



Government of the Cook Islands

Report on the 2015 Minimum Wage Rate Review for the Cook Islands

March 2015



CONTENTS

| | |
|---------------------------------------------------------------------|----|
| Preface..... | 1 |
| 1 Executive summary..... | 2 |
| 1.1 Review purpose | 2 |
| 1.2 Process | 2 |
| 1.3 Summary of Key Findings | 2 |
| 2 Background and context | 4 |
| 2.1 A history of Minimum Wage in the Cook Islands..... | 4 |
| 2.2 International obligations | 4 |
| 2.3 Criteria for Assessment | 4 |
| 3 The Cook Islands Economy and labour market | 6 |
| 3.1 The structure of the Cook Islands economy | 6 |
| 3.2 The structure of the labour market | 7 |
| 3.3 Prevailing economic conditions for 2015 | 9 |
| 4 Economic and fiscal implications for the minimum wage | 10 |
| 4.1 Comparative considerations..... | 10 |
| 4.2 Effects of inflation on the cost of living since 2014 | 14 |
| 4.3 Labour productivity considerations | 15 |
| 4.4 The fiscal impacts of a minimum wage increase | 15 |
| 4.5 Considerations in the Pa Enea | 17 |
| 5 The Cook Islands community | 19 |
| 5.1 Background | 19 |
| 5.2 The need for protection of low income earners - Employees | 21 |
| 5.3 Work incentives - Employers | 21 |
| 5.4 Any written submissions by the Public..... | 23 |
| 6. Summary of Findings | 24 |
| 6.1. Prevailing economic conditions in the Cook Islands | 24 |
| 6.2. Income distribution in the Community | 25 |
| 6.3 Work incentives..... | 26 |
| 6.4 The need for protection for low income earners | 26 |
| 7 Recommendations..... | 28 |
| APPENDICES | 29 |

List of Tables and Figures

| | |
|------------------------------------------------------------------------------------|----|
| Table 1: Minimum wages by Pacific Country (as at 1 March 2014) | 11 |
| Table 2: Estimated cost of minimum wage to government..... | 16 |
| Table 3: Estimated impact on agency Budgets from minimum wage levels | 16 |
| | |
| Figure 1: Employment status by gender and location, Cook Islands 2011 Census | 7 |
| Figure 2: Cook Islands Population Pyramid, Resident population, 2011 Census | 8 |

Preface

The 2015 Minimum Wage Review was undertaken in February 2015 by a Review Panel appointed by the Honorable Nandi Glassie, Minister of Internal Affairs, in accordance with the Employment Relations (Review of minimum rate of pay) regulations 2014.

Selected members of the Panel included:

- **Patricia Tuara Demmke** Chair, Director of the Labour & Employment Relations, Ministry of Internal Affairs
- **James Webb** Economic Adviser, Ministry of Finance & Economic Management
- **Anthony Turua** President of the Cook Islands Workers 'Association and Employee Representative
- **Steve Anderson** Executive member of the Chamber of Commerce and Employer Representative
- **Nga Mataio** General Secretary of the Cook Islands Christian Church (CICC) and Community Representative

In determining the minimum wage rate for 2015, the Panel was guided by the following five criteria; prevailing economic conditions in the Cook Islands; income distribution (in the community); the need for protection for low income earners; work incentives; and public submissions.

The Panel would like to thank members of the public who participated in discussions; and provided both oral and written feedback.

Secretariat support and data analysis services were the responsibility of Emma Webb-Ferguson (former Senior Inspector of Employment Relations).

Cook Islands Maori and English translation of written material was kindly provided by Nga Mataio.

The review was made possible by the financial support provided by the Ministry of Internal Affairs.

This report of findings and recommendations is presented by the Panel to the Minister for his consideration in setting the 2015 minimum wage rate.

1 Executive summary

1.1 Review purpose

The *Employment Relations Act 2012* describes the application of the minimum rate of pay as follows:

An employee is entitled to be paid at a fair and reasonable rate, not less than the minimum rate or rates of pay prescribed by the Regulations, that is commensurate with:

- a) The rate normally paid to workers for the same, or similar, work; and
- b) The duties required of the employee; and
- c) The employee's experience and capabilities

In setting the minimum wage the objective is to strike a balance between the needs and abilities of all sectors. In order to hear the views of as many people as possible, there must be the opportunity for active discussion and debate from all corners of the community on Rarotonga and the Pa Enua. In accordance with the Employment Relations (Review of minimum rate of pay) regulations 2014, the minimum wage is reviewed annually to ensure the rate is set at a level that achieves this objective.

1.2 Process

Under the Employment Relations Act 2012, the Minister responsible for administering the Act has a legal obligation to review the level of the minimum wage by 1 March each year. The 2014 Employment regulations enable the Minister to appoint a Review Panel for the purpose of reviewing the minimum rate of pay under section 34 of the 2012 Act. The Panel is appointed no later than January each year to allow any proposed decision of the Minister to be considered in the context of the next annual appropriation. The five members include representatives from; the Ministry responsible for the administration of the Employment Relations Act who will be Chair; the Ministry of Finance and Economic Management; an association of employers; an association of employees; and one other person appointed at the Minister's discretion.

The Panel works in accordance with a Terms of Reference, and criteria, and invites public submissions. A written report of recommendations is presented to the Minister by 1 March 2014. Upon receiving the report from the Panel the Minister may increase, decrease or maintain the prescribed minimum hourly rate of pay in accordance with section 88(1)(a) of the Act. The written report must be made available to the public by the Secretary.

This Terms of Reference is effective from the date of appointment by the Minister responsible and continues until the report is completed or by 2 March 2013, whichever comes first.

1.3 Summary of Key Findings

This section highlights main findings while Section 6 provides a detailed list of key findings under the 5 criteria.

It is important to note that there is a difference in opinion on what the minimum wage for 2015 should be depending on whether the respondent is an employer, employee, part of the workforce or not, by age, from the public sector, private sector, Rarotonga or Pa Enea.

- The Cook Islands is one of the few Pacific countries that has a universal minimum wage with no exemptions. The universal wage is higher than almost all Pacific Island nations, with only the US Territories and French Polynesia having a higher minimum. However, the Cook Islands should be careful in raising the minimum wage too high or too quickly, as the economic structure of the country is fundamentally different than that of Australia and New Zealand, and the minimum wage increases in American Samoa and the Northern Marianas led to widespread unemployment.
- Much of the consultation among workers and the general public confirmed the 2014 findings that cost of living and the provision of a livable wage were the primary concerns of many people, particularly in the Pa Enea. Concern was also expressed about poverty levels and income distribution, and population migration.
 - Most of the suggested minimum wage rates from the general public were between \$6 and \$10 an hour – with cost of living in the Pa Enea being a primary concern.
- The majority of employers in Rarotonga pay most, if not all of their employees at rates of pay in excess of the current minimum wage. The main employers of minimum wage employees were the public sector and the few businesses in the Pa Enea.
- While not a widespread issue for Rarotonga, a minimum wage should not place undue pressure on business viability, prices and inflation. A fair minimum wage should also not allow any employer to treat an employee unfairly, or to compete unfairly with lower overheads by not meeting their employer obligations.
 - At an additional 25 cents per hour, the cost to Government from a minimum wage increase is around \$100,000, with the burden felt almost exclusively in the Pa Enea, particularly in specific Island Administrations. The most likely response from the most severely impacted Island Administrations is that they will be forced to reduced work hours of the staff on or near the minimum wage (personnel appropriations are limited). If this occurs, then staff take-home pay packets will not change, despite the higher wage – although they will have more free time for other activities.
 - Alternatives to reducing cost of living pressures in the Pa Enea include increasing utility subsidizes, subsidizing fish/agriculture storage, or addressing transport links, but these policy measures would need much more consideration and consultation.
- The most recent GDP estimates for 2013 suggest a real GDP decline of 4.8 per cent and the 2014-15 Budget Update does not suggest strong economic growth going forward. Since 2006 (when the

minimum wage increased to \$5) real GDP per worker in the Cook Islands economy has fallen 3.4 per cent. Using these production measures, a minimum wage increase would be difficult to justify.

- Inflation in 2014 was low (between 1.9% and 2.7%), and an increase of 12 to 18 cents would fully offset any general price increases. Removing the effects of tobacco price changes (a targeted health policy), general prices only rose between 0.8 and 0.9 per cent – a 7 cent increase would fully offset for non-tobacco inflation. At 25 cents, the 2015 minimum wage increase exceeds both inflation measures.
- There was discussion on having a different minimum wage rate for Rarotonga and a higher one for the Pa Enua (due to cost of living). The panel agreed that a universal rate should apply, however, that there could be exceptions made for businesses in the Pa Enua that would struggle to pay higher wage costs, lower rates for those starting out in the workforce, or lower rates for those with disabilities (all subject to application and approval).

2 Background and context

2.1 A history of Minimum Wage in the Cook Islands

The minimum wage was first established with the passage of the Cook Islands Industrial and Labour Ordinance in 1964. It was adjusted on an ad hoc basis until 1981. From 1981 the government linked both the minimum wage and public service remuneration increases to changes in the cost of living index. This was renewed annually but was placed on hold after 1987 when the government changed. After 1987, minimum wage reviews were continued intermittently. In 2000 the minimum wage of \$2.53 was increased by 58% to \$4.00 per hour. It was noted in Cabinet in 2000 that the minimum wage be incrementally adjusted upwards to a target of \$7 per hour over the following 3 years to 2003. This figure was based on the prevailing youth wage rate in New Zealand (2001 COLA report). However, the next documented minimum wage change wasn't until 2006 when \$5 per hour was set by government.

The next minimum wage review was conducted in 2014 when the minimum wage was increased by 20% from \$5.00 to \$6.00 (2014 Minimum Wage Review report at www.intaff.gov.ck). This rate was set for all regardless of age, gender, ethnicity, nationality, location, and sector.

2.2 International obligations

Although the Cook Islands is not currently a member of the International Labour Organization (ILO), the organization's guidelines on the setting of a minimum wage are a useful measure. According to the ILO, an effective minimum wage is acceptable when it meets the needs of all parties. In addition, the minimum wage should protect low paid workers.

2.3 Criteria for Assessment

In setting the minimum wage the objective is to strike a balance between the needs and abilities of all sectors. In order to meet this objective through the minimum wage review there are five assessment criteria that were considered:

- I. Prevailing economic conditions in the Cook Islands;
- II. Income distribution (in the community);
- III. Work incentives;
- IV. Need for protection for low income earners; and
- V. Any written submissions made by the public

Below is a description of the criteria

i. Prevailing economic constraints in the Cook Islands

Economic conditions may include (but are not limited to) such things as trends in Gross Domestic Product (GDP), average or medium income, the unemployment rate, the economic contribution of a particular sector, international comparisons, or international economic trends and the risks to the Cook Islands.

ii. Income distribution in the Community

This criterion refers to the spread of income across society; by male and female members, geographic area, by industry, within government, across private and public sectors, and/or between income groups. Income distribution is not homogeneous in the Cook Islands. It may differ for each island and can be controlled to a degree by the local government, church, migration, development assistance, and resources. These factors can distort any meaningful development.

iii. Work incentives

The criteria of 'work incentives' is defined as increasing the incentives to work for people considering work. Creating the correct incentives requires the minimum wage to be set at a level that makes work attractive compared to not working. They are the extent of whether the minimum wage balances the incentives of both labour and business to provide the socially optimal level of employment. Work incentives also encompass the ability of businesses to create and maintain employment opportunities that are affordable at the minimum rate of pay.

iv. The need for protection for low income earners

The criteria of 'protection' is defined as offering wage protection to low income workers so that workers are paid wages that reflect their worth or productivity. Workers may have a lack of bargaining power when they face risks in leaving and finding another job (have poor English, or are disabled) or have poor income or employment alternatives. This broadly encompasses the social and economic ability of low income earners to provide a suitable living standard for their households, and includes the provision of publically and socially provided goods and services.

v. Written submissions made by the public

Allowing the public the opportunity of engaging in the review, is part of the democratic process, and ensures that review findings also include public input. Feedback will ensure that the minimum wage set will reflect what the public wants or does not want, and as such, it is more likely to be acceptable by all.

3 The Cook Islands Economy and labour market

3.1 The structure of the Cook Islands economy

The Cook Islands is a small open economy that is largely dependent on tourism. Despite being one of the most remote countries in the world, and one of the smallest (even by Pacific standards), the Cook Islands is the third most prosperous country per capita in the Pacific, behind New Zealand and Australia. The Cook Islands has enjoyed a sustained period of economic prosperity following the rapid growth of the tourism industry and a series of reforms following a crisis in 1996. Average gross annual income for all residents (as estimated by the 2011 Census) was \$16,848 for males and \$13,243 for females in 2011, for an overall average of \$15,028.¹

Despite the envious position of the Cook Islands in the region, the general public compares their expectations of income, public services and opportunities to those on offer in Australia and New Zealand due to the use of the New Zealand passport by Cook Islanders; they are free to migrate to either of their larger neighbours. Approximately 60,000 Cook Islanders live in New Zealand and around 16,000 live in Australia (according to their most recent census reports), while the Cook Islands was home to just 14,974 residents in 2011. However, the close relationship with New Zealand has greatly benefited the Cook Islands. For example, the Cook Islands has one of the highest life expectancies and literacy rates in the Pacific, due in part to the access afforded to Cook Islanders to the New Zealand health and education systems. While a disadvantage for its labour market, low population density has placed less strain on scarce domestic resources. Despite this, population migration is one of the main topics of the public consciousness, and has significant implications for the Cook Island culture, language, size and structure of the labour market.

The cost of living in the Cooks is relatively high on a purchasing-power basis – owing largely to the small population, the extreme distances that goods have to travel to reach Rarotonga, and the inability of Rarotonga (Avatiu) to receive trans-pacific shipping. The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel, as transport costs affect the price of almost all goods. However, while the Cook Islands imports around \$140 million in consumer and capital items; it exports around \$240 million worth of services in the form of tourism and financial services. To this end, the Cook Islands is estimated to enjoy a large trade surplus of around \$110 million (30 per cent of GDP) in 2013/14. Tourism accounts for around 60 per cent of the economy, and the vast majority of services exports.

The dependency on tourism has led to exceptional economic development, but a lack of economic diversity or economies of scale make any progress fragile and reversible, and labour market constraints across multiple areas of the economy still present major limitations on economic growth. It is also evident that there are several bottlenecks in accommodation capacity, aging water and waste

¹ Excluding those who indicated that they earned no income, the average incomes are higher at \$19,210 for males and \$15,598 for females.

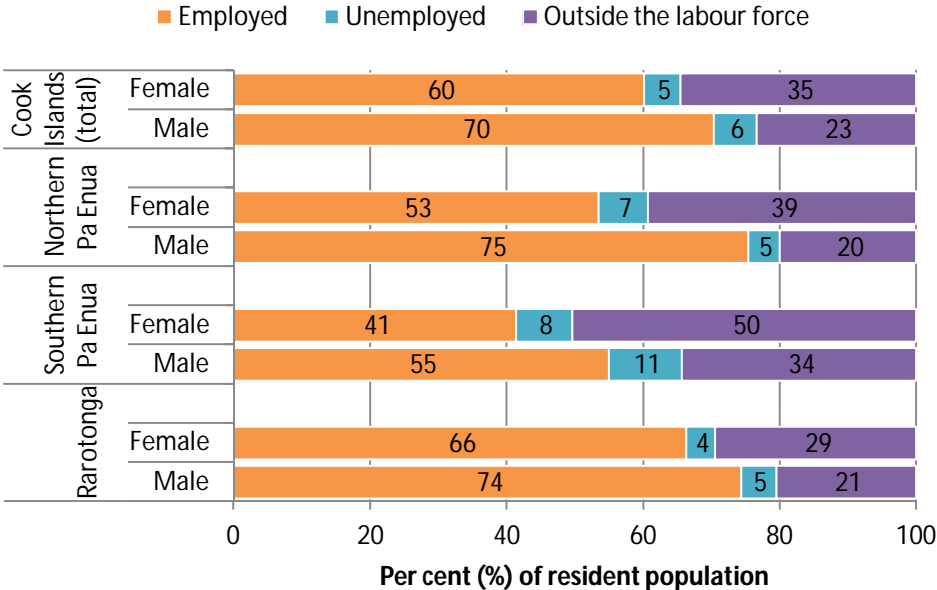
infrastructure, poor transport links to the Pa Enua (Outer Islands), an ageing population, and increasing demand on public services.

3.2 The structure of the labour market

According to the 2011 Census, 71.0% of the 10,642 residents above 15 years of age were economically active. While not a strict definition of unemployment, 8.2 per cent of the workforce were classified as unemployed – relatively good within the Pacific, but higher than in New Zealand and Australia, who tend to be closer to 6 per cent. This compares to an unemployment rate in the Cook Islands of 13.1 per cent in 2006. The largest employment category is full-time employees (70.1%) followed by part-time (13.0%). Unemployment in the Southern Group is a concern at 16.5% despite a low level of labour force participation, with the Northern group being closer to the national average at 8.2% (although there is a large difference between men, at 5.8%, and women, at 11.9%).

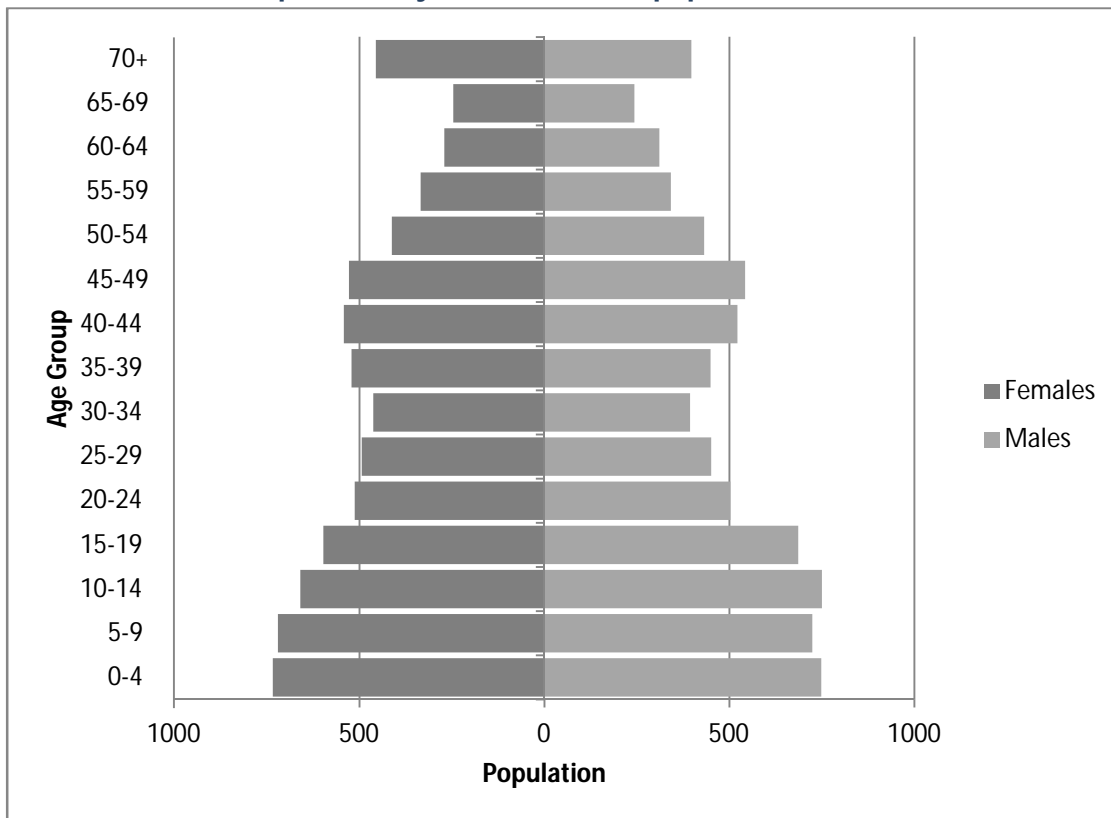
In Rarotonga, the vast majority of men and women work (79.5% and 70.5% respectively) and almost all of them are in paid employment (the majority of which is full-time). Labour force participation is lowest in the southern Pa Enua, and there is a more significant gap between men and women (65.7% of men compared to 49.6% of women). In the northern group, 80 per cent of men are in the labour force, on par with the rates seen in Rarotonga. Women’s participation is also high (60.6%), but it is here that the gender gap is the biggest at almost 20 percentage points, most likely due to their tendency for being the primary carer for children and other responsibilities at home. Also included among those “outside the labour force” are full-time students and the retirees.

Figure 1: Employment status by gender and location, Cook Islands 2011 Census



In terms of age profile, most employees are between 15 and 55, but unlike most countries at this stage of development each 5-year age category between 20-24 and 40-49 contains almost the same amount of employees. Notably, the 20-39 demographic in the population does not follow the typical ‘pyramid’ shape, most likely due to outbound migration.

Figure 2: Cook Islands Population Pyramid, Resident population, 2011 Census



Consistent with experiences elsewhere, the largest cohorts of casual and part time labour are the 15-19 and 20-24 categories. The low numbers of workers in these 'youth' categories reflects the absence of these demographics in the total population rather than low levels of participation. Unemployment for those below 25 years of age is higher than the general population, with youth unemployment at 15.5 per cent (217 out of the total 616 unemployed, or 35%, of total).

The lack of a large youth demographic has led to a significant ageing in the Cook Islands workforce. Compared to 1966, the decline in fertility actually explains much of the change in the age structure of the Cook Islands. In 1966, the average age of a Cook Island resident was 20.2 years old; in 2011 this had increased to 32.6 years old – a substantial increase over a 45 year period. While depopulation is a convenient reason to explain the lack of young people, female fertility of the Cook Islands is at 2.6 – just above replacement (which is often cited as 2.1). Notably, outmigration rates are actually similar to the other Polynesian countries despite the access to the New Zealand passport, but Tongan and Samoan fertility rates are much higher (in the range of 3.5 to 4).

Anecdotally, and consistent with the Cook Islands stage of development, the skills composition and age profile of the labour force reflects neither a developing nor a developed country. There is a perception that highly skilled labour is difficult to attract due to higher earning potential in New Zealand and Australia, and that unskilled labour is not locally abundant because of the high standard of living, employment expectations and reservation wage. The number of workers relative to the size of the

economy also goes some way to explaining the relatively high GDP per capita, although low pay rates suggest low returns.

To address labour shortages across the spectrum of professions, inbound migration has been required to fill skill gaps. Total migrant workers make up around 12 per cent of the resident population but 16 per cent of the workforce due to higher labour force participation. Notably, this is far less than Pacific countries of the same size (like Nauru – 21 per cent of resident population, or Palau – 28 per cent), and well behind the Australasian nations (New Zealand – 25 per cent, and Australia – 28 per cent), but relatively higher than the larger Polynesian countries (Samoa – 3 per cent, and Tonga – 4.8 per cent). Census data shows that foreign workers are mainly in the restaurant and accommodation sector where 369 foreigners are employed, representing just over one quarter (27%) of the jobs. The second biggest sector for foreign workers is wholesale and retail trade, with 196 employed (16% of that sector), followed by the 170 foreign workers in the community and personal services sector (35% of those jobs). The jobs undertaken by foreign workers ranges from unskilled, medium skilled and high skilled, but there are concerns that low skilled foreign labour is exploited through illegal work practices (such as confiscation of passports, or making deductions from minimum rates of pay for the provision of accommodation or uniforms) or provision of minimum wage for roles typically paid at much higher rates (like support services). Without a full labour force survey, it is challenging to back up such claims with hard data.

It comes as no surprise that tourism is the major employer in the economy, with the 2011 Census estimating that 2,539 of 6,938 (36.6%) of the working population are employed in the tourism or retail industries. The public and community sector is the next biggest sector (34.5%), with the public service being the largest single employer. The other industries play minor roles, employing 500 people or less each.

Notably, primary production (fisheries and agriculture) employ relatively few people (297, 4.3%), despite the relative abundance of natural resources. One reason for this may be the relatively high wage of the average Cook Islander, compared to the (traditionally) low returns in these sectors. The 2013 minimum wage in the Cook Islands was NZ\$5.00, well above other Pacific Island countries, and around double the *average* wage for the rest of the Pacific Islands (table below). In the homogeneous export industries of agriculture and fishing, the Cook Islands has to compete with its Pacific Island peers as well as the larger economies of tropical Asia. The main costs to these industries are labour, fuel and capital, three things that the Cook Islands face much higher costs on. This means that export opportunities for Cook Islands produced food exports is very limited, and local production will either be expensive, or suffer from low economic returns (especially relative to tourism). The other reason is that there is not a large enough domestic demand to sustain an independent industry of any notable size due to the small domestic population. With this in mind, labour is likely to be attracted away from primary industries into the service industry, where labour productivity and wages are higher.

3.3 Prevailing economic conditions for 2015

According to the 2014/15 Half-year Economic and Fiscal Update (December 2014), the growth prospects for the Cook Islands are mixed over the next four years, although there has been a slight downward

revision to both tourism arrival estimates and GDP growth. The delayed implementation of aid capital projects, notably water and renewable energy, are the main risks to the economy outside of tourism arrivals. The latest GDP data suggests that the economy declined by 4.8 per cent in real terms – a larger decline than that the 3.5 per cent decline experienced in the 2008 global economic recession. While these figures are only provisional, if confirmed, it suggests that the 4.4 per cent economic growth experienced in 2012 was more than reversed the following year.

Nominal GDP (which includes inflation) is estimated to have fallen at 5.1 per cent in 2013, likely due to discounting in the tourism sector (as arrival figures were similar to 2012, and the average stay did not change significantly). Nominal growth is expected to recover to 4.8 per cent in 2014/15, due largely to the major water and renewable energy projects, but this outcome is looking increasingly unlikely. Growth falls to 1.3 per cent in 2015/16 and then declines 2.8 per cent in 2016/17 due to a significant reduction in public infrastructure spending.

Tourist growth has been revised down slightly from the forecasts at the 2014/15 Budget, with this taking some pressure of the capacity constraints in tourist accommodation that were expected to reduce growth from 2017 onwards. Growth in visitor arrivals is expected to fall from 1.6 per cent in 2013/14 to a 1.0 per cent decline in 2014/15 due mainly to a slower growth out of New Zealand and Australia.

Inflation, as measured by the Cook Islands Consumer Price Index (CPI) was 1.6 per cent in 2013/14, despite expected inflationary effects from the VAT increase. Inflation from September 2013 to September 2014 was 2.7 per cent through the year – although 1.1 percentage points of this was due exclusively to tobacco price increases. With the exception of the once-off increase in the VAT on 1 April 2014, inflation is expected to adjust towards its long-term trend. The CPI is forecast to peak at 3.8 per cent in 2014/15 due to the change in VAT and tobacco prices, before falling to 2.6 per cent in 2015/16.

4 Economic and fiscal implications for the minimum wage

4.1 Comparative considerations

The Cook Islands is heavily trade exposed through the provision of exported services (predominantly tourism). Costs of the factors of production are important in determining overall productivity, and hence economic growth. As a services-based economy, labour is a key input to production, and the highest area of local value-add. In terms of goods production, import substitution and industry creation efforts will be hampered by high production costs if factor productivity is not high enough to remain competitive. More generally, comparisons to minimum wage conditions in other countries, as well as local productivity considerations, will form an important part of industrial policy and competitiveness. Local labour also looks to other labour markets as a guide for local reservation wages.

Compared to the 2014 review, additional efforts have been made to understand the structure of minimum wage rules in neighbouring jurisdictions. The added understanding has dramatically changed the comparisons, particularly to Australia and New Zealand.

Table 1: Minimum wages by Pacific Country (as at 1 March 2014)

| Country | Hourly rate | Notes |
|----------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cook Islands | \$6.00 | Universal wage rate |
| Australia² | AUD16.87 (NZ\$17.38) | The highest minimum wage in the world, but is lower for people under the age of 20. Piece rates (fixed work payments) and commission-based wages allowed on agreement. |
| | | Casual employees get a 25 percent casual loading, and the rate differs (usually higher) by industry and qualifications. |
| | AUD8.34 (NZ\$8.59) (Minimum youth rate) | Youth minimum wage for those under 16. Increases to \$9.26 at 16 and an additional two dollars (approx.) each year up to the age of 20. |
| | AUD7.36 (NZ\$7.58) (Apprenticeship minimum) | Minimum apprenticeship rate. |
| New Zealand³ | NZ\$14.25 (Adult) | Will increase to \$14.75 on 1 April 2015. Exemptions can be applied for staff undergoing training or with a disability (requires approval). |
| | NZ\$11.40 ("Starting out" wage or those under apprenticeships/accreditation) | Applies for the first six months of paid employment or if the worker is over 20 but working as part of a attaining an industry qualification. Will increase to \$11.80 on 1 April 2015. |
| Samoa | WST2.30 and WST2.40 (NZ\$1.20 and NZ\$1.25) | Private employees are paid the lower rate |
| American Samoa⁴ | USD4.18 to USD5.59 (NZ\$5.52 to NZ\$7.38) | Varies by industry. General increase of 50 cents (US) will be in force from 30 September 2015. |
| | USD4.25 (NZ\$5.61) (those under 20 in first 3 months of employment) | Apprenticeships and training staff can be paid less than the minimum (requires approval) |
| | USD2.13 (NZ\$2.81) (for "tipped employees") | Wages plus tips must equal the minimum wage |
| Guam⁵ | USD7.25 (NZ\$9.57) | |
| Northern Marianas Islands⁶ | USD5.55 (NZ\$7.33) | Scheduled to increase by 50 cents (US) on 30 September 2015. |

² Rates vary. Figures presented here are from a sample of minimum conditions available on <http://www.fairwork.gov.au/pay>

³ <http://www.dol.govt.nz/er/pay/minimumwage/>

⁴ <http://www.dol.gov/whd/minwage/americanSamoa/ASminwagePoster.pdf>

⁵ <http://www.paywizard.org/main/salary/minimum-wage/territorial>

| Country | Hourly rate | Notes |
|--------------------------------|-----------------------------|---------------------------------------------------------------------------------------|
| Tonga | N/A | Tonga does not have a minimum wage, but has proposed to introduce one |
| Fiji ⁷ | FJD2.32 (NZ\$1.50) | Comes into effect on 1 July 2015 |
| Palau ⁸ | USD3.00 (NZ\$3.96) | Some exclusions apply (notably agriculture). Increases to \$3.25 on 1 October 2015 |
| Marshall Islands | USD2.00 (NZ\$2.64) | |
| Federated States of Micronesia | Up to USD2.65 (NZ\$3.50) | Varies by National and State Government. |
| Kiribati | N/A | Kiribati does not have a minimum wage |

Of the island nations, only the US territories exceed the Cook Islands minimum wage. French Polynesia also has a higher minimum wage, but recent official sources could not confirm the precise hourly rate (the limited English documents suggested minimum weekly amounts, but not hourly pay rates – it is suggested that the rates be included in the next annual minimum wage review).

Almost all jurisdictions have requirements on the maximum allowable work week (generally 40 hours) with penalty rates applying thereafter (New Zealand, Australia, Samoa, and the US Pacific Territories). This is similar to the Cook Islands employment relations system, except that this rule only applies to wage workers in the Cook Islands, not salaried employees.

Australia is one of the few jurisdictions with a minimum requirement around weekly pay or work hours.

Pacific Island comparisons

In terms of relevant comparisons, the Cook Islands minimum wage is well ahead of all other independent Pacific Island Countries, with Palau being the closest, at NZ\$3.96 an hour⁹.

In regards to the US Pacific Territories, according to the US Government Accountability Office (an independent evaluator of US Government policy under the House of Congress)¹⁰, the minimum wage increases in American Samoa and the Northern Mariana Islands was a Washington-driven policy action. According to the GAO report, the minimum wage increases contributed to a labour market crisis in both

⁶ <http://www.paywizard.org/main/salary/minimum-wage/territorial>

⁷ <http://www.fiji.gov.fj/Media-Center/Press-Releases/FIJIAN-GOVERNMENT-INCREASES-NATIONAL-MINIMUM-WAGE.aspx>

⁸ <http://pidp.eastwestcenter.org/pireport/2013/May/05-03-17.htm>

⁹ Palau has a similar economic structure, standard of living, and GDP per capita (see: *Special report on Depopulation, 2014-15 Cook Islands Budget, Book 1, Section 5.11*)

¹⁰ AMERICAN SAMOA AND THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS: *Economic Indicators Since Minimum Wage Increases Began*; US Government Accountability Office, March 2014
<http://gao.gov/products/GAO-14-381>

countries. Over a five year period (2007-2013), the total work hours for tuna canneries in American Samoa fell a massive 58% (11% across all sectors), with employers attributing the labour cuts to the increases in the minimum wage. In the Northern Mariana Islands, there was a 45% decline in total work hours their whole economy over the same period. In both economies, these decreases came in the form of both unemployment and reduced hours for the remaining workforce. Taken together, these labour market crises are a poignant reminder of what can go wrong if minimum wage increases are not given due consideration.

Due to the labour market issues experienced in their economies, the GAO report recommended that Washington arrest or slow the planned increases in the minimum wages in the US Pacific Territories.¹¹ President Obama accepted the recommendation, and signed a measure to freeze the current minimum wages until September 2015 (a two year delay from the next planned increase).

Australia and New Zealand comparisons

Comparisons to other Pacific Island countries, while fairer in terms of similarities to the Cook Islands, do not account for the open labour mobility of Cook Islanders to New Zealand and Australia.

Despite having the highest minimum wage in the world, there are numerous exemptions to the stated minimum wage in Australia. For those under 20, various rates apply depending on the industry and the employee's age. The youth wage can go as low as NZ\$8.59 in the retail sector, but for a non-qualified apprentice the wage can be as low as NZ\$7.58 an hour. There can also be exemptions applied in the case of disabled staff, or where someone cannot perform the full role.

New Zealand also has numerous exemptions, but the most of these are on application. For those under 20, those just starting out, or those working towards an industry accreditation, the rate is \$11.40 (compared to \$14.25). Those with disabilities are offered pro-rata rates for the percentage of the job they can perform (prior approval must be given).

As there is no labour productivity data in the Cook Islands, no objective comparison can be made with the larger Pacific economies. However, the fundamental differences in economic structure are well understood, and it would be unrealistic to expect that the Cook Islands would have the same minimum wage conditions as either New Zealand or Australia, as average labour productivity would likely be much lower.

Conclusions from the comparisons

Perhaps most interestingly, almost all jurisdictions (including Australia and New Zealand) offer exemptions or lower minimum wage rates for youth, trainees and those with disabilities. Such conditions might be a worthwhile addition to the Cook Islands employment relations framework. More research and consideration should be given in this area as a way to help mitigate potential employment losses from these demographics.

¹¹ Guam being the only exception (as it was already on par with the continental minimum wage rate).

In general, the Cook Islands need to learn from the experience of American Samoa and the Northern Mariana Islands – we must be careful about rushing into “equalling New Zealand”. The potential negative effects on the Cook Islands economy and its competitiveness could be dire. In US territories, the consequences were reduced work hours and unemployment, but for the Cook Islands this increasing cost to labour might bear out as slower jobs growth, rather than immediate job losses. If this were to occur, it may accelerate the outmigration of those most likely to be entering the workforce (typically those below the age of 20).

4.2 Effects of inflation on the cost of living since 2014

In 2014, the minimum wage was adjusted by \$1 an hour to reflect a ‘catch-up’ from the \$5 an hour set in 2006. It was also increased in anticipation of the inflationary impacts of the VAT increase on 1 April 2014. Between March 2014 and March 2015, general prices are estimated to rise between 1.9 per cent and 2.7 per cent. While the 2014 increase of \$1 already accounted for an estimated 12 cents in inflationary effect for the VAT increase, current estimated inflation would amount to a total increase of between 12 to 18 cents an hour.

If the \$5 an hour minimum wage was indexed to inflation between 2006 and 2014, the resultant minimum wage would be around \$6.30 an hour. It is worth noting here, that fully inflation-adjusted wages are not common practice in the Cook Islands (especially in the public service), and that pegging the minimum wage to inflation may significantly increase domestic wage-price inflation.¹²

However, of the 1.9 to 2.7 per cent inflation estimated to occur up to March 2015, between 1.1 and 1.8 percentage points is estimated to be due exclusively to price increases in tobacco products. A goal of the non-communicable disease policy in relation to tobacco is to reduce the affordability of tobacco over time. Removing the impact of tobacco from general price rises would be a consistent approach with the aims of the health policy, especially considering that the costs of tobacco consumption are disproportionately felt by poorer households and that poorer households are more likely to quit when faced with relative price increases. If the setting of the minimum wage in 2014 was considered ‘appropriate’, then the inflationary impacts on the minimum wage should only amount to between 6 to 7 cents per hour in 2015.

Applying a similar approach to the \$5 an hour wage set in 2006, if the doubling of tobacco prices since 2006 is removed from overall inflation, then the total inflation adjustment since 2006 would only increase the minimum wage to around \$6.15 an hour. Therefore, if cost of living factors are to be prioritised, a minimum wage of between \$6.06 and \$6.15 an hour would remove inflationary effects since the previous two minimum wage increases.

¹² “wage-price inflation”, or more commonly “cost-push” inflation, is where increasing labour costs force businesses to increase prices to remain profitable. This can lead to a wage-price spiral: wages are constantly bid up in a race to outgrow prices, but prices increase due to the rise in wages. This is particularly relevant to the Cook Islands context, as the main economic driver (tourism) relies heavily on labour inputs as the domestic value-added factor of production.

4.3 Labour productivity considerations

Wage-price inflation is a major concern for a services-based economy like the Cook Islands. While imported goods are somewhat insulated from domestic wage-price inflation, wage costs for the delivery of these products (retail, stock, and delivery staff) are all relatively low compared to the wages for higher skilled professionals. Increases in the cost of this labour, with no corresponding increase in labour productivity, could lead to price pressure on everyday consumables for all Cook Island residents and a deterioration of the competitiveness of the tourism industry. Unlike the VAT, increases in labour costs compound from one supplier to the next, disadvantaging those businesses with longer supply chains who do not import their own products (such as stores in the Pa Enua). These businesses may be forced to close if these wage costs rise without associated productivity gains.

There is no official measure of labour productivity in the Cook Islands. The closest measure with a full time series is real GDP per worker. Between 2006 and 2013, real GDP fell 5.3 per cent and the labour force fell 1.9 per cent. Per person, this means that real GDP per worker fell 3.4 per cent between 2006 and 2013. Assuming no change in the number of work hours, this strongly suggests that labour productivity in the Cook Islands has fallen around 3.4 per cent since 2006.

An additional element of wage-price inflation is the flattening of low-wage points. As the minimum wage increases, more workers will find themselves working at the same wage as more junior or less skilled staff. At low levels this is not problematic. However, it is not uncommon for near-minimum wage staff to be supervised by staff who are only receiving one or two more dollars an hour. Increasing the minimum wage too much, or too quickly, may encourage the higher-paid staff to also demand wage increases to maintain the gap between themselves and the previously lower-paid staff. For example, any increase above \$6.30 an hour would completely eliminate the "A" job banding in the Cook Islands Public service pay bands, and the midpoint of the "B" band would become the new minimum job sizing allowed under the current schedule (jobs below the mid-point of a "B" would need to be eliminated from the public service under the current arrangements).

For these reasons, an incremental approach to minimum wage setting is advisable. Many countries choose to adjust the rate by as little as 10 cents a year to try and avoid wage-price inflation and allow businesses time to adjust their labour practices. It is an exception, rather than the rule, that countries elect to increase the minimum wage rate in larger, one-off, steps (as occurred in 2014).

Considering that labour productivity appears to have fallen since 2006, it would be difficult to recommend that the minimum wage increase. To add further detail to this analysis, a labour productivity measure would need to be added to the national accounts (the GDP statistics would need to include a measure of labour hours).

4.4 The fiscal impacts of a minimum wage increase

The Government is the largest employer of staff that is close to the minimum wage, particularly in the Pa Enua. The expense to the Government payroll is an important element of considering further wage increases.

The table below summarises the impact on the Government payroll for a range of minimum wage increases. The rates below are illustrative only and do not include the Cook Island Superannuation Fund contributions. The increases in cost include the costs of those current at the minimum, as well as the inclusion of increasing numbers of workers as the minimum wage rises.

Table 2: Estimated cost of minimum wage to government

| Minimum Wage (\$/hr) | Impact on the Government payroll |
|-----------------------------|-----------------------------------------|
| \$6.10 | 50,000 |
| \$6.20 | 80,000 |
| \$6.25 | 100,000 |
| \$6.30 | 130,000 |
| \$6.40 | 210,000 |
| \$6.50 | 290,000 |
| \$7.00 | 750,000 |

Source: Cook Islands Government central payroll for January 2015

Increases approaching \$6.30 becoming more expensive for the Government payroll, with no associated increase in tax revenue due to the presence of the tax-free threshold. Even at \$7.00 an hour, there would be almost no increase in personal income tax to the Government, making any likely increase an outright cost to the Budget with no offsetting revenue.

Therefore, unlike the increase in 2014 (where VAT was increased) there is no increased revenue stream for the Government to fund the increase in payroll. Regardless, the cost to Government is also an opportunity cost of those programs and projects which will not be funded due to the requirement to pay public servants more. For example, in the case of larger increases, arguments about cost of living in the Pa Enua could easily be addressed by instead using the funding for subsidised shipping. This would reduce the demand for wage increases in environments where labour productivity is low by lowering the cost of consumer goods. This would also avoid businesses on those islands facing higher labour costs and potentially having to close their doors or lay off local staff. However, genuine effort would need to be made towards putting sustainable programs in place, and this would take time. The discussions in this area have been confined to the political arena, with little involvement or consultation on concrete options. The Pa Enua is discussed more in the next section.

In the event that the minimum wage is increased, it is unlikely that there would be more money made available to those agencies that employ minimum wage workers. In this case, these agencies would be forced to absorb the financial burden of any minimum wage decision. Some agencies (such as the Ministry of Health or the Ministry of Education) could likely absorb the cost through savings in other operations, but most Outer Island Governments would be financially crippled by such a move:

Table 3: Estimated impact on agency Budgets from minimum wage levels

| Impact on agency Budget (% of net appropriation) | Ability to absorb wage increases | Strain on Budget at \$6.10 an hour | Strain on Budget at \$6.25 an hour | Strain on Budget at \$6.50 an hour |
|---------------------------------------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| Mitiaro Island Admin | Low | Medium | Very High | Extreme |

| Impact on agency Budget (% of net appropriation) | Ability to absorb wage increases | Strain on Budget at \$6.10 an hour | Strain on Budget at \$6.25 an hour | Strain on Budget at \$6.50 an hour |
|--------------------------------------------------|----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Pukapuka Island Admin | Fair-Low | Very Low | Medium | Extreme |
| Atiu Island Admin | Low | Medium | Medium | High |
| Penrhyn Island Admin | Low | Low | Medium-High | High |
| Manihiki Island Admin | Low | Low | Medium | High |
| Rakahanga Island Admin | Very Low | Low | Medium | High |
| Mangaia Island Admin | Fair | Very Low | Low | Medium |
| Palmerston Island Admin | Very Low | Low | Medium | Medium |
| Mauke Island Admin | Fair-Low | - | Low | Low-Medium |
| Aitutaki Island Admin | Fair | Very Low | Low | Low |
| Ministry of Education | Very High | Very Low | Very Low | Very Low |
| Ministry of Health | Very High | Very Low | Very Low | Very Low |
| OPM | High | Very Low | Very Low | Low |
| ICI | High | Very Low | Very Low | Low |
| Ministry of Justice | Fair | Very Low | Low | Low |
| Parliamentary Services | Fair-Low | Very Low | Low | Low |
| Ministry of Transport | Fair-Low | Very Low | Very Low | Low |

Source: Cook Islands Government central payroll for January 2015, views on ability to absorb fiscal impacts are those of the Budget and Economic Team at MFEM, and use the total operational funding as an indicator of 'ability' and percentage of total operational appropriations as an indicator of 'strain'

The fiscal impact of any minimum wage increase would be felt overwhelmingly in the Budgets of the Pa Enua, as those agencies in Rarotonga have larger budgets, fewer minimum wage workers, or both. As the funding to the Pa Enua is determined through the Pa Enua Funding Model (a rules-based model that ensures fairness in budget allocations), one island cannot be individually allocated a recurring operational budget – additional funding is applied to the Pa Enua as a group, and then the Model distributes the additional funding across the islands using a set of agreed parameters (see: *Cook Islands 2014-15 Budget, Book 1, Section 15.1: Pa Enua Funding Model*).

The most likely outcome is that the number of hours given to workers on most islands would reduce – effectively negating any stated aim of increasing take-home salary. In this case, increasing the minimum wage has done nothing to address cost of living concerns in the Pa Enua, but has limited the ability of these Island Administrations to effectively deliver services to their people. However, if work hours are reduced, then the staff have more time to engage in subsistence or alternate activities – an important activity for the Pa Enua.

4.5 Considerations in the Pa Enua

With the private sector already a minor player in the Pa Enua, it would not generally be advisable to increase the cost barriers that these business face. If private sector development in the Pa Enua is still a goal that the Government wishes to achieve, consideration might be given to allowing minimum wages to be different between Rarotonga and the Pa Enua (insofar as the Pa Enua minimum was lower than Rarotonga), or more likely, consider that Island Governments increase their hour rates unilaterally of any minimum wage decision (thereby allowing the private sector to reward labour closer to the likely productivity of labour). Other strategies would also include focussing limited public money on

addressing the drivers of cost of living *and* the cost of business concerns, namely utility or transport costs.

According to the 2011 Census data, 725 jobs in the Pa Enea are outside of the public sector. Of these private sector jobs, 383 are local to Aitutaki, leaving 342 private sector jobs distributed across the remaining 10 islands (39% of the total jobs outside of Aitutaki are in the non-public sector). Of these 342 jobs, 41 are local to Manihiki (where pearl farms dominate the private sector labour market). It is impossible to tell from the data provided if these private sector jobs are formal or informal employment.

Using “Employer with employees” data, only 18 businesses in the Pa Enea (outside of Aitutaki) have paid staff. Together with the information above, we can assume that the vast majority of the 342 jobs in the Pa Enea are self-employed or informal. This suggests a lack of a dynamic private sector economy outside of Aitutaki with much of the private sector activity driven by ad-hoc, informal, or subsistence arrangements.

To use Aitutaki as an example, there are 31 businesses with staff and a further 71 that are self-employed. These businesses account for 383 private sector jobs. In terms of economic development, Aitutaki is much better placed than most other islands to further develop local employment opportunities outside of the public sector. It is also notable that Aitutaki is one of the few outer islands that has not suffered from depopulation – the presence of a local private sector and jobs is likely to be a factor.

Overall, there is not a strong argument for increasing minimum rates of pay in the Pa Enea from a private sector development point of view. Cost of living is an obvious driver for increased wages, but it is unclear whether the minimum wage will result in alleviating cost of living pressures. If work hours are reduced, then the minimum wage has not increased take-home pay packets and residents are no better off. Conceivably, it could actually be counterproductive; as local businesses may decide that they cannot afford to pay staff and may reduce employment (a notable issue in the Southern Pa Enea). Additionally, higher minimum wages may also slow any future private sector development, entrenching the current economic system of relying on public sector employment on all islands outside of Aitutaki.

A more prudent approach might be to address the core reasons behind cost of living pressures. Addressing concerns such as transport costs will decrease pressure on both cost of living *and* the cost of doing business, potentially increasing employment opportunities while also reducing the strain on family budgets. However, as outlined in the previous section, genuine policy efforts would be required in this area, as a piecemeal approach is likely to be expensive, unsustainable, and an ineffective use of limited public money. The impacts on private sector development of continued minimum wage increases could be stark and ultimately counterproductive to the aim of developing the Pa Enea, especially if employment growth is damaged.

In terms of public sector jobs, the employment strategy of many Island Governments has been to supplement subsistence living by employing larger numbers of workers at lower pay rates, rather than employing fewer workers at higher pay rates. Increasing the minimum wage necessarily limits this policy approach to island development. . Ultimately, there is nothing stopping Island Governments (the major

employers) from paying their staff more than the minimum wage per hour, but it is simply not a development model that most islands have chosen to pursue (potentially due to Budget constraints). If there was to be no effect on the number of people employed (the current business model continued), then work hours would need to be reduced – potentially reducing the coverage of public services, but freeing up time for workers to engage in other activities.

In short:

- Minimum wage increases may reduce the likelihood of private sector development in the Pa Enea, above and beyond the issues currently experienced
- Minimum wage increases may further encourage the current practices of subsistence, informal or illegal work practices in the Pa Enea
- (from the previous section) increasing the minimum rates of pay may not address cost of living concerns if Island Administrations reduce work hours due to tight budgets
- (from the previous section) cost of living issues may be better addressed by subsidizing activities that will also reduce the cost of doing business
- The strategy of employing larger numbers of people at lower pay rates is constrained by limiting the ability of Island Administrations to pay below a certain rate

5 The Cook Islands community

5.1 Background

Community for this review refers to everyone living permanently or semi-permanently in the country; school-age children, youth, pensioners, politicians, workers in the religious sector, prisoners, the sick and the disabled, foreign workers working in the country on contracts, public servants, and private sector employers and employees. Whether dealing with the public sector, business sector, religious sector, or traditional leaders (aronga mana) sector, community simply means everyone living in the Cook Islands. Tourists and those in the country on short-term assignments are not part of the community in this review

The focus of this exercise is on employment but everyone in a household is affected by decisions on minimum wage or decisions on wages in general. It is therefore important to bear in mind how a change in minimum wage can impact on everyone.

Income distribution in the community

In 2014 the minimum wage of \$6 was an increase on the \$5 minimum wage set in 2006. For those who remained on the minimum wage throughout the eight year period, the cost of living – food, rent, electricity, fuel, health care, school fees and so forth, would have been an increasing difficult burden to bear.

Today there are growing concerns about poverty and inequality of income distribution. The Household Income and Expenditure Survey (HIES) carried out by the Cook Islands provides data on income per

household and what it is spent on. Unfortunately the HIES has not been carried out recently, and the Household Expenditure Survey of 2004 does not include income figures. This means that the community perspective on the 2015 minimum wage is largely derived from consultation and written submissions.

Without any minimum wage adjustment, families may turn to extended families and community support. Other impacts could include further migration for better opportunities, lower labour force participation, increased importation of migrant workers, and social violence and hardship. These impacts are, already evident.

Although different from a minimum wage, there is no survey on what constitutes a reasonable living wage in the Cook Islands, the review feedback survey shows that some workers have been financing their basic needs by working in secondary employment or overtime. Of the 7,700 workers in the labour force around 85 percent hold two jobs. Most of these (80%) are people based in Rarotonga. The proportion of men and women with two jobs is the same, but is highest with those aged 40-49 years old (*Cook Islands Labour Monograph 2015*). Without secondary employment or overtime, their effective wage cannot cover their living costs.

Low income workers tend to spend all of their income, so a moderate increase in the minimum wage may have positive spillovers into the general economy by stimulating domestic demand. Community feedback belief is that when workers have decent living wages, they also have better purchasing power to put back into their communities and drive the economy, which in turn benefits everyone – consumers and businesses.

Income inequality

Income inequality in the Cook Islands is obvious within three income groups - workers in the Pa Enea, young people, and foreign workers.

Labour force participation in the Southern Pa Enea (excluding Rarotonga) is the lowest, with a significant gap between men and women (65.7% of men compared to 49.6% of women who work). However in the Northern Pa Enea, participation of both men and women in the labour force is relatively high. Around 80 percent of men are in the labour force, on par with the rates seen in Rarotonga and 60.6 percent of women. Unemployment is not generally a concern in the Cook Islands, with 8.2 percent unemployment for men and 8.1 percent unemployment for women. However, rates of unemployment are highest in the southern Pa Enea with more than 15 percent of the labour force (around 200 people) being without work. In the northern Pa Enea, overall unemployment rates are the same as the national level, but are much higher among women, at nearly 12 percent compared to 5.8 percent for men.

To address labour shortages, foreign workers (particularly from New Zealand, Fiji and the Philippines) are employed in the Cook Islands. Of the total labour force in the Cook Islands, around 16 percent are classed as foreigners.

As with foreign workers, young people (aged 15-24) tend to be on minimum wage. They earn less than the average adult, at around \$6 per hour (*Cook Islands Population Census 2011*).

When reviewing the 2015 minimum wage the Panel understood that any changes to the minimum wage will directly impact on these three groups.

5.2 The need for protection of low income earners - Employees

From the feedback there is significant evidence to see the majority of workers wanting a further wage increase to the minimum wage between the ranges of \$7.00 - \$10.00 per hour which is an increase of 20% - 100%. The increase evidence provided from the feedback is to cope with increase in rents, electricity, transport, freight, health care, communication, costs of basic food commodities and cost of living.

There are also ongoing concerns over poverty and inequality of income distribution across the south and north of the Pa Enea. The income is necessary not to survive, but to live a decent and modest life style. Without any minimum wage adjustment we will see more families relying on extended families and community support or reliance on family remittance from overseas. Other impact will include further migration for better opportunities, depopulation, and importation of foreign workers, lower labour force participation, hardship, heavy reliance on social welfare grants.

Although there is no current survey or limited data available on what constitutes a reasonable fair and equitable living wage in the Cook Islands, the review feedback shows that some workers are finding it extremely difficult to finance basic needs and are forced to engage in secondary employment. Without secondary employment or long hours of work, their basic wage cannot cover their living cost especially employee with family of four to support. Increasing the minimum wage to a level of affordable that covers basic needs of workers (his or her family) will reduce the need to work in the formal sector to secure basic subsistence. On the contrary, higher income will lead workers to access higher purchasing power, helping to stimulate domestic demand and economic development.

Again low income earners tend to spend all their income without any savings or social security, so an increase in the minimum wage can have positive spill-over into the general economy by stimulating domestic demand. Cook Islands employees believe that when they have a reasonable, decent and equitable living wages, they also have a better purchasing power to put back to into their communities and drive the economy, which in turn benefits everyone – consumers and business sector.

5.3 Work incentives - Employers

Previous reports have noted the lack of information and statistics from the private sector, especially regarding wage rates, productivity and related employment issues.

This year's minimum wage review had a little more time available, and so took a more proactive data gathering approach. As well as the aforementioned public consultations, which included submissions from employers, there was consultation, by way of the Chamber of Commerce Executive, which includes representatives of various Industry Councils including the Restaurant Association, Tourism Industry

Council and the Banking Association.

In addition, the Chamber of Commerce conducted an online survey of employers and received responses from 80+ companies across most industry sectors, with approximately 20% coming from the Pa Enua, notably Aitutaki. While the response rate does not constitute a statistically rigorous survey, there were consistent trends which allowed qualitative inferences to be drawn from the results, particularly from the comments sections of the survey.

The vast majority of private sector employers have few if any employees on the minimum wage, and most pay \$7/hour and above. Most employers favour an increase in the minimum wage, either by way of a regular, modest annual increase, or a fairly substantial increase now. There was clear support for the minimum wage keeping at the very least abreast of CPI inflation.

Most felt that a modest increase of 10-50 cents would have little or no negative impact on their businesses. A substantial number indicated positive impact from an increase, including increased productivity, easier recruitment and improved staff retention and productivity.

Given that most employers (predominantly in Rarotonga and to an extent in Aitutaki) pay significantly more than the minimum wage, clearly market forces are at play. All employers are free to pay higher wages within their own budget constraints, and most do.

The current Employment Relations Act 2012 now allows much more flexible working hours and conditions, bringing about opportunities for greater efficiencies in staffing costs, allowing somewhat higher hourly rates to be paid. A substantial number of employers have a fair number of casual and part-time employees. Anecdotally it appears many of these positions are taken as secondary employment.

Comments from Pa Enua employers identified the increased costs for businesses compared to Rarotonga – reflecting similar comments by Pa Enua employees. While there was some call for different rates for the Pa Enua, and for youth, there was no over-riding opinion in this direction.

Of interest is the call by many businesses to increase the minimum wage when this would have no impact on their own operation. Anecdotally this was identified as either an issue of social conscience, or more specifically a desire to see competitors with lower wage costs brought onto a 'level playing field'.

The Chamber of Commerce expressed concern at government spending on personnel, and in particular on the number of people in the Pa Enua public sector collecting wages for full-time employment, when productivity might indicate many positions only require a part-time employee. The private sector is keen to see efficient spend in this – as in all – areas, to avoid wastage of public, taxpayer money.

Obviously a blanket increase in the minimum wage would increase costs to government if the number of man-hours paid remains the same. The private sector has embraced more flexible, as-needed, working hours for many staff, and is recommending that government consider the same approach. This would

avoid an ever increasing proportion of the national budget going to personnel, and consequently (in a flat economy) a decreasing proportion going to the capital and operating expense area required for effective delivery of public services.

5.4 Any written submissions by the Public

As in 2014, this year both oral and written submissions were accepted by the Panel. This year there was an increased effort by Panel members to both inform and obtain the public. Last year submissions were low (54 and 11 from the Pa Enea) so the goal this year was to pursue greater feedback overall and from the Pa Enea in particular.

The media (newspaper, radio and television) were used to inform the public about this year's minimum wage review issues and events. In addition the Panel used their networks) including government, private sector, religious organisation, and employee groups. Oral feedback was obtained through radio talk back shows and the public meeting.

The most effective method of obtaining written feedback was through the use of questionnaires. The private sector questionnaire was available online (Chamber of Commerce and Internal Affairs websites) and gave provide feedback from over 80% of businesses. The Pa Enea questionnaire was also available online. It was successfully handed out and collected by the Executive Officers, and by Internal Affairs Welfare Officers. The increase in Pa Enea feedback was outstanding with 7 out of 10 islands providing submissions for both questionnaires). Results for both private sector and Pa Enea questionnaires have been graphed and these can be viewed on the Ministry of Internal Affairs website (www.intaff.gov.ck).

Feedback in accordance with the criteria is found in the previous sections. A summary of the private sector questionnaire is in section 5.6.

In terms of the Pa Enea questionnaire One hundred and sixty two (162) questionnaires were received from the Pa Enea. This is a remarkable increase on the 11 received in 2014, and is due to the work of the Executive Officers and Island Administration staff, as well as the Ministry of Internal Affairs Welfare Officers. This on island support enabled the distribution, collection and return of questionnaires to the Ministry of Internal Affairs, Rarotonga office for data analysis.

Of the 10 islands of the Pa Enea that were sent questionnaires, 7 islands completed and returned written responses. The results are of the number of questionnaires returned per island. Responses were received from both the Northern group (Rakahanga Penrhyn and Manihiki) and the Southern Group (Mauke, Mangaia, Atiu, and Aitutaki). We did not receive questionnaires by the deadline from Mitiaro, Palmerston, and Pukapuka.

In summary, 118 respondents worked for government, with 39 respondents working in the private sector. In terms of activity status, the results show that 138 respondents are working full time for wage or salary with 132 respondents working 30-40 hours per week (note these graphs have been shared with the Pa Enea staff but are not in this report.

A summary of public feedback can be found in Section 6.

6. Summary of Findings

Below are the main points taken from Section 5. For more detail, please refer to that section.

6.1. Prevailing economic conditions in the Cook Islands

- Data issues limit the ability for a thorough analysis – a labour force survey or Household Income and Expenditure Survey would be needed to provide more information on house structure, hour wage, and dependency on wage income.
- Real GDP declined 4.8 percent in 2013, and growth forecasts do not indicate strong growth in tourism or the general economy going forward.
- Between 2006 and 2013, real GDP fell 5.3 per cent and real GDP per worker fell 3.4 per cent. Assuming no change in the number of work hours (this data is not collected); this strongly suggests that labour productivity in the Cook Islands has fallen around 3.4 per cent since 2006.
- Minimum wage increases are likely to reduce competitiveness in export markets for local fish and produce, due to competing countries having much lower wage rates and higher economic returns. Increases may also impact on cost of living, import substitution and the tourism industry if wages grow faster than labour productivity. The wage-price spiral may become a risk.
- The Cook Islands minimum wage is well ahead of similar Pacific Island countries, except for the US Pacific Territories and French Polynesia. Minimum wage increases in the US Pacific Territories (American Samoa and the Northern Mariana's) resulted in widespread unemployment in those countries, despite their minimum wages not being much higher than the current Cook Islands minimum.
 - Smaller increases over a longer time are preferable to large once-off increases, as once raised; it is difficult to reduce a minimum wage once in place.
 - Most jurisdictions allow for exemptions or have different rates for some labour market segments – the Cook Islands should explore these options going forward (particularly for those with no experience or a disability that affects their ability to perform a task)
 - New Zealand and Australia both have exemptions that allow minimum wage rates well below their published levels. The Cook Islands should be careful about “rushing to equal New Zealand” as the exemptions and the New Zealand economic structure are very different to the Cook Islands.
- Labour force data suggests an ageing workforce in the Cook Islands, with a lack of young people attributed to both migration and lower fertility rates (fewer births per woman). Migrant labour fills some labour market gaps across a broad range of jobs, but is not at levels out of step with other Pacific countries.
- Inflation data suggests that a minimum wage increase of around 6 cents (a minimum wage of \$6.06 an hour) would adequately compensate for non-tobacco related inflation over 2014.

- Inflation data going back to 2006, suggests that a 15 cent increase (to \$6.15 an hour) would fully compensate for non-tobacco price increases since 2006.
- The cost to the Budget of potential minimum wage increases suggests that Pa Enea budgets would come under considerable strain from increases above 20 cents an hour (anything approaching \$6.30 would have significant impacts).

Table 2: Estimated cost of minimum wage to government

| Minimum Wage (\$/hr) | Impact on the Government payroll |
|-----------------------------|-----------------------------------------|
| \$6.10 | 50,000 |
| \$6.20 | 80,000 |
| \$6.25 | 100,000 |
| \$6.30 | 130,000 |
| \$6.40 | 210,000 |
| \$6.50 | 290,000 |
| \$7.00 | 750,000 |

Source: Cook Islands Government central payroll for January 2015

- A likely response from Island Administrations is to decrease work hours or decrease operational Budgets to cope – leaving workers with no increase in take-home pay or declines in the ability to provide public services on those islands. However, if work hours are reduced, then the staff have more time to engage in subsistence or alternate activities.
- The private sector in the Pa Enea is largely informal outside of Aitutaki, with minimum wage increases likely to increase the practice of informal, self-employed, illegal, or subsistence employment. The current economic development model of relying on public sector employment and social welfare is likely to persist or increase.
- From a public expenditure point of view, the size of the impact on the Budget suggests that alternate uses of the funding might have a greater impact on reducing cost of living and the costs of doing business in the Pa Enea (such as lowering utility costs, subsidizing fish/agriculture storage, or addressing transport links), but any policy measures should be well thought out and widely consulted on.

6.2. Income distribution in the Community

- The focus of this exercise is on employment but everyone in a household is affected by decisions on minimum wage or decisions on wages in general. It is therefore important to bear in mind how a change in minimum wage can impact on everyone.
- To meet their needs, 85% of 7,700 workers (in the work force) hold two jobs.
- Income inequality is obvious within three income groups; workers in the Pa Enea, young people, and foreign workers, as many in these groups are likely to be on the minimum wage.

6.3 Work incentives

- A modest increase in the minimum wage is likely to have a slight positive impact on staff retention, productivity and ease of recruitment.
- Without concrete data to prove otherwise, it is doubtful that a small increase in the minimum wage would play any significant part in attracting returning Cook Islanders into the local workforce, or in deterring locals from emigrating.
- The majority of employers in Rarotonga pay most, if not all of their employees at rates of pay in excess of the current minimum wage.
- Entry level employees can achieve wage increments and higher pay based on their gaining experience and 'climbing the ladder' in their chosen job area.
- Foreign workers in un-skilled or semi-skilled positions may have contract benefits of accommodation and meals in addition to their minimum wage rate. Those who have the value of these services deducted from their wages may have little disposable income depending on how their package is calculated.
- Pa Enea businesses have revenue and profit constraints that might limit their ability to raise wages, but are in the same circumstances as their employees who face similarly increased costs.
- An increase in the minimum wage will have a modest impact on inflation, depending on the scale of the increase.
- Ultimately a minimum wage should not place undue pressure on business viability, prices and inflation, and should not result in employers treating their workers badly.

6.4 The need for protection for low income earners

- The need for protection of low income earners consists of programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks
- Improving individuals' livelihoods and earnings opportunities, to a large extent, is about improving their work opportunities – by helping them either to increase the returns from their current work or to move from inactivity or low return activities into more productive occupations.
- At the same time, jobs that provide an adequate standard of living during good times are not enough. Any job is associated with risks: the risk of being dismissed, the risk of exploitation or abuse, the risk of work injury or disability, or the risk of a drop in the price of the goods or services sold by a self-employed person or small family business.
- An agenda to promote good quality employment thus also needs to consider policies, such as implementing labor regulations or providing insurance, providing affordable minimum wage for decent living standards that reduce or mitigate employment risks.
- It is increasingly important for policymakers to move beyond short-term mitigation measures and tackle structural problems that limit workers' access to productive jobs and formal risk management programs

- Earnings are often insufficient to pull households out of poverty. Low labor participation rates and unemployment are also issues of concern, particularly in the Southern Pa Enuā, while a growing number of youth are filling the ranks of the unemployed.

6.5 Public Feedback Summary

- There is a difference in opinion on what the minimum wage for 2015 should be depending on whether the respondent is an employer, employee, part of the workforce or not, by age, from the public sector, private sector, Rarotonga or Pa Enuā.

Main views:

- We need to be cautious about increasing the minimum wage, if it causes businesses to reduce staff numbers and/or close shop.
- The minimum wage should be in line with the cost of living and inflation.
- The majority believe that the current rate of \$6 per hour is inadequate and should be increased.
- Rarotonga recommendations range from a minimum wage of \$6 to \$8.
- The majority of Pa Enuā respondents recommend a minimum wage of \$10.
- A higher minimum wage for the Pa Enuā to meet the higher cost of living there was suggested by both Rarotonga and Pa Enuā respondents.
- Should a universal rate applied, Pa Enuā respondents suggested that government consider the provision of subsidies and/or a control of prices and taxes on Outer Islands goods and services.
- Focus on up skilling employees so they are worth more than \$6 an hour.
- Increasing minimum wage would attract young people in to the work force and away from petty crime.
- A minimum wage that makes living in the Cook Islands affordable will decrease migration from the Pa Enuā and Rarotonga to New Zealand and Australia.
- There is no need for a review(s) of the minimum wage as it is linked to the Consumer Price Index and a percentage in the county's CPI would automatically result in the same percentage increase in the minimum wage
- Setting the minimum wage is a financial decision, and regardless of public feedback, the bottom line is whether the government and private sector can afford the wage.

Logistics comments

- The Panel should evaluate the impact on people's lives from last year's increase in Minimum Wage, provided that there is the data to do so.
- There is a need for data (census, household income and expenditure, labour market figures) so that the Panel is able to provide evidence based feedback.
- in the absence of data, anecdotal evidence will need to be used by the panel and that anecdotal evidence is suggesting that young people, foreign workers and Pa Enuā are the three main groups who are on the minimum wage (they benefit the most, but are also most likely to be at risk from unemployment if the minimum wage rises to high or too quickly).

7 Recommendations

The Panel recommends the following:

1. The minimum wage increase to \$6.25 an hour, effective from 1 July 2015. Consistent with the 2014 review, this 25 cent increase exceeds CPI inflation and is a real incremental increase on the current minimum wage.
2. Real incremental increases be adopted in future annual reviews;
3. Policy efforts be made to reduce cost of living and cost of business pressures in the Pa Enea before the 2015 review;
4. Policy work is undertaken to explore the inclusion of exemptions to the minimum wage such as: those entering the labour market, those with disabilities and for businesses with low profitability (such as in the Pa Enea). This might include rules-based provisions for when such exemptions could apply and whether prior approval must be given;
5. A concerted effort be made to improve the available labour force and income data before the 2015 and 2016 reviews;
6. A decision be made on whether a review is required each year, or the review can be formulaic (for example: inflation based) every other year; and
7. The Panel must be adequately resourced to conduct each review.

It is important to note that one of the five Panel members was not present when the Panel agreed to the \$6.25 minimum wage. The fifth member recommended \$6.50 in absentia.

In setting the 2015 Minimum Wage rate, the Panel's recommendations are guided by the five assessment criteria, public consultations, and financial cost.

APPENDICES

Appendix 1: Suggestions for 2016 Minimum wage review

- i) **Timing** –adequate time is required to plan work, carry out research, conduct public consultation, obtain feedback and do analysis. Three months should be accorded to the review meaning that the period can be from December to February inclusive. In addition, the review should be held at a time that has few competing events. This is of particular importance to the Ministry tasked to carry out the review.
- ii) **Resources** – there should be Minimum Wage Review resources to conduct the review and cover the cost of translation, media advertisements, public meetings, and potential travel to the Outer Islands. As in 2014, the Labour and Employment Relations Office (LERO), of the Ministry of Internal Affairs was responsible for funding, and provision of staff for the review. The 2015 review cost \$4,000 (1/3 of LERO’s operational budget to finance the review. In addition, 2 of the 3 staff members from LERO acted as the Review Panel Chair and Secretary. The strain on LEROs budget and work has raised the suggestion that an alternative better resourced Ministry should take over the Review.
- iii) **Roles of Chair, Secretariat, and Members** – the guidelines should provide a description of the role of the Chair, Secretariat, and each of the Panel members. Everyone will know what their responsibilities are. In addition, Panel members will allocate sufficient time to the review.
- iv) **Panel members and Alternative** – all Panel members should provide the name of an alternative. This will be a requirement in the invitation letter that goes out to prospective members. This will ensure that a representative will participate in all review activities.

Appendix 2: Issues Paper in Maori

AKARA AKAOUANGA I TE MONI MEANGITI-RAVA A TE ARONGA ANGAANGA - 2015

I roto ia Aperira 2014, kua akakakeia te moni angaanga meangiti-rava mei te \$5 ki te \$6 i te ora ei ravenga i te akamama i te apainga no te au akakakeanga moni i roto i te basileia, e pera mei te tuatau openga o te akakakeanga i te mataiti 2006 e te VAT i te mataiti i topa 2014.

Ko te moni angaanga meangiti-rava ka arapaki te reira i te tangata katoatoa i roto i te Kuki Airani. No te akanooanga i te moni meangiti-rava kia tau katoa te reira ki te turanga o te au ngai angaanga e te au ravenga kimi puapinga.

Te pati ia atu nei te manako o te iti tangata katoatoa no runga i teia tumu manako puapinga. Ka akaraia te reira e tetai pupu-tangata no teia akakoroanga e ka tata katoa ia tetai Ripoti ki te Minita o te Korona e nana teia tuanga.

Ko teia i raro nei tetai au manako e tau kia akaraia, no reira te pati ia atu nei to kotou au manako. Oronga katoa mai i tetai au manako kare i roto i te akapapaanga i raro nei, taau i manako e ka tau kia

akara katoaia.

Au manako ka tau kia akaraia e te katoatoa

1. Ko tetai tutaki-anga moni meangiti-rava ka tutaki ia te reira mei tetai ngai ke mai. Penei-ake mei tetai ngai mai i roto i te pute moni a te Kavamani, me kore ka akamaata ia te moni o te au apinga e oki ia nei, penei kia akaiti ia mai te moni puapinga e rauka mai nei i te au tuanga kimi puapinga, me kore ka akamaata ia te pou o te au tuanga kimi puapinga.
2. Ko tetai tutaki-anga moni meangiti-rava, kia tau te reira no te tutakianga i tetai tangata angaanga ou.
3. Ka anoano te au pu-angaanga kia ngoie ua ia ratou i te kimi tangata angaanga te ka ngoie katoa ia ratou i te tutaki.
4. Ko te akakakeanga moni no te moni meangiti-rava te ka riro ei maata atu i te turanga puapinga o te basileia, ka riro te reira i te apai mai i tetai au moni mei tetai au tuanga ke.
5. E mea meitaki kia paruruia te au peu te ka riro i te apai mai i te au akakakeanga moni maata ki runga i te au apinga e okoia nei i roto i te toa ko te ka riro ei ngata ki te oraanga kopapa.
6. Ko te tutakianga moni meangiti-rava i roto i te Kuki Airani i teia ra (\$6 i te ora), e maata roa atu teia me akaaiteia ki te au enua Asia e te pae moana Pasifika. Inara e meangiti-rava teia me akaaiteia ki to Nuti Reni e Autireria no te mea no raua tetai turanga 'moni meangiti teitei-rava' i roto i teia nei ao.
7. Ko te moni meangiti-rava, kia tau te reira ki te tuanga kimi puapinga i rotopu i te au pu ngai angaanga e pera te aronga angaanga.
8. Eaa toou manako i te tutaki moni meangiti-rava; e mea tau ainei i te kavamani kia akatinamou i te reira, me e meitaki ake kia vaoo na te makete e akanoo i te reira? Akamarama mai i toou manako.

Au manako no te aronga angaanga

1. Eaa i to te aronga angaanga manako te tutaki moni meangiti-rava e tau no tetai tangata te ka akamata i te angaanga?
2. I toou manako e mea tau kia akanooia tetai moni meangiti-rava na runga i te au tuanga kimi puapinga, auraka oki kia aiteite ta te katoatoa?
3. I toou manako e ka anoanoia tetai moni meangiti-rava na te mapu?
4. Ko te moni meangiti-rava no te tutaki aronga angaanga, me te riro ainei teia i te opara i te tangata kia rave i tetai uatu angaanga e auraka kia aere ki tetai ua atu enua ke?
5. Ko te moni meangiti-rava no te tutaki aronga angaanga, te rava ainei teia no te aronga takitaki? me kore te oraanga akaipoipo? me kore no tetai ngutuare tangata?
6. Ka meitaki ainei te oraanga ngutuare me maata atu i te okotai tangata e koi ana i te moni meangiti-rava e \$6 i te ora?
7. Me te tau nei e ko te iki i te rave i tetai angaanga moni meangiti-rava, e puapinga atu te reira i te angaanga tanutanu me kore tau-tai?
8. Ka riro ainei te akakakeanga moni tutaki i te akanauru i te tamariki apii kia akaruke i te apii e kia angaanga moni?
9. Te tau ainei te moni meangiti-rava o teia ra no te aronga angaanga i te Pa Enuu? Me e tau ake e moni meangiti-rava tuke rai ta ratou?

Au manako no te au pu ngai angaanga

1. Eaa to te au pu o te ngai angaanga manako i te moni tau no te au mapu e te au tangata ou ka akamata i te angaanga?

2. E maata ainei te aronga angaanga ta te au pu o te ngai angaanga e tutaki nei ki te moni meangiti-rava, me kore piri vaitata atu (kare i mamao mei te \$1) ki te moni meangiti-rava?
3. Ka riro ainei te akakakeanga i te moni meangiti-rava ei ngata ki taau pitiniti?
4. Me ko te reira te turanga, ka anoano ainei te au pu o te ngai angaanga i te akakake i te moni o te au apinga e okoia nei? Me kore ka tipu mai te ora angaanga? Me kore kia akarukeia tetai au tangata angaanga? Me kore ka tipu ki raro ta ratou moni e rauka mai nei? Me kore ka topiri ia te ngai angaanga?
5. Me akakakeia te moni meangiti-rava, ka riro ainei teia ei manamanata no tetai atu au akanoonooanga moni tutaki i tetai au tangata angaanga?
6. Te akapeea nei te turanga o te moni meangiti-rava no te tukuanga-tika no te apai mai i te au tangata porenā no te angaanga?
7. Ka peea te turanga o te au pu o te ngai angaanga me takiia te moni angaanga ki runga i te Pa Enuā?
8. Mei te a'a te turanga o te au tuanga kimi puapinga te kare e anoano ia te au tangata kite pakari no te rave i te au angaanga, me akakakeia te moni angaanga (mei te tuanga tanutanu)? No runga i te tuanga kimi puapinga, me ka rauka i teia au tuanga i te apai i teia akakakeanga moni?
9. Ka riro ainei te akakakeanga moni i te akamaroiroi i te au tuanga kimi puapinga no te akamaata atu i to ratou puapinga?

Au manako no te Kavamani

1. Me ka rauka i te Kavamani i te akakake i te moni meangiti-rava a te aronga angaanga?
2. Mei teaa te tu-kauī o te akakakeanga moni, e eaa te au tuanga ka ngata?
3. Eaa te turanga tau meitaki no te moni meangiti-rava no te Pa Enuā?
4. Ko tetai akakakeanga moni, ka riro ainei teia i te kaitamaki ki tetai au akanoonooanga a te Kavamani no tetai au tuanga keke mei te pae tanutanu e te tautai?
5. Ka riro ainei te akakakeanga moni meangiti-rava i te akamaata atu i te moni a te au tangata moni meangiti?
6. Ka riro ainei te akakakeanga moni meangiti-rava i te akanoo i tetai au tangata angaanga? Mei teia oki te tu, penei ka inangaro te au pu angaanga kia akaiti mai i te ora angaanga.
7. Eaa te turanga o te au tuanga moni tutaki no te aronga angaanga i roto i te Kavamani me akakake-ia te moni meangiti-rava?
8. Penei ka ngata te tuanga moni tutaki a te Kavamani i te aronga angaanga, i vao tika'i i te Pa Enuā. E mea meitaki ainei i te aronga angaanga Kavamani i runga i te moni meangiti-rava i te Pa Enuā kia akaitiia mai to ratou ora angaanga ma te akakakeia ta ratou moni angaanga, kia noo rai me kore kia meitaki atu ta ratou moni angaanga, e oti maata katoa atu to ratou taime ki tetai atu au angaanga keke mei te tanutanu e te tautai?

(Maori Translation by Nga Mataio)

Appendix 3: Issues Paper in English

2015 Minimum Wage Review

In April 2014, the minimum wage was increased from \$5 to \$6 an hour to help those on low incomes cope with inflation since the minimum wage was set in 2006 and the increase in VAT on 1 April 2014.

The Minimum Wage rate will affect everyone in the Cook Islands. In deciding on a minimum wage there needs to be a balance between needs of workers and the ability of all sectors to afford any increase.

Submissions on the Minimum Wage are now invited from the public. Your views are important. All points raised will be reviewed by the Minimum Wage Review Panel and taken into account when compiling its report to the Minister.

Below are issues identified for consideration in the review. Your input on these is invited. Please add other points that you think are important for the review.

General Considerations:

9. Any minimum wage increase must be paid for from somewhere. It can come from diverted government funds, increased prices, reduced company profits and increased company losses.
10. The minimum wage should balance the need to adequately compensate an entry level worker against affordability of government and businesses.
11. Employers need to access labour efficiently and affordably.
12. The cost of a minimum wage increase beyond the growth of the economy will draw resources, even if only slightly, from other areas in the economy.
13. It is prudent to avoid measures producing excessive inflation and price rises.
14. The current minimum wage (\$6/hour) in the Cook Islands is significantly higher than in most other countries in the Asia Pacific region but is lower than in New Zealand or Australia (noting that New Zealand and Australia are amongst countries that provide the highest minimum wages in the world and it is unrealistic to base local minimum wages on their precedent).
15. The minimum wage should strike a balance at the economy –wide level between workers and employers.
16. Do you think there is a need for a government set minimum wage or would you rather leave that to the market forces to decide? Why?

Issues for Workers:

1. What do you feel is a realistic minimum wage for an entry level worker?
2. Do you think there is a need for industry specific minimum wage rates?
3. Do you think there is a need for a youth minimum wage rate?
4. Are you currently paid the minimum wage? Do you think the current wage is fair relative to other wages?
5. Is the level of the minimum wage a factor in deciding whether to take up unskilled work locally, rather than leave for work overseas?
6. Is the current minimum wage of \$6/hour, enough to meet minimum living costs for a single person? For a couple? For a family?
7. Is employment on the minimum wage preferable to subsistence work such as planting or

- fishing?
8. Would students' decisions about when to leave school and enter employment be influenced by a higher minimum wage rate?
 9. Is the current minimum wage suitable for workers in the Pa Enea? Or should the Pa Enea have a different minimum wage rate?

Issues for Employers:

1. What do employers feel is a realistic minimum wage for an entry level worker?
2. Are employers currently paying a significant number of workers the minimum wage or near the minimum wage (near being within \$1)?
3. Would an increase in the minimum rate have a significant impact on their business?
4. If so, would employers need to increase prices? Reduce staff hours? Lay off staff? Absorb costs through reduced profits? Close down?
5. Would a higher minimum wage put pressure on other wage bands for an increase?
6. How does the minimum wage rate influence decisions to employ foreign workers?
7. Would a higher minimum wage have a greater impact on employers in the Pa Enea?
8. How would an increase in the minimum wage affect industries that rely on relatively inexpensive labour (for example: agriculture)? Would commercial operations in these industries be able to afford an increase?
9. Would the increase encourage businesses to be more productive?

Issues for Government:

1. Will an increase in the minimum wage for public servants be affordable?
2. What are the inflationary impacts of a minimum wage increase, and in which sectors?
3. Are there minimum wage considerations particular to the Pa Enea?
4. Does a minimum wage increase conflict with other Government policies in relation to sector growth (for example, in agriculture or fisheries)?
5. Does an increase in the minimum wage channel more money in the economy to low income earners?
6. Does an increase in the minimum wage cause job losses? E.g. Employers may be forced to reduce hours
7. Will an increase have an impact on government worker job sizing bands?
8. There may be budget constraints for overall government payroll, particularly in the Pa Enea. Should Pa Enea minimum-wage public servants be able to work reduced hours at a higher wage rate, maintaining or slightly improving their current income while giving them more time for fishing / planting etc?