



## **Youth Rates: Q & A**

### **1) It is unfair to pay two employees two different rates of pay because one of them is younger.**

- What is unfair is the current law. It is unfair to make inexperienced school leavers compete in the same market as more experienced older people. It is unfair to force a person who is willing to take a job at \$9 per hour go on the dole instead.
- A separate minimum wage for young people reflects the fact they are usually less experienced and have fewer skills and it is unfair to maintain a system which locks them out of the job market.
- We would prefer to see youth in employment at a different wage, contributing to society and gaining valuable skills, rather than see everyone paid the same wage which has resulted in many youth virtually locked out of the job market.

### **2) A youth minimum wage isn't a living wage.**

- The lack of a youth minimum wage has forced many young people to draw down welfare when they are locked out of the job market.
- Working in a job for \$8 or \$10 dollars an hour makes it far easier to live than receiving just \$4.50 on a benefit. The real choice is not between earning an adult minimum wage or a youth wage; it is between being employed or unemployed.
- Not only would a job at a youth minimum wage give young people more to live on than a benefit, it gives them the opportunity to up skill and thus earn more in the future. People don't stay on a minimum wage for long. Getting a foot in the door of the job market allows young people to quickly upskill.

### **3) Youth unemployment isn't created by the minimum wage**

- University of Canterbury economist Eric Crampton's research shows the abolition of youth wages has put up to 12,350 young people out of work. Youth unemployment has skyrocketed to 27.5 percent.

- These facts cannot be ignored. If a minimum wage did not contribute to unemployment, why not make it \$50 an hour? We don't because, at some point, a minimum wage creates unemployment.
- It is easy to blame the recession for the horrendous levels of youth unemployment - there is some truth in that. However, the recession has not impacted adults the same way it has impacted youth.
- Prior to the abolition of youth rates, fluctuations in youth and adult unemployment were similar. However, since abolition, youth unemployment has grown at a much faster rate than adult unemployment. The current youth unemployment rate is 8 points higher than one would expect given the previous patterns in adult unemployment. The result is that 12,350 youth are out of work as a direct consequence of the abolition of the youth minimum wage.
- The minimum wage makes it illegal for you to be employed in New Zealand if you can only garner \$9 an hour. All other parties would rather see you on a benefit than in the workforce.

#### **4) Adults will lose their jobs if employers are allowed to pay young people less.**

- The reintroduction of youth rates will create more jobs. Employers that currently can't afford to take on an extra staff member as they would have to pay them \$13 an hour may now decide that they can afford to take on a young school leaver at \$9 an hour. This creates a new job; it doesn't take one away from a person already in the work force.
- There may be some risk that there will be a substitution effect, however, the extent is likely to be much less than many people think. A lower cost of employment means that more jobs will be created. Overall it is likely that this will not have a huge effect.

#### **5) If you support youth rates, you should also support separate rates for women and Māori.**

- There are many groups in society that have higher rates of unemployment than the general population. Take for instance Māori youth – their unemployment rate is around 36 percent. They have been terribly harmed by a minimum wage.

- Our support of the youth minimum wage is to alleviate the harm that is most concentrated on one particular group – youth. The abolition of the youth minimum wage has had a concentrated and significant effect on youth employment.
- With women and Māori overall, it is not clear that any pay gap is significantly correlated with the minimum wage. While ACT supports the abolition of the minimum wage altogether, a good compromise is to target the one group that is grossly disadvantaged by the minimum wage and this is youth.

**6) Youth rates will create a race to the bottom and hinder economic growth as people will have less money to spend.**

- More young people will be given the opportunity to work if youth rates are reintroduced. They will be able to earn almost twice as much as they would receive if they were on a benefit and the Government's welfare bill will go down. That is good for the economy.
- The experience they gain from even the most basic form of job training will make them more productive and means they will go on to earn higher wages in the future. That is also good for the economy. It is far better for New Zealand to have young people earning a low wage while gaining skills than being caught in the welfare trap.
- American research shows that a high minimum wage leads to employers being able to offer fewer non-pecuniary benefits such as training. This means in the long run young people will have fewer skills and lower wages. The reintroduction of youth rates will not only help young people, but New Zealand's economy as a whole.