



Cabinet Policy Committee

POL Min (07) 28/24

Copy No:

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Minimum Wage Review 2007

On 12 December 2007, the Cabinet Policy Committee (POL):

Options for the minimum wage

- 1 **noted** that the Minister of Labour considered the following options in the 2007 minimum wage review:
 - 1.1 option 1: \$11.25 per hour (or \$450 per week):
 - 1.1.1 this is the status quo and could erode the real value of the minimum wage, and it is likely there would be no additional constraints on job growth or other impacts on employers and employees;
 - 1.2 option 2: \$11.70 per hour (or \$468 per week):
 - 1.2.1 this would increase the minimum wage to maintain relativity with the increase in average wages, and could preserve the real value of the minimum wage and maintain existing levels of fairness, protection, income distribution and work incentives;
 - 1.2.2 this option could affect 82,800 workers;
 - 1.2.3 if this option were to be pursued, it is likely there would be no additional constraints on job growth, the national weekly wage bill could increase by 0.08%, and it could have a potential inflationary impact of 0.03%;
 - 1.3 option 3: \$12.00 per hour (or \$480 per week):
 - 1.3.1 this would improve relative levels of fairness, protection, income distribution, and work incentives;
 - 1.3.2 this option could affect 120,000 workers;

- 1.3.3 if this option were to be pursued, there could be a potential constraint on job growth of up to 0.1%, the national weekly wage bill could increase by 0.17%, and it could have a potential inflationary impact of 0.07%, i.e. the consumer price index (CPI) could increase by 0.07%;
- 1.4 option 4: \$13.50 per hour (or \$540 per week):
 - 1.4.1 this would strongly improve relative levels of fairness, protection, income distribution, and work incentives;
 - 1.4.2 this option could affect 311,100 workers;
 - 1.4.3 if this option were to be pursued, there could be a potential constraint on job growth of up to 0.4%, the national weekly wage bill could increase by 1.45, and it could have a potential inflationary impact of 0.63% on the CPI;
- 1.5 option 5: \$15.00 per hour (or \$520 per week):
 - 1.5.1 this would very strongly improve relative levels of fairness, protection, income distribution, and work incentives;
 - 1.5.2 this option could affect 452,900 workers;
 - 1.5.3 if it were to be pursued, there could be a potential constraint on job growth of up to 0.6%, the national weekly wage bill could increase by 3.74%, and it would have a potential inflationary impact of 1.63%;
- 2 **noted** that:
 - 2.1 the Minister of Labour considers labour market conditions are robust enough to support an increase of up to \$12.00 per hour (option 2 of \$11.70 per hour, or option 3 of \$12.00 per hour), and that such an adjustment would be sustainable in the current economic conditions;
 - 2.2 future adjustments to the minimum wage may need to be assessed in a less favourable labour market and economy;

Impact of minimum wage increases

- 3 **noted** that the benefits of minimum wage increases are likely to be felt most strongly among younger workers, women, people without post-school qualifications, part-time workers, and those who work in the services/sales or retail/hospitality sectors;
- 4 **noted** that it is also likely that the benefit of minimum wage increases will be felt among Maori and Pacific people, other non-European/Pakeha groups, new migrants, people with disabilities, the low-skilled and people with non-English speaking backgrounds;
- 5 **noted** that the groups in paragraphs 3 and 4 would also be the first to experience any negative impacts that could result from a change to minimum wage rates (e.g. reduced hours offered or substitution of some groups of workers by others);

Minimum wage rate for 2008

- 6 **agreed** that the minimum wage rate for 2008 be \$12.00 per hour (or \$480 per week);
- 7 **agreed** that the new entrants minimum wage rate be set at 80% of the adult minimum wage rate;
- 8 **agreed** that the minimum wage training rate be set at 80% of the adult minimum wage rate;
- 9 **agreed** that the minimum wage rate comes into effect on 1 April 2008, to coincide with adjustments to Working for Families tax credits and the coming into effect of the Minimum Wage (New Entrants) Amendment Act 2007;

Next steps

- 10 **invited** the Minister of Labour to issue drafting instructions to the Parliamentary Counsel Office for a the Minimum Wage Order 2008 to give effect to the above decisions;
- 11 **noted** that the Minister of Labour intends to make a media statement on the decisions about minimum wages following Cabinet's confirmation, and that the paper under POL (07) 447 and the officials' report will be made publicly available through the Department of Labour's website, subject to any appropriate withholdings that may be required under the Official Information Act 1982;

The 2008 minimum wage review

- 12 **agreed** that a new economic objective such as "an ability to pay" should not be included for the minimum wage review for 2008, given the current level of economic analysis in the minimum wage review;
- 13 **directed** the Department of Labour to undertake a further examination in the 2008 minimum wage review of the objectives and criteria of the minimum wage, to ensure they remain applicable and supportive of the government's overarching goals, such as economic transformation, and to take account of structural changes to the labour market since 2001 when the objectives of the minimum wage were originally agreed.

Gerrard Carter
Secretary

Reference: POL (07) 447

Copies to: (see over)

Present:

Rt Hon Helen Clark (Chair)
Hon Dr Michael Cullen
Hon Phil Goff
Hon Annette King
Hon Pete Hodgson
Hon Parekura Horomia
Hon Chris Carter
Hon Trevor Mallard
Hon Ruth Dyson
Hon Nanaia Mahuta
Hon Steve Chadwick
Hon Judith Tizard

Officials present from:

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