Wages policy has been much discussed in recent years. It was highlighted in the 2011 election, centering on issues such as the income gap with Australia, the level of the minimum wage, and whether youth or new entrant rates should apply.

In the last decade average hourly ordinary time earnings have experienced a slow increase in real terms. Growth in wages was very high in the middle years of the decade as a result of skill shortages and low unemployment. Since 2009-10 this has tapered off as a result of the recession. Increased inflation has exerted pressure on wages which have begun to decline slightly in real terms.

Historically New Zealand had a high standard of living, based on internationally high wages and its premier position in primary exports. In recent decades its position has slipped substantially. Increasingly the comparison has been with Australia which has done better in the recessions of the early 1990s and late 2000s. Economists emphasise the productivity gap rather than different industrial structures. The relative situation of the two countries is especially pertinent given the longstanding pattern of outwards migration to Australia in times of economic difficulty. This has become a feature again as a substantial gap in earnings between the two countries has opened up.
Minimum wage
In the last three years the minimum wage has been raised in three increments from $12 to $13. Australia’s minimum wage is considerably higher but is lower in relation to average wage levels, while New Zealand’s minimum wage is high internationally as a proportion of average wage levels.

Wages, 2000-2011

The Department of Labour’s consideration of the minimum wage at the end of 2010 put forward four options ranging from no change to raising it to $15. The last, in its view, would have some negative impact on employment. Some argue that previous increases have not detrimentally affected employment and that the international literature points in the same direction. The minimum wage is currently being reviewed (late 2011). The current objective (approved by cabinet in 2008) is to set a wage floor which balances protection of the lowest paid with employment impacts.

Youth wages
In April 2008 the youth rate (80 percent of adult minimum) for 16-17 year-old workers was abolished and replaced by a new entrants wage of 80 percent for 16-17 year-olds for the first three months or 200 hours of employment.

Youth rates have been debated for some time as governments look at the relationship of wage levels to youth employment. The youth rate for 16-19 year-olds (introduced in 1994) was 60 percent of the adult minimum wage. In 2001 it was made applicable only to 16-17 year-olds and raised in two steps to 80 percent. While earnings for youth rose significantly following 2001, research suggested that there had not been a negative impact on employment. Research on the 2008 change concluded that there was a considerable impact on youth wages as young people were moved onto the adult minimum wage rather than taking up the new entrant option. This time there was a loss of employment, particularly of part-time employment of students. Wages for young people are likely to remain on the agenda, especially as the extent of youth unemployment is of concern.

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