Reference: 20160059

5 April 2016

Thank you for your Official Information Act request, received on 7 March 2016. You requested the following:

> *"... copies of all analysis and comment generated by the Treasury of the effect of the recently announced rise in the minimum wage on:*
> *• Government spending*
> *• Wage inflation in the wider economy. "*

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	29 January 2016	Aide Memoire: Minimum Wage Review 2015	Release in part
2.	11 February 2016	EGI Briefing: Minimum Wage Review 2015	Release in part
3.	12 February 2016	EMAIL: FW: Minimum Wage RIS	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people, and

- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Hayden Fenwick
Acting Manager,
Labour Market and Skills

TOIA 20160059
Information for Release

IN-CONFIDENCE

THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: T2016/20 SH-2-2-11

Date: 29 January 2016

To: Minister of Finance (Hon Bill English)

Deadline: Prior to meeting the Minister of Workplace Relations and Safety on 2 February 2016

Aide Memoire: Minimum Wage Review 2015

Purpose

You are meeting with the Prime Minister, Hon Joyce, Hon Bennett and Hon Woodhouse on 2 February to discuss the 2015 Minimum Wage Review. We understand that the Minister for Workplace Relations and Safety intends to take a paper to LEG on 17 February to notify colleagues of his decision on the minimum wage rate. The Treasury considers that there is a case (albeit marginal) for maintaining the minimum wage rate at the current level.

In 2012 Cabinet agreed to change the minimum wage review process to provide a streamlined process for three years, with the fourth year being a comprehensive process. This year's minimum wage review is the first comprehensive review since the change to the review process.

MBIE's Advice

The current minimum wage rates are $14.75 per hour for adults and $11.80 per hour for starting-out workers and trainees (80 per cent of minimum wage). Advice prepared by the Ministry of Business, Innovation and Employment (MBIE) for the Minister for Workplace Relations and Safety models and considers six options. MBIE's analysis of these options follows:

- Option 1: $14.75 per hour ***(Treasury's recommended option)***
  This option reflects the current minimum wage.
- Option 2: $15.00 per hour
  This option was included as a comparison to show a 25 cent increase. Estimated to have no impact on inflation or overall employment, with an annual 'cost' to the economy of $25 million ($8.79 million borne by the Crown).
- Option 3: $15.25 per hour ***(MBIE's recommended option)***
  This option reflects an increase of 50 cents, in line with previous increases. Estimated to have no impact on inflation or overall employment, and an annual 'cost' to the economy of $75 million ($22.82 million borne by the Crown).

- Option 4: $15.50 per hour
  This option was included merely as a comparison to show a 75 cent increase. Estimated to have no impact on inflation, a small impact on overall employment, and an annual 'cost' to the economy of $132 million ($37.97 million borne by the Crown).
- Option 5: $16.05 per hour
  This option reflects the rate proposed by New Zealand Council of Trade Unions in the 2014 review. Estimated to have a small impact on inflation, significant impact on overall employment, and an annual 'cost' to the economy of $304 million ($86.61 million borne by the Crown).
- *Option 6: $19.25 per hour*
  This option reflects the proposed 'living wage'. Estimated to have a significant impact on inflation, large impact on overall employment, and an annual 'cost' to the economy of $2,379 million ($555.74 million borne by the Crown).

MBIE's recommended option would provide for a modest raise in the incomes of minimum wage earners to maintain the current relativity with the median wage (the median wage grew by 3.8 per cent from June 2014 to June 2015). MBIE expects this change to have no material dis-employment effects or impact on inflation.

Comment

In November 2012 Cabinet agreed to adopt a new objective for the annual Minimum Wage Review, to: *"keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses"* (CAB Min (12) 41/58 refers). In discussions at the time of this policy change, MBIE advised that the objective should be interpreted to mean that the real incomes of low-paid workers should be protected over time, but that the minimum wage does not necessarily have to increase each year.

The Treasury acknowledges that a small increase in the minimum wage is unlikely to have significant short-term impacts on either inflation or overall levels of employment. **The case for and against increasing the minimum wage is finely balanced, but there is still a case for maintaining the minimum wage at the current rate.** However, should Ministers wish to continue raising the minimum wage, then there is merit in achieving this through smooth, predictable increases over time.

While MBIE's modelling predicts that an increase of up to 50 cents would have nil dis-employment effects (including any change to job growth), an increase may have other effects. There may be a change over time in the mix of staff employed by businesses, away from less experienced or less skilled workers (including younger workers, for whom unemployment can have long-term consequences in terms of lower income and poor labour market outcomes). A higher minimum wage can also cause insider-outsider effects, with higher wages for those in work and worse outcomes for those left unable to find work.

Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

New Zealand's current minimum wage is already significant, both relatively and absolutely, compared with other OECD countries. Only three other countries had higher minimum wages than New Zealand in 2014[1]. The ratio to mean and median wages is approximately 51 per cent and 65 per cent, respectively, reflecting the fact that New Zealand has relatively low wages generally.

Economic conditions may also favour maintaining the current minimum wage. The labour market remains weak, with the unemployment rate expected to rise further over the coming quarters[2]. In addition, despite an increase in rental costs, inflation is at its lowest point in over a decade, reflecting a reduction in fuel and vehicle licensing costs. The CPI increased by only 0.1 per cent for 2015, meaning that the real minimum wage remained relatively stable. In this respect, holding off on raising the minimum wage is still consistent with the Government's objectives of maintaining the purchasing power of the minimum wage over time.

s9(2)(g)(i) Analyst, Labour Market & Welfare, s9(2)(g)(i)
Hayden Fenwick, Acting Manager, Labour Market & Welfare, 04 917 6969

[1] Latest data available

[2] Employment growth is expected to be positive but, with the labour force expected to increase (owing to both a rise in the participation rate and continued high net migration), the unemployment rate is expected to rise from 6.0% in the September quarter to 6.2% in the December quarter

IN-CONFIDENCE

Title of paper: Annual Minimum Wage Review 2015 and Minimum Wage Order 2016

Responsible Person: Hayden Fenwick 04 917 6969

First Contact Person: s9(2)(g)(i)

Purpose

1. This paper seeks Cabinet consideration of the Minister for Workplace Relations and Safety recommendation to increase the adult minimum wage from $14.75 per hour to $15.25 per hour from 1 April 2016. The *starting-out* minimum wage and the *training* minimum wage rates would remain at 80 per cent of the adult minimum wage, which will raise these rates to $12.20 per hour.

Comment

2. The Minimum Wage Act 1983 requires the minimum wage rates to be reviewed by 31 December of each year. To fulfil this obligation, MBIE conducts an annual review on behalf of the responsible Minister. This year's minimum wage review is the first comprehensive review.

3. The Treasury acknowledges that a small increase in the minimum wage is likely to have minimal impact on inflation and on overall levels of employment. However, there is a case for maintaining the minimum wage at the current rate.

4. MBIE's analysis and preferred option reflects their interpretation of the review's objective ('to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses'), and gives significant weighting to changes in the gap between the minimum and median wage rates. Treasury considers that this shifts the objective of the minimum wage review towards limiting the rise in income inequality. On the other hand, Treasury's preferred option reflects a greater weighting on the objective of real income protection from the perspective of real purchasing power.

5. Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review. On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

6. Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the household income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

7. While the impact on job losses may be minimal, international evidence has shown that raising the wage can result in businesses substituting youth workers for low to semi skilled older workers. This has implications for youth labour market connectedness and associated benefit rates for this group who already have a high unemployment rate.

8. The estimated fiscal impact on the Crown is $22.820 million per annum. This reflects the expected increase in wages of staff employed by the Ministries of Education,

Health and Social Development, and ACC. This impact will be reflected in future cost-pressures for these agencies.

9. Treasury has recently provided an aide memoire on this topic [T2016/20 refers].

Treasury Recommendation

10. We recommend that you **do not support** the recommendations in this paper.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications ($m GST excl.)					Treasury Comment
			15/16	16/17	17/18	18/19	Out years	
Annual Minimum Wage Review 2015 and Minimum Wage Order 2016		**Do not support.** **Treasury believes there is a case for maintaining the minimum wage at the current rate.**	*Operating*					This paper seeks Cabinet consideration of the Minister for Workplace Relations and Safety recommendation to increase the adult minimum wage from $14.75 per hour to $15.25 per hour from 1 April 2016. The starting-out minimum wage and the training minimum wage rates would remain at 80 per cent of the adult minimum wage, which will raise these rates to $12.20 per hour. * The estimated fiscal impact on the Crown is $22.820 million per annum. This reflects the expected increase in wages of staff employed by the Ministries of Education, Health and Social Development, and ACC. This impact will be reflected in future cost-pressures for these agencies.
			*	*	*	*	*	
			Capital					

From: s9(2)(g)(i)
Sent: Friday, 12 February 2016 2:58 p.m.
To: Ben Temple [TSY]; s9(2)(g)(i)
Subject: FW: Minimum Wage RIS [IN-CONFIDENCE]

FYI – some finalised wording

s9(2)(g)(i)

From: Gerard Clark [mailto:Gerard.Clark@mbie.govt.nz]
Sent: Friday, 12 February 2016 2:46 p.m.
To: s9(2)(g)(i)]
Cc:
Subject: RE: Minimum Wage RIS [IN-CONFIDENCE]

Thanks Richard, that looks fine from our perspective. Daniel is just putting that into the amended RIS and it will be on its way to treasury within minutes.

Cheers

Gerard Clark
MANAGER, EMPLOYMENT STANDARDS POLICY
Labour and Commercial Environment Group
Ministry of Business, Innovation & Employment
Gerard.clark@mbie.govt.nz | Telephone +64 4 9018590 s9(2)(a)
15 Stout Street, PO Box 1473, Wellington 6140

From: s9(2)(g)(i)
Sent: Friday, 12 February 2016 2:22 p.m.
To: Gerard Clark
Cc: s9(2)(g)(i)
Subject: RE: Minimum Wage RIS [IN-CONFIDENCE]

Hi Gerard

I appreciate your wording below. I have made some minor changes in red below.

Cheers,
s9(2)(g)(i)

MBIE's analysis and preferred option reflects their interpretation of the review's objective, Cabinet's decisions on the process for the review, and factors to be considered. In particular MBIE gives significant weighting to changes in the gap between the minimum and median wage rates, as well as CPI change. Treasury considers this shifts the objective of the minimum wage review towards limiting the increase in income inequality. On the other hand, Treasury's preferred option reflects a greater weighting on the objective of real income protection from the perspective of real purchasing power.

MBIE's analysis, based on its interpretation of the objectives of the review leads it to consider that the recommended increases to minimum wage rates are the most effective way to achieve Cabinet's objective (CAB Min (12) 41/5B refers) *'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses*'. However, Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review. On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the household income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

Finally, while the impact on job losses may be minimal, international evidence has shown that raising the wage can result in businesses substituting youth workers for low to semi skilled older workers. This has implications for youth labour market connectedness and associated benefit rates for this group who already have a high unemployment rate.

s9(2)(g)(i)

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From: Gerard Clark [mailto:Gerard.Clark@mbie.govt.nz]
Sent: Friday, 12 February 2016 2:01 p.m.
To: s9(2)(g)(i)
Subject: RE: Minimum Wage RIS [IN-CONFIDENCE]

Hi s9(2)(g)(i) thanks for sending that through. The key issue I have with the comment is that it seems to contrast MBIE and Treasury's views in much more absolute terms than they are – either increasing the minimum wage or not increasing it. This means that MBIE is seen to simply support increasing the minimum wage as an almost ideological approach. In fact, while the object of the review does refer to 'keep increasing the minimum wage…. (which is left out of the quotes you've provided from the objective), MBIE would be comfortable with a zero increase to the minimum wage if, for instance, CPI and median wage growth were both zero, or if our modelling showed there were a high number of job losses from any increase.

I think it's also inaccurate to say that our interpretation is that a significant aspect of the minimum wage's objective is reducing income inequality. We don't have a view on that, we are simply doing what we believe is the most logical approach given the factors that Cabinet has agreed for this review. If we were to recommend a rate above the median wage adjustment then I think you could say we were taking that interpretation, however I can't see an argument that a recommended rate lower than median wage rate change is reflecting an aim of MBIEs to reduce income inequality.

I hope you don't mind me providing draft text on your comment, but given timing pressures it seems the best way to make suggestions. I would prefer the comment to read something along the lines of:

MBIE's analysis and preferred option reflects their interpretation of the review's objective, Cabinet's decisions on the process for the review, and factors to be considered. In particular MBIE gives significant weighting to changes to the median wage, as well as CPI change. Treasury considers this shifts the objective of the minimum wage review towards reducing income inequality. This is shown in the emphasis on the growing gap between the minimum and median wage rates. On the other hand, Treasury's preferred option reflects a greater weighting on the objective of real income protection.

MBIE's analysis, based on its interpretation of the objectives of the review leads it to consider that the recommended increases to minimum wage rates are the most effective way to achieve Cabinet's objective (CAB Min (12) 41/5B refers) *'to keep increasing the minimum wage over time to protect the real incomes of low-paid workers while minimising job losses*'. However, Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review. On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

I also note that in the 4th paragraph, your statement 'Minimum wage workers are widely dispersed across the income distribution' is confusing, and I suspect you were referring to something like household income distribution?

For some reason I can't seem to remove the yellow highlighting, so don't assume that means anything.

Happy to discuss of course.

We will have another draft of the RIS to you shortly.

Cheers

Gerard Clark
MANAGER, EMPLOYMENT STANDARDS POLICY
Labour and Commercial Environment Group
Ministry of Business, Innovation & Employment
Gerard.clark@mbie.govt.nz | Telephone +64 4 9018590 s9(2)(a)
15 Stout Street, PO Box 1473, Wellington 6140

From: s9(2)(g)(i)
Sent: Friday, 12 February 2016 11:11 a.m.
To: s9(2)(g)(i)
Cc: Gerard Clark
Subject: RE: Minimum Wage RIS [IN-CONFIDENCE]

[IN-CONFIDENCE]

Hi s9(2)(g)(i)

Thanks for meeting today – seemed like a very productive meeting.

Here is a Treasury comment for inclusion in the Cabinet paper and reflecting in the RIS:

Can you please confirm that you are happy with the wording in yellow below – I can change it so that it is more clearly Treasury's perspective of MBIE's viewpoint ☺

Thanks,
s9(2)(g)(i)

The Treasury acknowledges that a small increase in the minimum wage is likely to have minimal impact on inflation and on overall levels of employment. However, there is a case for maintaining the minimum wage at the current rate.

MBIE's analysis and preferred option reflects their interpretation that a significant aspect of the minimum wage's objective is reducing income inequality. This is shown in the emphasis on the growing gap between the minimum and median wage rates. On the other hand, Treasury's preferred option reflects a greater weighting on the objective of real income protection.

From MBIE's perspective, increasing the minimum wage rates is a 'positive' means of achieving Cabinet's objective (CAB Min (12) 41/5B refers) of *'protect[ing] the real incomes of low-paid workers while minimising job losses*'. However, Treasury notes that no evidence of decreasing real incomes of low-paid workers is presented in the review.

On the contrary, the review notes that CPI inflation has been significantly out-paced over time by annual increases in the minimum wage. Therefore, maintaining the current minimum wage rates, which are already one of the highest in the OECD relative to average wage rates, is still consistent with Treasury's interpretation of Cabinet's objective.

Raising the minimum wage may marginally reduce income inequality, but it is not particularly well targeted at reducing poverty. Minimum wage workers are widely dispersed across the income distribution. Many low income earners are people below the age of 30 who are single or part of a childless couple. In addition, the net impact of wage increases for parents or caregivers will be off-set, in part, by a decrease in tax credits or benefit payments (as they abate with higher income).

Finally, while the impact on job losses may be minimal, international evidence has shown that raising the wage will likely result in businesses substituting youth workers for low to semi skilled older workers. This has implications for youth labour market connectedness and associated benefit rates for this group who already have a high unemployment rate.

s9(2)(g)(i)

-----Original Appointment-----
From: s9(2)(g)(i)
Sent: Thursday, 11 February 2016 4:40 p.m.
To: s9(2)(g)(i)
Subject: Minimum Wage RIS [IN-CONFIDENCE]
When: Friday, 12 February 2016 9:30 a.m.-10:30 a.m. (UTC+12:00) Auckland, Wellington.
Where: MEET WLG STOUT 7.09 (8)

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