



11 September, 2014

New Zealand Taxpayers' Union Inc.
PO Box 10518
The Terrace
Wellington 6143

Dear Jordan,

Further analysis of the Green Party Policy – “Fairer Reward for Fair Effort”

Context

There is now a lot of debate about the minimum wage and the expected impact of an escalation of the minimum wage on employment as well as on net Government revenues (the fiscal impact).

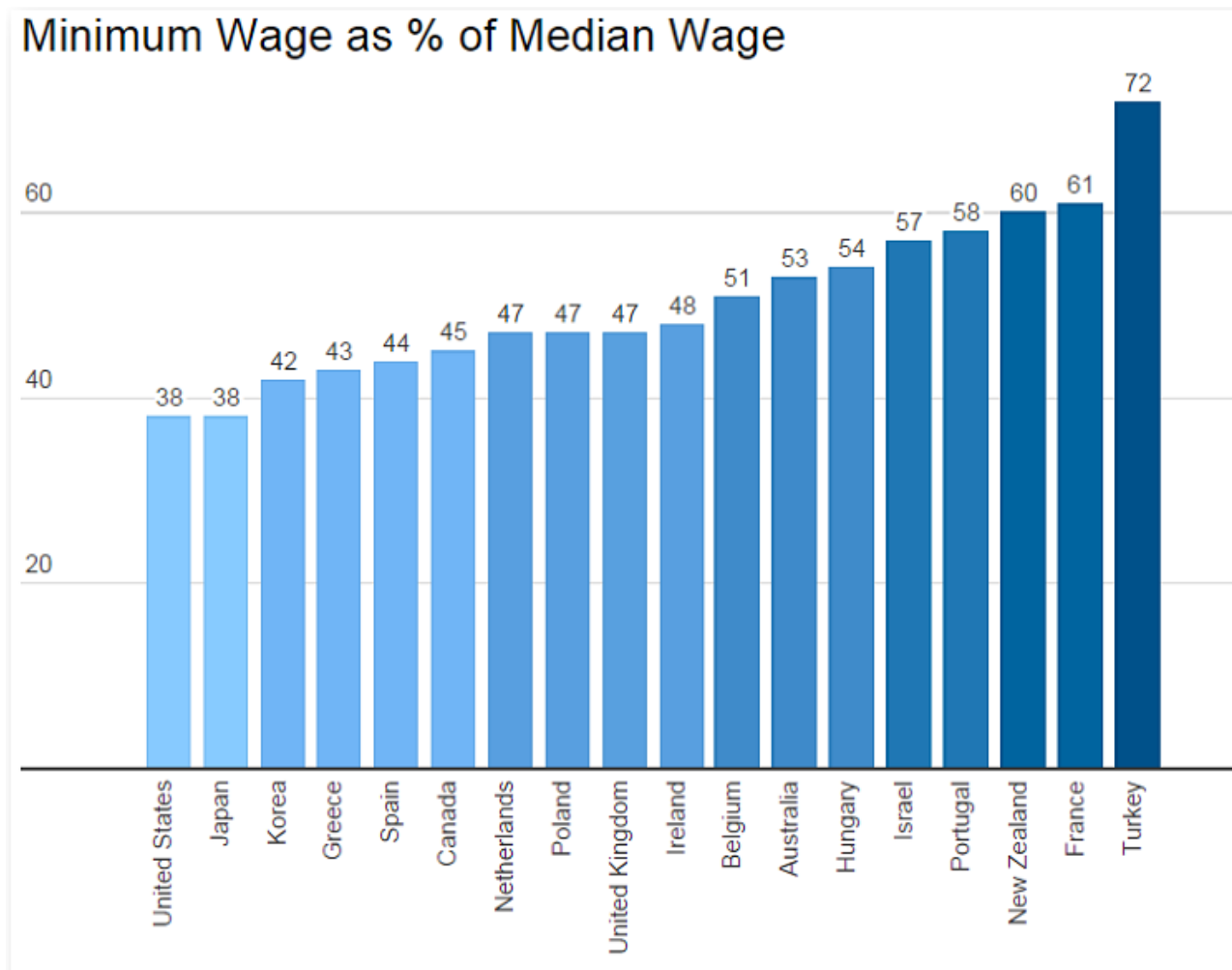
Our previous analysis focussed on the fiscal impact, and showed that even without limiting employment growth, the extra revenue from income tax (and for that matter, on GST on the additional wages) would be insufficient to offset the additional cost to the Crown to fund its payroll and primary service contractors.

Impact of increasing minimum wage on employment

We are now hearing claims that “numerous studies have shown that increasing minimum wages has no adverse impact on employment levels, and may in fact lead to increased employment”.

We agree that there are numerous studies from well-respected researchers that demonstrate this to be the case, particularly in the US. However, the US is a poor choice for estimating the likely impact of increasing the minimum wage in New Zealand. The minimum wage in the US is less than 40% of the median wage, whereas in New Zealand the minimum wage is above 60% of the median wage. This means that further increases here are much more likely to affect wage relativities and the employment market in general.

There are studies that demonstrate an impact of increasing minimum wages on employment in countries where the minimum wage is above 50% of the median wage. We referred to some of these in our previous paper. We repeat that section of our paper below.



Source: US Department of Labour, September 2014

Studies that compare the employment effects of minimum wage changes in different countries

Research into the impact of increasing minimum wages on employment has identified that the effects are negligible when the minimum wage is below 35% of the average wage (as in the US), but are more significant and negative (i.e. raising the relative minimum wage reduces future employment) when the minimum wage is above 45% of the average wage (as in France and several other European countries).

A key reference that explores this difference is: Abowd, Kramarz, Margolis and Phillipon: “Minimum Wages and Employment in France and the United States”. NBER Working Paper No. 6996, March 1999.

A broad cross-country comparison of the effect of minimum wages is: Dolado, Felgueroso and Jimeno: “The Role of the Minimum Wage in the Welfare State: An Appraisal”, IZA Discussion Paper No. 152, May 2000.

Another study with non-US data shows strong employment effects: Maloney and Mendez: “Measuring the Impact of Minimum Wages: Evidence from Latin America”. NBER Working Paper No. 9800, June 2003.