

Reference: 20200361

9 December 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 28 October 2020. You requested the following:

- All briefings, reports, aides-memoire, and internal correspondence relating to increasing the minimum wage from \$17.70 to \$18.80 per hour.
- All briefings, reports, aides-memoire, and internal correspondence relating to increasing the minimum wage above \$18.80 per hour.

*Where information is withheld, I request you provide the title and date of the communication/document withheld, the reason for refusal and the grounds in support of that reason as required by section 19(a)(i) and (ii) of the Official Information Act.*

I note that in subsequent correspondence with you, the request has been amended with the hourly rate mentioned in the second bullet point above changed to \$18.90 per hour to accurately reflect the current minimum wage settings.

The Treasury contacted you on 18 November 2020 to advise of a need to extend the time limit for deciding on your request by an additional 10 working days under section 15A of the Official Information Act. The new due date for responding to your request was, therefore, revised to 9 December 2020.

### Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	5 June 2019	Minimum wage handover note	Release in part
2.	10 December 2019	Briefing for Cabinet Economic Development Committee	Release in part
3.	12 March 2020	Minimum wage increase – back pocket information for Caralee and Bryan	Release in part

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<https://treasury.govt.nz>

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:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- We have redacted the direct dial phone numbers of officials under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Some information has been redacted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

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

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

Yours sincerely

Nick Carroll  
**Manager, Skills and Work**

# 20200361

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**IN-CONFIDENCE****Minimum wage handover****Overview**

The Minimum Wage Act 1983 requires the Minister of WPR to review minimum wages (adult, starting out and training) each year, and to recommend any changes to the Governor General.

Link to MBIE website containing all past reviews and information on past rates:

<https://www.mbie.govt.nz/business-and-employment/employment-and-skills/employment-legislation-reviews/minimum-wage-reviews/>

The 2016 RIS gives a useful outline of MBIE's wage impact modelling and the minimum wage review process as it ran under the previous Govt: <http://www.mbie.govt.nz/info-services/employment-skills/legislation-reviews/minimum-wage-review>

**Current government's commitment to \$20 by 2021**


The Government announced a commitment to increase the minimum wage to \$20 by 2021 during the election. The Government has implemented two increases so far, in meeting this commitment.

- In April 2018, from \$15.75 to \$16.50
- In April 2019, from \$16.50 to \$17.70

In the latest review, the Government also announced publicly the intended rates for the next two years, to complete its commitment. These two increases are still subject to a review and Cabinet approval, although the review is likely to be less comprehensive than previous ones.

- In April 2020, from \$17.70 to \$18.90
- In April 2021, from \$18.90 to \$20.00

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**Next steps***Next review – and Treasury's role*

The next review is likely to be more light touch, given the signalled increase to \$18.90. You should monitor the economic outlook, making use of insights from the forecasting team (Harrison covers the labour market). I expect that to move to a different rate would require a significant deterioration in the economic outlook. So unless this is the case I recommend succinct advice (or none).

You will have an opportunity to provide feedback on what the review should cover. At a minimum it should canvass how the economic outlook has changed. Ideally, MBIE will be (but won't be) in a position to model the multi-year impacts from moving all the way to \$20.

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*MBIE's new model*

MBIE has a model to estimate the dis-employment and inflationary impacts from minimum wage increases. MBIE refreshed this model in time for the 2018 review. The single year impacts look generally sensible. However, this model still does not estimate multi-year impacts. This is a huge flaw, given that the cumulated impact of five large increases in a row is likely to be greater. At one stage, multi-year impacts were still on MBIE's programme for the model refresh, but I'm not sure this is still the case. It would be worth checking in and encouraging this. I've saved a few emails down with conversations between Gerald and me.

*Mitigations (see above for more background)*

You should discuss with Libby and Andrew what is desired/anticipated for this work.

s9(f)(iv)



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TE TAI ŌHANGA  
THE TREASURY
**Treasury Report: Briefing for Cabinet Economic Development Committee**  
**Wednesday 11 December 2019**

<b>Date:</b>	10 December 2019	<b>Report No:</b>	T2019/3982
		<b>File Number:</b>	MS-5-3-DEV

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>	Read prior to Cabinet meeting	11:00 AM, Wednesday, 11 December 2019
Hon Dr David Clark <b>Associate Minister of Finance</b>		
Hon David Parker <b>Associate Minister of Finance</b>		
Hon Shane Jones <b>Associate Minister of Finance</b>		
Hon James Shaw <b>Associate Minister of Finance</b>		

**Contact for telephone discussion (if required)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Andy Kennedy	Graduate Analyst, Economic Strategy and Productivity	s9(2)(k)	✓
Andrew Rutledge	Manager, Economic Strategy and Productivity		

**Minister's Office actions (if required)**

Return the signed report to Treasury.

Note any  
feedback on  
the quality of  
the report

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**Enclosure:** No



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**Treasury Report:** Briefing for Cabinet Economic Development  
Committee Wednesday 11 December 2019

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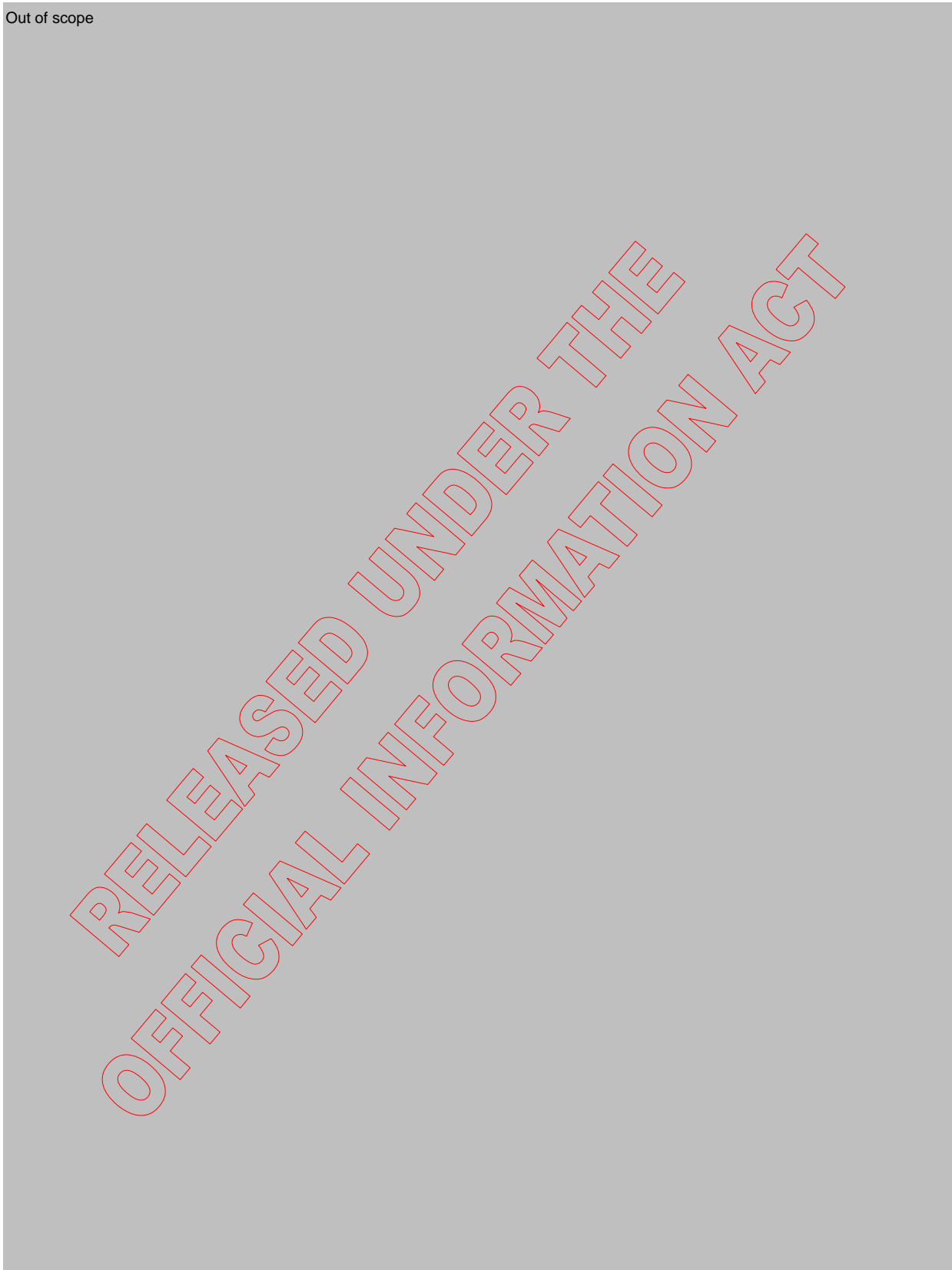
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**Minimum Wage Review 2019**

Treasury contact: Angela Parker s9(2)(k)

**Description:** Seeks Cabinet agreement to increase the minimum wage to \$18.90 per hour from 1 April 2020 and the starting out and training wage to \$15.12 per hour, in light of the Coalition Agreement commitment to increase the minimum wage to \$20.00 by 2021.

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<p>We consider that MBIE has carried out a sound assessment of the effects of raising minimum wages.</p>	<p>There will be higher wage costs for government. The Ministries of Health, Education, Social Development and Oranga Tamariki, ACC, and the NZ Defence Force estimated their combined costs would increase by \$61.6 million per year. These agencies intend to seek funding increases through the budget process.</p> <p>Fiscal costs to government may be offset by increased GST revenue as a result of more spending in the economy, and a reduction in social transfer costs due to abatements on government support.</p> <p>Other government programmes may be impacted by the wage increase, such as parental leave payments, because entitlements are tied to incomes.</p>	<p>Support.</p>
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**IN-CONFIDENCE****Recommended Action**

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We recommend that you **read** this report prior to the Cabinet meeting at 11:00 AM on Wednesday 11 December 2019.

Andrew Rutledge  
**Manager, Economic Strategy and Productivity**

Hon Grant Robertson  
**Minister of Finance**

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**From:** [Angela Parker \[TSY\]](#)  
**To:** [Bryan Chapple \[TSY\]](#); [Caralee McLiesh \[TSY\]](#)  
**Cc:** [Blake Shepherd \[TSY\]](#); [Nick Carroll \[TSY\]](#); [Vicki Plater \[TSY\]](#); [Andrew Rutledge \[TSY\]](#); [Kosal Kong \[TSY\]](#); [Elizabeth Gerard \[TSY\]](#); [Patrick Kirkham \[TSY\]](#)  
**Subject:** Minimum wage increase - back pocket information for Caralee and Bryan  
**Date:** Thursday, 12 March 2020 2:29:00 pm  
**Attachments:** [image002.jpg](#)  
[image003.png](#)

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Hi Caralee and Bryan

### Minimum wage increase and COVID-19

Skills and Work have pulled together some back pocket information for you both on the current minimum wage debate and whether it should proceed given the potential negative impacts of COVID-19 on businesses.

Our key lines and advice are in the first four bullet points below. The rest of the information is further background on Treasury's general views on the minimum wage, MBIE's forecast impact on job creation from the proposed increase and recent rationale the PM and MoF have used publicly for proceeding with the planned increase.

The potential for the economy to enter a recession or downturn because of COVID-19 has quickly led to a public debate about whether the planned increase to the minimum wage from \$17.70 to \$18.90 is still appropriate. Treasury has provided previous advice that is relevant to this debate and its current forecasts do not predict a dramatic increase in unemployment.

Key points are:

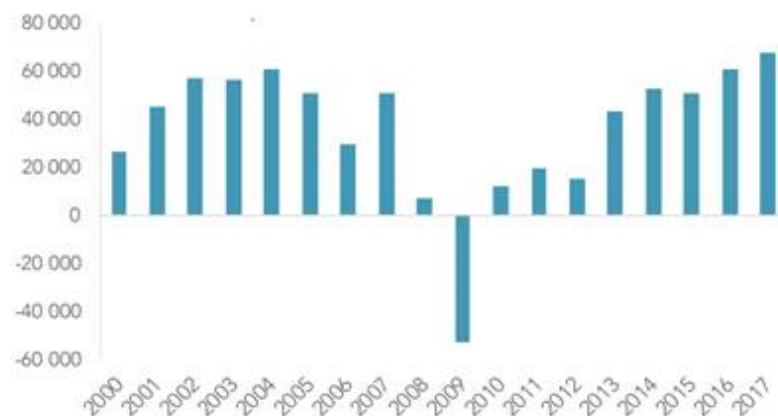
- **Timing of increases is important** – we've previously advised the government to consider the economic cycle and labour market indicators before setting increases. Our advice was that the level of the increase in any year should be determined by the economic cycle and the state of the labour market. When the labour market is strong, the increase could be larger, and when it is weak, it should be as small as possible. This is particularly relevant now as there is the risk of a downturn.
- **We are not in an economic downturn yet and the most recent forecast is for unemployment to remain under 5%** - It is important to note that we are not in a downturn yet and as of 11 March, the most likely scenario the Treasury is forecasting would result in the unemployment rate continuing to stay below 5%.
- **The situation is evolving rapidly however so forecasts may need to change** – there are a very wide range of variables that could require the Treasury to revise its forecasts.
- **For context, the most dramatic change to the unemployment rate during the Global Financial Crisis was a 2.1% increase over a 12 month period** – the most significant economic downturn experienced by New Zealand over the past 20 years was the Global Financial Crisis. The change to the unemployment rate was likely more modest than people tend to remember – the highest the rate was 6.7% in September 2012 and the sharpest increase was 2.1% between September 2008 and September 2009.

### Forecast Job losses

The following graph was pulled from the [Productivity Commission's draft second report on the Future of Work](#). It shows substantial job loss over 2008 and 2009, which aligns with the timing of the GFC and H1N1 Swine Flu outbreak.

Blake is following up with Nairn and Peter, who are likely to have some preliminary estimates [early next week](#) about the potential impacts of Covid-19 on the Labour Market. This could be fed into the Covid-19 economic impacts work.

**Figure 1.13 Net job creation, New Zealand, 2000–17**



Source: Stats NZ Linked employer-employee database.

### Further previous advice from the Treasury on minimum wage policy

- Increases should be small and frequent rather than large and infrequent and gradual increases since 2001 and have not significant impact unemployment rates** – New Zealand has had gradual but continuous increases in the minimum wage since 2001. This has resulted in the minimum wage moving faster than either average wages (as shown by the labour cost index) or inflation, but has maintained high labour force participation and relatively low unemployment.
- There could be longer-term impacts of minimum wage increases that are under-weighted** – while people currently in employment may not experience adverse impacts from a minimum wage increase over the short-term, there is concern that it reduces the number of new jobs being created and reduces potential opportunities for new entrants to the labour market. There is also concern that employers respond to these increases by reducing the hours worked by their employees (and therefore net take home pay doesn't actually shift because hours worked have reduced).
- These potentially harmful longer-term impacts are more likely to effect already disadvantaged groups of workers** – the effect described above is often referred to as the "bite on labour demand". It is particularly focused on the young and unskilled workers, and is stronger when economic conditions are weak (both at a national and regional basis).

### Further information on employment impacts from MBIE Cabinet Paper (Feb 2020) on employment impacts

- **New employment opportunities will be reduced** - MBIE estimates that there will be 6,500 fewer individuals (low estimates indicate this number could be 4,000, while high estimates suggest a figure of 7,500) in employment than there would have been if the minimum wage had not increased. This compares to forecast employment growth of 43,600 in 2020.
- **MBIE regarded that forecast reduction as a “relatively minor” impact** – in the Cabinet Papers regulatory impact statement MBIE notes the ratio between the forecast employment growth for 2020 and the disemployment effects of the preferred rate indicate that a minimum wage of \$18.90 will have a relatively minor impact on the economy.
- **It is hard to predict impacts given the increase is historically high** – An increase of \$1.20 p/h is high and MBIE acknowledges its ability to estimate the impacts of larger increases “carries some risk, primarily because our understanding of changes to the minimum wage is based on smaller 50c increases from previous years. It is also difficult to estimate because more workers this year are at or near to the minimum wage than last year (when it also increased by \$1.20 p/h).

**Rationale used publicly by the Prime Minister and Minister of Finance to proceed with the planned increase to be:**

- A business continuity package currently being developed will help effected businesses to navigate the impacts of COVID-19). The package – to be confirmed next week - will likely include a targeted wage subsidy for the impacted sectors.
- The majority of minimum wage earners are employed by large organisations that are more able to manage increased wage costs than smaller businesses.
- The increase to minimum wage will have a stimulatory effect on the economy as up to 242,400 people are likely to have their wages increase by \$48 per week (for 40 hours work) spend that extra money on goods and services.
- In spite of the potential impacts of COVID-19, “the lowest income New Zealanders deserve to get a fair go.”

Ngā mihi  
Angela

**Angela Parker | Analyst – Office of the Executive (Acting) | Te Tai Ōhanga – The Treasury**

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