/static/media/filer_public/97/a8/97a837ea-ecb8-4c94-8777-1181b5da8402/nzier_insight_96_-_minimum_wage.pdf> & <http://motu-www.motu.org.nz/wpapers/21_03.pdf>

3 CPI Index, September 2021 [↑](#footnote-ref-1)
2. [↑](#footnote-ref-2)
3. [↑](#footnote-ref-3)
4. <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/housing/index.html> [↑](#footnote-ref-4)
5. <http://infoshare.stats.govt.nz/ViewTable.aspx?pxID=9a78ac3c-8f3d-4f30-8653-467e4f93b309> [↑](#footnote-ref-5)
6. Labour Cost Index, Sep 2021 [↑](#footnote-ref-6)
7. Labour Cost Index, Sep 2021 [↑](#footnote-ref-7)
8. <https://www.mbie.govt.nz/business-and-employment/employment-and-skills/labour-market-reports-data-and-analysis/jobs-online/#jobs-online-monthly-data-release> [↑](#footnote-ref-8)
9. <https://www.rnz.co.nz/news/business/452984/small-businesses-coping-with-minimum-wage-increase-study-finds> [↑](#footnote-ref-9)
10. <https://nzier.org.nz/static/media/filer_public/97/a8/97a837ea-ecb8-4c94-8777-1181b5da8402/nzier_insight_96_-_minimum_wage.pdf> [↑](#footnote-ref-10)
11. <http://motu-www.motu.org.nz/wpapers/21_03.pdf> [↑](#footnote-ref-11)
12. <https://www.nobelprize.org/prizes/economic-sciences/2021/press-release/> [↑](#footnote-ref-12)
13. <https://davidcard.berkeley.edu/papers/njmin-aer.pdf> [↑](#footnote-ref-13)