

CHiLD POVERTY ACTION GROUP

Comment on economic data going into the election

November, 2011

INTRODUCTION

There have been significant data releases from Statistics New Zealand in the last week. The accompanying media releases have painted an upbeat picture of the state of the nation as attention turns from the Rugby World Cup to the election. Thus the headline for the release of the [General Social Survey](#) said: "Satisfaction running high in New Zealand"; the [Labour Cost Index](#) release was headed "Wage rates grow 2.0 percent", but failed to mention that inflation in the same period had been 4%; and the latest [Household Labour Force Survey](#) media release made the best of a rise in unemployment with a headline stating: "Unemployment rate relatively flat", and informing a sceptical public that an extra 5,000 people were employed in the September quarter.¹

This collectively rosy picture of New Zealand, and the employment prospects and wages and salaries of its workers, provides the background against which the election is taking place and major policy announcements are being made. In particular, the government has announced more welfare reforms aimed at making sole parents seek paid work sooner than is presently required, and in some cases imposing harsher sanctions than currently apply. While the welfare announcement was largely a dog whistle to national's anti-welfare supporters, there is little doubt more reforms will be rolled out after the election so it is worth taking a harder look at whether work-testing sole parents (and other beneficiaries) will really make them 'better off'.

¹ Labour's Phil Twyford has also [questioned](#) Statistics New Zealand's upbeat headlines, with claims of bias being denied by Statistics New Zealand.

SOLE PARENTS: LIVING STANDARDS AND WORK PROSPECTS

According to the 2010 *General Social Survey*, sole parents with children are the poorest family group in New Zealand. 70% have incomes of \$30,000 or less – the highest percentage of any group – while only 4% have incomes over \$70,000 (the lowest of any group). 38% describe themselves as not having enough to get by, more than double the next highest group (17% of those ‘not in a family’). Almost half report living in a house or flat with ‘a major problem’, a much higher proportion than the general population (37%), and sole parents are more likely than any other group to feel ‘unsafe/very unsafe’ walking alone in their neighbourhoods at night. Not surprisingly, one in seven sole parents, a higher proportion than any other group, report their general health status as ‘poor/fair’.

So this economically depressed group, more likely to be suffering poor health than the rest of the population, with an even chance of living in shabby housing in a neighbourhood in which they will feel unsafe walking home from the night shift, will be required to find 15 hours per week work when their eldest child turns 5. When the children are attending school, 15 hours work per week hardly sounds onerous, and many sole parents (usually those with good support networks) manage this. But imagine living in a suburb some distance from family, with poor public transport, few childcare facilities, and the nearest employment hub is only offering jobs for night shift workers. Does Work and Income cut a mother’s benefit for turning down that ‘suitable’ employment at the local massage parlour (and there is mounting anecdotal evidence that this is happening)? While there exists the possibility of overcoming one’s lack of mobility by buying a used car on tick, the repayments are high and stretch long into the future, and then there’s running costs. And how flexible are the employers of part-time workers, really? Suppose the 5 year-old gets sick and needs hospital care? Suddenly that 15 hours is a lot of time and effort.

Sole parents whose eldest child is 14 will be expected to look for full-time paid work. In the language of the government, they will be ‘encouraged’ to do so by being put onto what will be called a Jobseeker Allowance,² which will replace the Unemployment benefit (UB) and Sickness benefit (SB). At present sole parents on either UB or SB are paid the same rate as sole parents on a Domestic Purposes Benefit (DPB). It is not clear at this stage if it is intended for these rates to remain in place, or if parents with children aged 14 and over will be moved onto the lower single person’s benefit rate. If so, this would equate to a benefit cut of over \$80 per week.

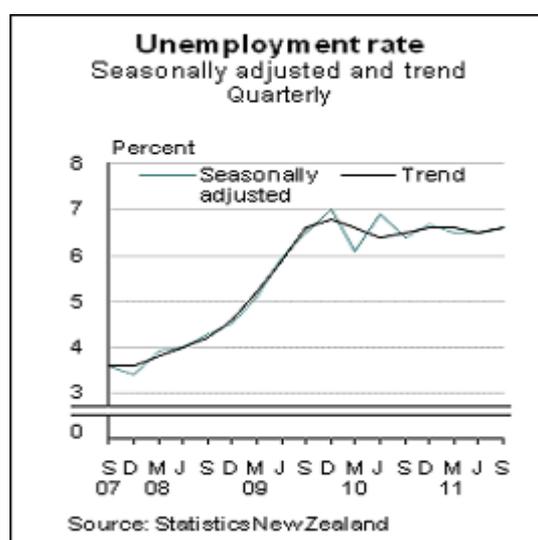
Many sole parents with older children already work full time, but evidence suggests it can be difficult. There is often a small army of family and neighbours supporting the in-work project and it takes little to disrupt the smooth operation of the household. In an [interview](#) with Radio New Zealand’s Mary Wilson, it was suggested to the Minister

² Those presently on Widows benefits and Women Alone will also be put onto a Jobseekers Allowance.

of Social Development, Paula Bennett, that 14 year olds required even more supervision than younger children, to which the Minister replied that it was legal to leave 14 year olds home alone! This bald statement of fact completely failed to address the issue (and, as [Gordon Campbell](#) and the [Ministry of Social Development](#) point out, this leaves the problem of latchkey kids). But is legality the only yardstick by which we should be measuring social policy? It was, for example, once perfectly legal to beat one's wife: the question for the courts was whether one's choice of beating implement was reasonable. Arguing that something is appropriate because it is legal shows a profound lack of ethics or understanding (or both) on the Minister's part.

UNEMPLOYMENT AND JOBS

Still, it's possible for a sole parent to get say three hours work per day, or full time work if required, at the local bakery. Isn't it? According to the latest *Household Labour Force Survey* [media release](#) from Statistics New Zealand, 5,000 people found jobs in the quarter ending September 2011. However the total number of people unemployed increased by 3,000, bringing the unemployment rate up slightly to 6.6%, up 0.2% from one year ago. Despite being promised in the 2010 budget that the government's economic policies would create 170,000 jobs, the trend unemployment rate shows no sign of abating (see graph).



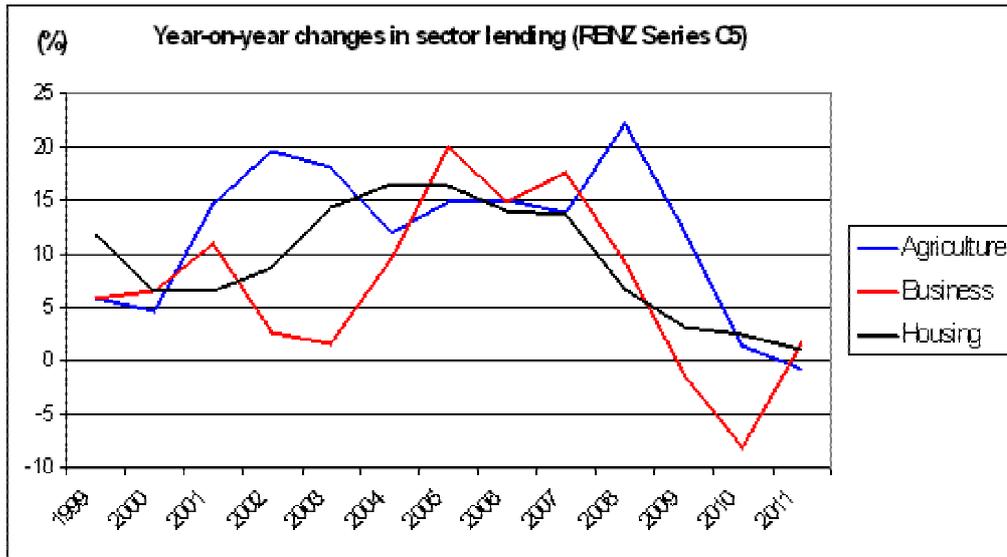
For thousands of women on a DPB expecting to find that perfect, flexible job, the prospects are not good. While overall unemployment increased by 3,000, female unemployment increased by 4,000 (male unemployment fell by 1,000). The big losses were in education and training, and retail trade and accommodation, reflecting sluggish consumer spending and tourism. Both sectors are popular with women because they offer flexibility and mostly hours that fit in well with school hours. While the total hours worked increased in the last two quarters, this seems to be largely the result of employers moving part-time workers into full time work, reversing a trend which saw staff retained at reduced hours through 2009/10, rather than the creation of new, beneficiary-friendly, jobs.

So what about the 170,000 new jobs that are going to be created between 2011 and 2014, according to the 2011 budget? That's 57,000 jobs per year, or somewhat over 14,000 per quarter. We would reasonably expect this to show in the number of filled jobs recorded by employers – if jobs were being created the number of filled positions would increase. So how is this job growth looking?

According to Statistics New Zealand, the number of full time positions peaked in the March quarter of 2008, at 1,121,100. Since then the number of positions has fallen, consistent with the increase in unemployment, and is now standing at 1,094,100, 27,000 less than the 2008 peak. In the last quarter the number of full time positions increased by just 1,300, well short of the 14,000 required to achieve the government's target. So it is probably fair to say that those sole parents who will be looking for jobs offering 30 hours per week or more will find the competition pretty tough, although the September 2011 *Household Labour Force Survey* records that approximately 6,000 15-24 year olds have dropped out of the labour force so that may make finding work a little easier.

It is possible that the jobs shortfall is being filled by the creation of part-time work; however the data suggests this is not the case. While the government now [requires](#) some people on the SB and DPB to work 15 hours per week,³ since early 2010 the number of filled part-time jobs has remained stubbornly at about 468,000 – and in fact has fallen from 471,000 since June 2010, about the same time National [first promised](#) its economic management would create 170,000 jobs. Still, a variation of 3,000 part-time jobs is not going to make difference when there are thousands of beneficiaries competing for the few new jobs being created. The bright spot in this is that year on year changes in bank lending to business has crept back into positive territory for the first time since 2008, although total loans to business remain only slightly above 2007 levels.

³ This stands in direct contradiction to the Minister of Social Development's [claim](#) that "Most beneficiaries are not expected to be available for work, or to take up work if it is offered to them."



In short, there is nothing about the state of the labour market to suggest that changes to social assistance will improve the lives of those on a benefit, notwithstanding claims that work is the way out of poverty. Rather, although the government [claimed](#) its policies were aimed at closing New Zealand's income gap with Australia (although that policy appeared to be [formally abandoned](#) in early 2011), the [widening gap](#) suggests that increasing the pool of cheap, desperate labour is in reality a strategy to reduce labour costs for employers. Which brings us to the latest *Labour Cost Index*.

WAGES

In the year to September overall labour costs increased 2%. In the same period overall inflation was 4.6%. So employers were getting a bargain from their workers. But not everyone received a 2% pay increase. Managers', professionals' and tradespeople's ordinary time wages increased 1.8, 1.9 and 1.7% respectively. These are not likely to be the jobs that will be offered to beneficiaries with health problems and dependent children. Those jobs, in sales and clerical work, received wage increases of just 1.5% in the same period. Work in retail trade and accommodation also paid just 1.5% more at the end of September than a year earlier.

While median incomes overall rose 2%, for women the increase was a more modest 1%. Not only are women paid less on average, the rate of increase of their wages and salaries is much lower. With a median hourly income for part-time female workers being just \$16 per hour (bear in mind that the median means half earn less than this), a sole parent working 15 hours would receive just \$135 of her gross wages of \$240 after taxes and loss of benefit, hardly enough to cover transport and childcare costs. If a sole parent can work 20 hours and she comes off a benefit, her income is substantially bolstered by Working for Families tax credits, which effectively subsidise her low wages.

For sickness beneficiaries, their returns from work are even less as they lose their benefit at a rate of 70c in the dollar from earned income over \$80. Indeed, with little or no job creation occurring in the economy, and some beneficiaries facing effective

marginal tax rates approaching 90 cents in the dollar, it is difficult to see what purpose the government has in mind for its welfare reforms to achieve other than increasing the pool of low-skilled labour. This hardly seems the stuff of an innovative, knowledge economy.

SO, WHERE DOES THIS LEAVE THE RELENTLESS FOCUS ON WORK?

In essence, Statistics New Zealand's *General Social Survey* shows sole parents are still the worst-off social group, with the lowest incomes, the worst health and the least social support. This group, as well as sickness beneficiaries, has been targeted by the government's welfare reforms, ostensibly because work is the way out of poverty. However, job growth is sluggish, and well short of the 170,000 jobs the government claimed (in both the 2010 and 2011 budgets) would be created. Those jobs will be required just to absorb those currently unemployed, let alone a new cohort of harassed sole parents, school leavers and university graduates. Work will not be the way out of poverty as wages for unskilled occupations are low, and increase well below the rate of inflation. Incomes for sole parents improve dramatically if they can work 20 hours, but this then involves costs to the government (and the tax payer) of tax credits. Those who benefit most are employers, as the available pool of cheap, unskilled labour increases, and enables them to keep wage increases below the rate of inflation, as is happening at the moment.

National sold its economic plan as one that would produce a skilled, innovative economy. So far it looks more like one designed to produce an unskilled, low wage workforce, with the child poverty that inevitably seems to be a corollary of such backward policies.