

INTERACTION OF WORK AND WELFARE: HOW TO INCREASE LOW INCOMES IN WELFARE AND WORK

*Child Poverty Action Group Summit:
Whakamana Tāngata: Where to from here?*

18 November 2019

Bill Rosenberg (billr@nzctu.org.nz)
Economist/Director of Policy



NEW ZEALAND COUNCIL OF TRADE UNIONS

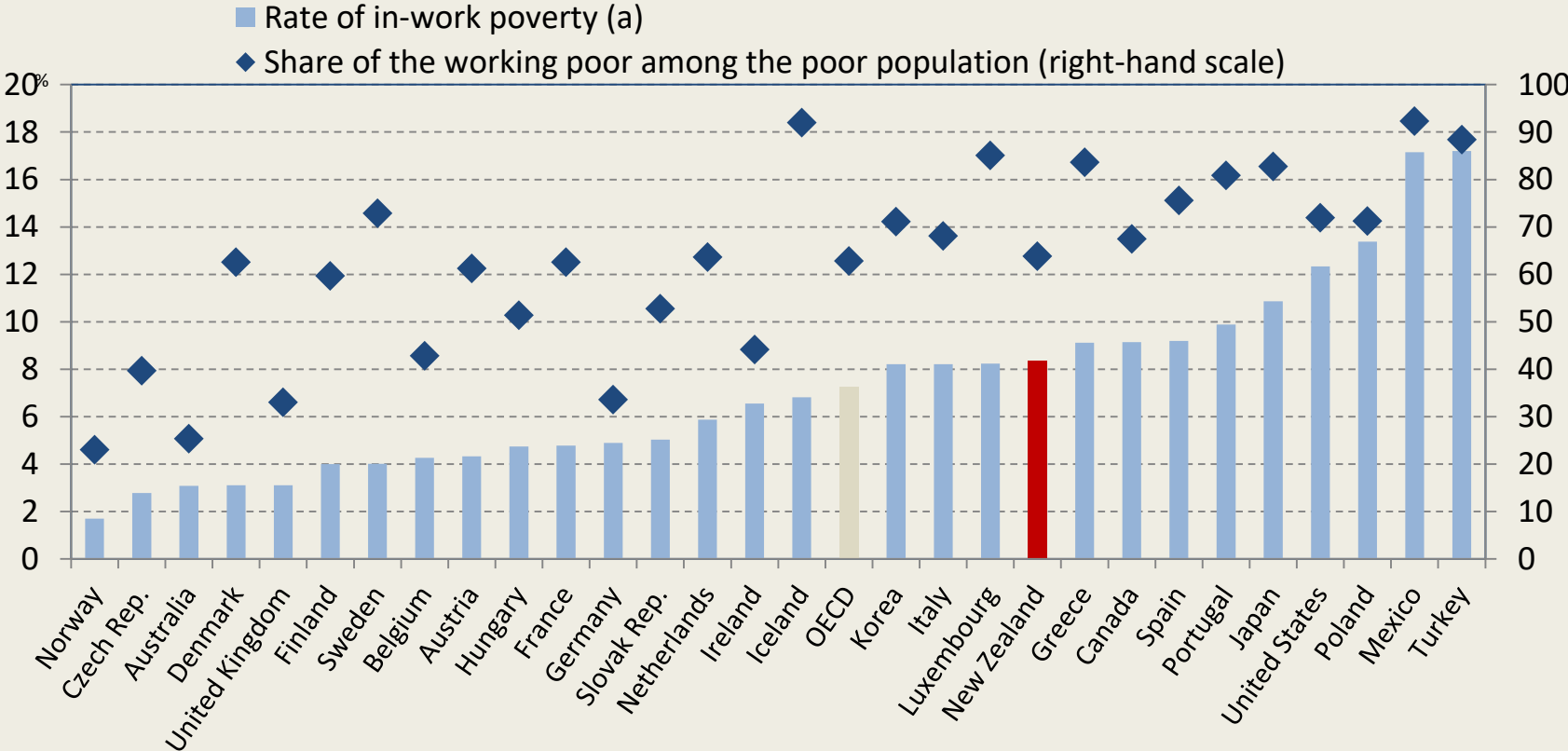
Te Kauae Kaimahi

Low wages: the working poor

In-work poverty in OECD countries, mid-2000s

In-work poverty rates and shares of working poor among all individuals living in households with a head of working age

Source: OECD Employment Outlook 2009



Note:

a) Percentage of individuals living in households with disposable income below 50% of the median income, among all individuals living in a given type of household with a head of working-age and at least one worker.

In New Zealand –

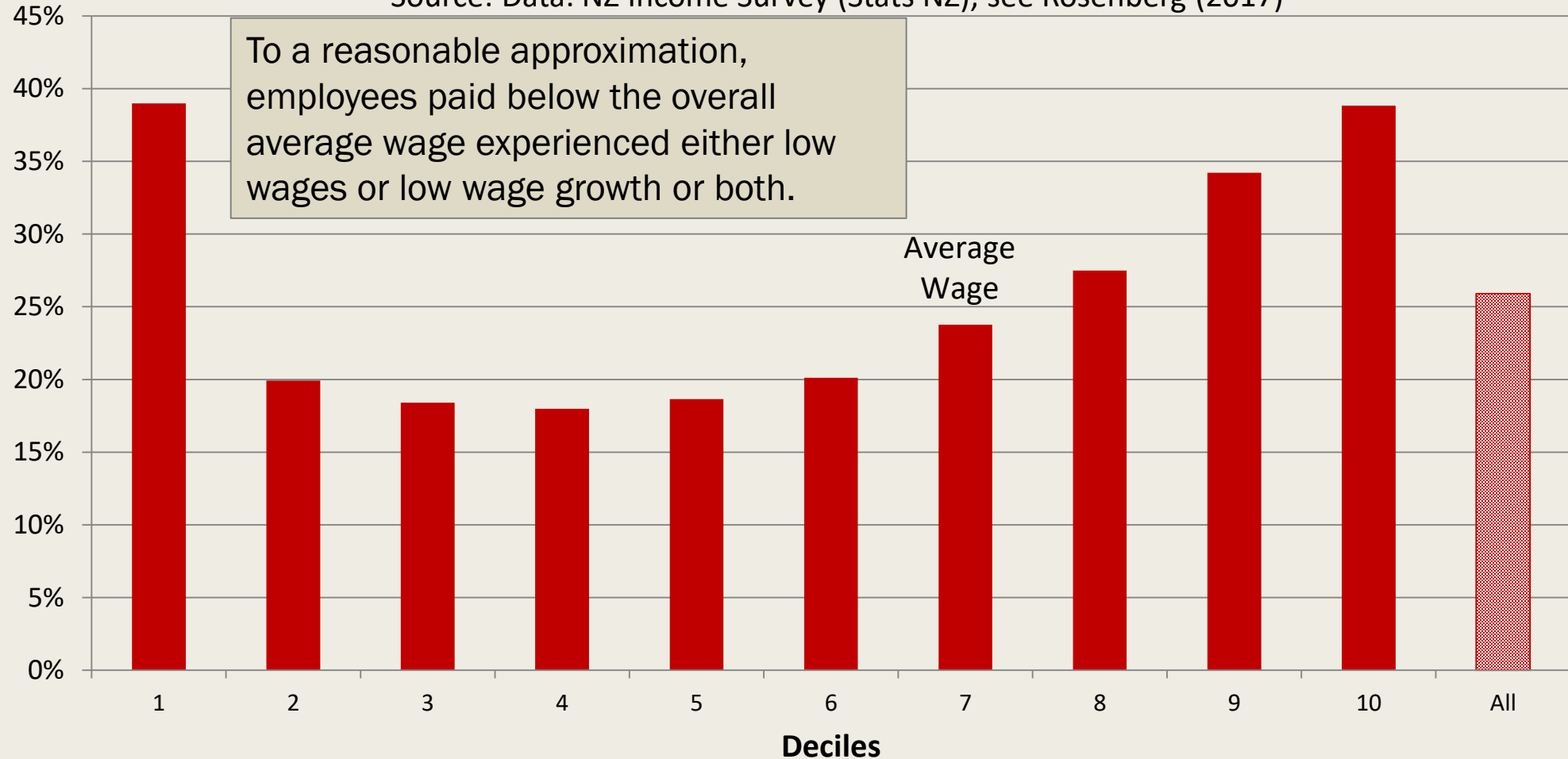
40% to 50% of children in poverty are in households where at least one adult is working (Perry, 2018, p. 158).

The majority of the poor are couples with jobs, with some – but not a lot of – children living in their own home albeit with a mortgage. (Easton, 2013, p. 23)

Low wages: lower increases

Real increase in average hourly income in each decile, 1998-2015

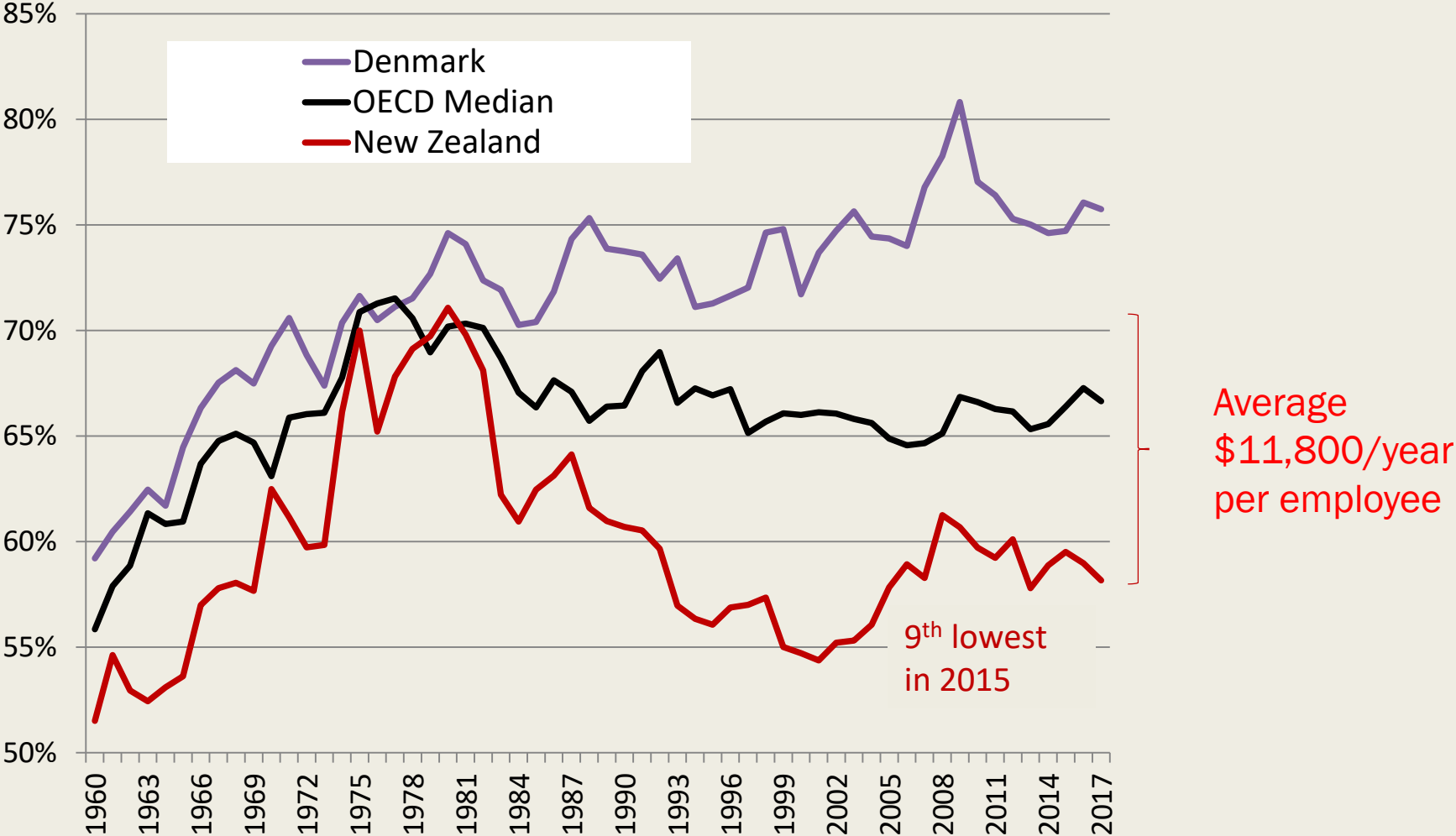
Source: Data: NZ Income Survey (Stats NZ); see Rosenberg (2017)



Low and falling wages share of income:

Labour income share of Net Domestic Income compared to OECD

Sources: AMECO database, SNZ, author's calculations



Overview

- Better jobs
- Better wages
- Better help through change
- Better economic policies

Future of Work – CTU view

- Globalisation, Climate change, Technology, Demographics ... all mean changes in work
 - *Redundant skills, industries changing or disappearing*
- Hard to predict what it will look like but we have choices and we can prepare for it
 - *Industry policies to replace old jobs with better jobs, not more baristas*
 - *Employment laws and policies that ensure everyone shares in the benefits*
 - *A capable state to help people through change*



A capable state

Future of Work Tripartite forum

- Co-governed by Government, CTU, Business NZ
- Discussing initial priorities
 - *Industry policies* – “*Industry Transformation Plans*”
 - *Training at work* – *lifelong learning*
 - *Employment* – *improving protection for vulnerable workers*
 - *Support for workers* *whose jobs are at risk or gone*

Overview

- Better jobs
- Better wages
- Better help through change
- Better economic policies

Better jobs

- Need to raise productivity, value, wages
- Need Industry Policies
- Government has policy of “Industry Transformation Plans”
- Still in early stages but we would like them to
 - *Be tripartite – involving business, unions and government*
 - *Include better jobs and incomes among objectives*
 - *Address not only productivity, exporting etc but also a plan if an industry’s future is in doubt*
 - *Embody just transition, and not only for environmental change*

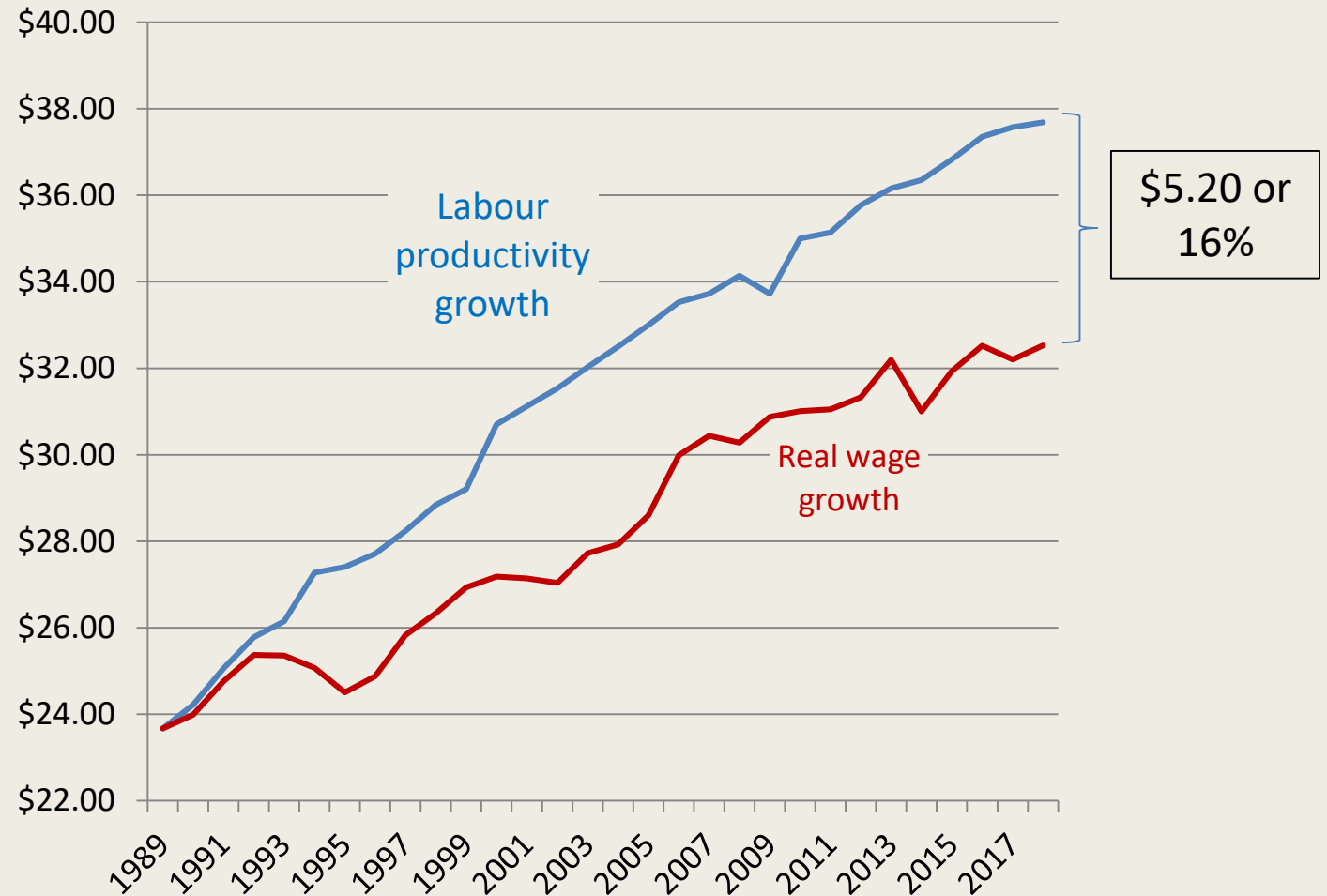
Overview

- Better jobs
- **Better wages**
- Better help through change
- Better economic policies

Better wages

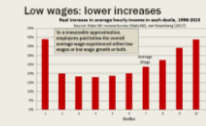
- Raised productivity is necessary but not sufficient for higher wages

Gap between real wage growth and productivity growth widened 1989-2018



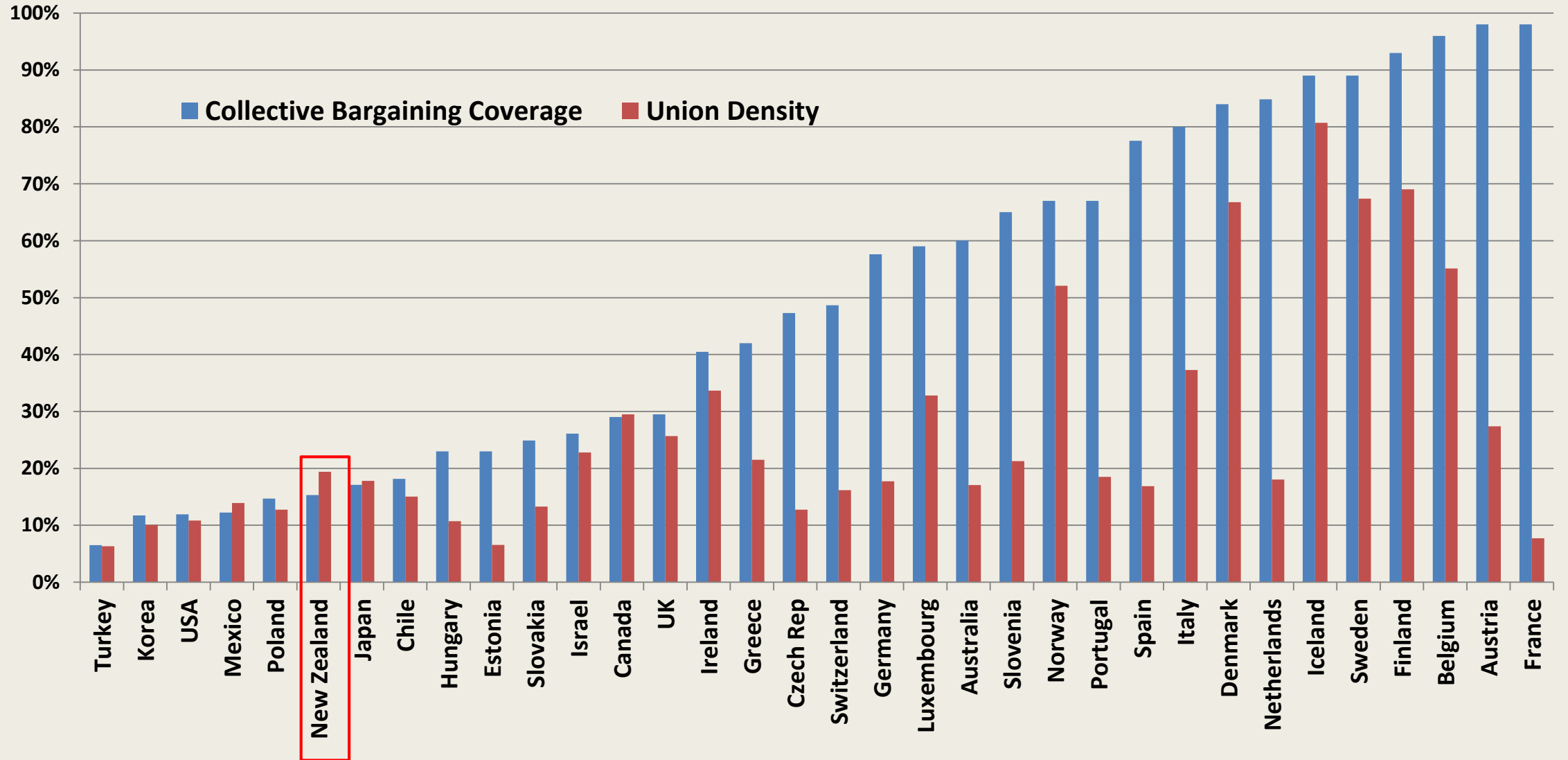
Better wages

- Need better industrial relations policies
- Rise in minimum wage to \$20 by April 2021 helps
- But only addresses the bottom of the wage distribution
- Need to address New Zealand's very low level of collective bargaining to address inequality of bargaining power in employment



Collective Bargaining and Union coverage in the OECD

Sorted by collective bargaining coverage. Source: ICTWSS database v.5; mainly 2013 data



Better wages

- Fair Pay Agreements

- *Working Party headed by Jim Bolger*
- *Now consulting on discussion paper on the Working Party's report*
- *Basic idea a bit like the pay equity settlement for Care workers:*
 - Industry/sector agreements between employer reps and unions
 - Set floor of wages, some conditions and training
 - Prevent race to bottom
 - Enterprise-based or individual agreements on top

Overview

- Better jobs
- Better wages
- Better help through change
- Better economic policies

How are we doing?

- “The downside of flexible labour market regulations is that the costs of economic restructuring largely fall onto individual workers.”
- “... wage losses for re-employed displaced workers reach 12% in the first year after displacement, compared with negligible wage effects in Germany and the United Kingdom and a loss of 6% in the United States and Portugal.”
- Potential source of poverty

Hyslop and Townsend (Motu) estimate displaced workers' earnings and total income were 25-30% lower in the first year and 13-22% lower five years after being displaced.

Hyslop, D., & Townsend, W. (2017). *The Longer Term Impacts of Job Displacement on Labour Market Outcomes* (Working Paper No. 17-12). Wellington, New Zealand: Motu Economic and Public Policy Research.

<http://motu.nz/our-work/population-and-labour/individual-and-group-outcomes/the-longer-term-impacts-of-job-displacement-on-labour-market-outcomes/>

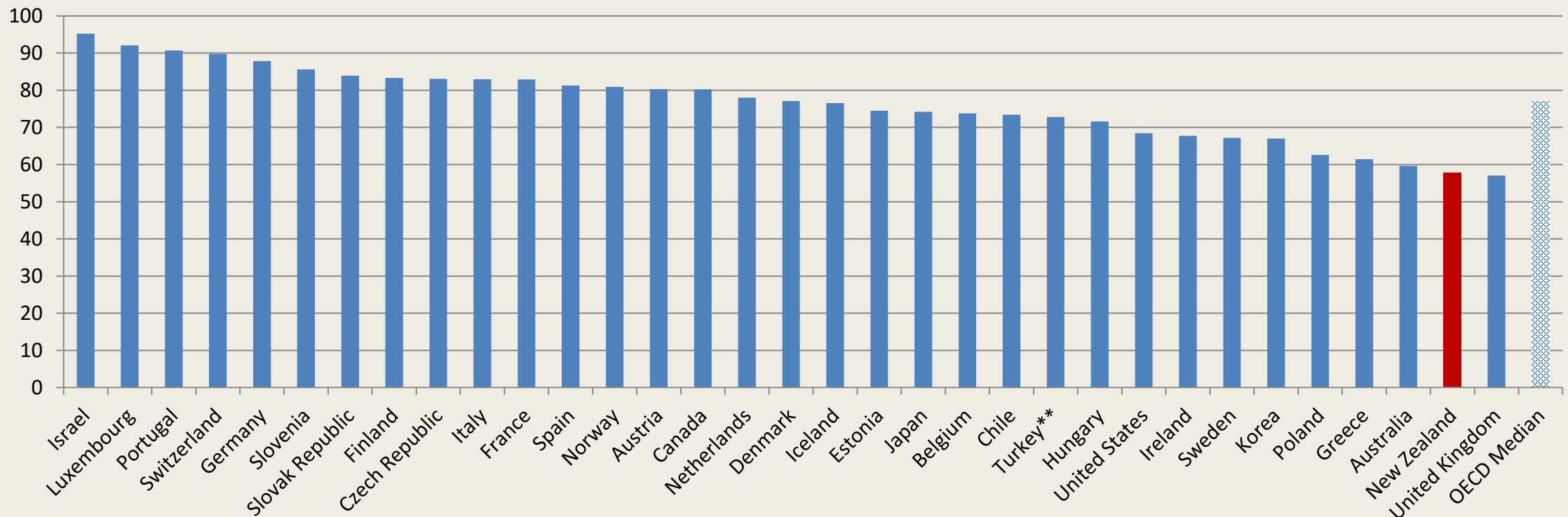
How are we doing?

*Similar picture
at incomes of
67% and 150%
of AW.*

Net Income Replacement Rates in initial phase of unemployment in OECD, 2015

Income replacement rate (%) for 2-earner couple with 2 children

Family qualifies for cash housing assistance or social assistance "top ups" if available;
previous income 100% of Average Wage, 2015

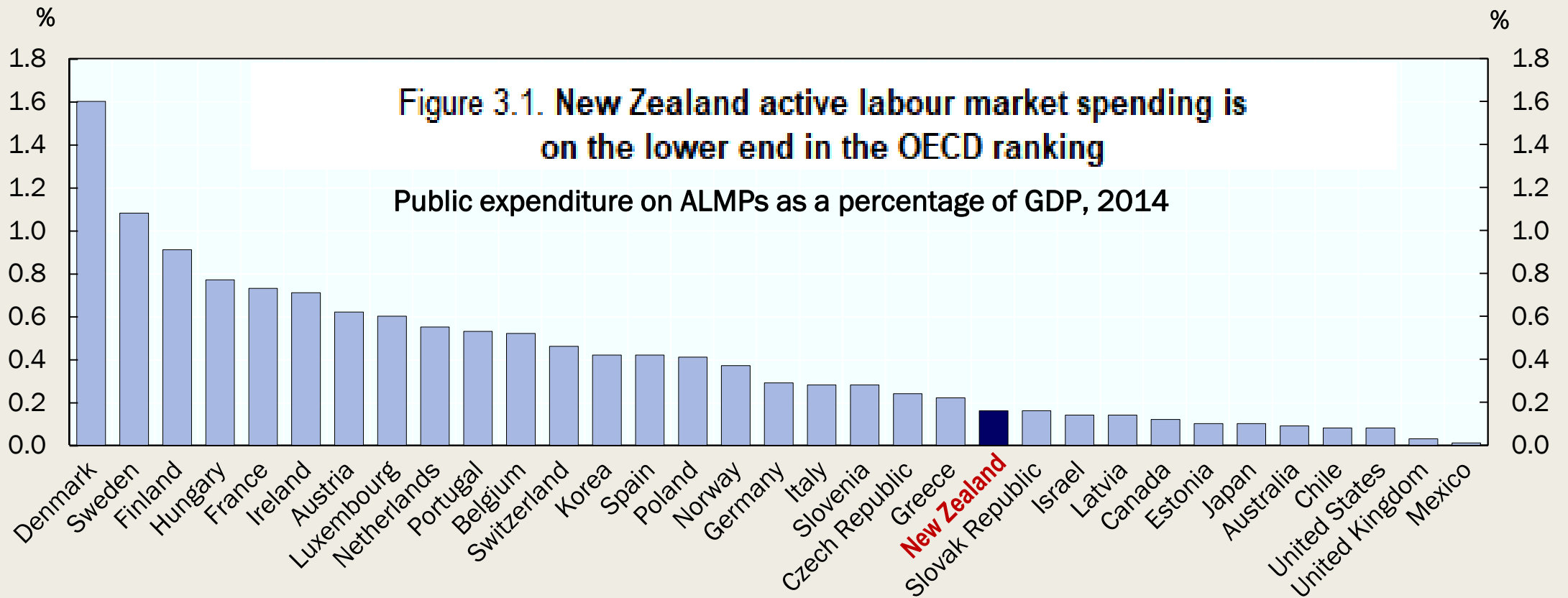


Source: OECD Benefits and Wages: Statistics, available at <http://www.oecd.org/els/benefits-and-wages-statistics.htm>

** Average Wage value is not available. Calculations are based on Average Production Worker

How are we doing?

Some of the poorest support for working people when they lose their jobs, despite evidence that more adequate spending is associated with better outcomes (OECD 2018,p.152)



Inadequacy of current support

- Low income replacement rates
- Job assistance aimed at low-skilled workers, used only by those who qualify for income support, stigmatised
- Welfare Expert Advisory Group recommended significant improvements (Chap 9):
 - *Increased benefit levels, 6 months benefit regardless of partner's income*
 - *Establish an effective employment service of the Ministry of Social Development so it is better able to assist people to obtain and keep good, sustainable work.*
 - *Revamp active labour market, labour market, employment and training policies across government to make them more coherent and effective.*
 - *Strengthen the Ministry of Social Development's redundancy support policies to better support displaced workers.*

A different approach

Individual support:

- Income replacement like ACC: 80% of previous income, perhaps levy-funded
 - *For up to 12 months, then normal unemployment benefit levels apply*
- Includes recognising *mutual responsibility* of
 - *state to support and*
 - *people who accept the support to act to prepare for and find a suitable job*
- Financial and practical support for acquiring new skills and qualifications: e.g.
 - *Careers advice*
 - *Placement in firms including job subsidies, independent mentoring, and training*
 - *Funding for substantive vocational courses to update or reskill*
 - *Support to find new jobs: “Matching plus” – good jobs, workers with right skills*
 - *Assistance in moving to another region if necessary*
- End stand-downs

Overview

- Better jobs
- Better wages
- Better help through change
- Better economic policies

Government economic policies are important

- Need fiscal and monetary policies that maintain job growth and low levels of joblessness: “full employment”
 - *We should not be satisfied with 4% unemployment, 10% underutilisation*
- Fiscal policies under current Budget Responsibility Rules won't do that

Conclusion

- Need combination of measures to turn around wages so they are not a source of poverty
 - *Industry policy*
 - *Improved industrial relations laws*
 - *Better support through change*
 - *Fiscal and monetary objectives including full employment*

Thank you

Bill Rosenberg (billr@nzctu.org.nz)