NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

July 2019

Fact check – Fair Pay Agreements and the 'New Zealand Initiative'

This sheet briefly examines claims made by the 'New Zealand Initiative', a right-wing think-tank formed by the Business Roundtable, in their report *Work in Progress: Why Fair Pay Agreements would be bad for labour*. This report was released in early July 2019 to attempt to discredit the findings and recommendations of the tripartite Fair Pay Agreement Working Group, comprised of business, union and Government representatives. Unfortunately, the core points of the NZI report are based on inaccurate data outdated thinking about macro-economics.

Fact check #1

Claim from the NZI - *First, it is claimed current labour market settings have seen a decline in the share of New Zealand's gross domestic product (or "share of the pie") going to workers. This concern is a myth. The share of GDP going to workers* did *decline in the late 20th century, but this fall largely occurred in the 1970s and 1980s (at a time when New Zealand had a system of industrial awards similar to the FPA arrangements proposed by the FPAWG). Since the 1991 reforms, the decline in employees' share of GDP has been arrested and is now trending upwards*

Data shows - There was a large fall of labour's share of income between 1981 and 1985 and after a brief recovery until 1988, it continued to fall until 2002. It rose until 2009 and has been falling again since then. It is now below where it was in 1991 and well below 1981. Each percentage point fall in labour's share represents approximately $1,000 less on average per wage or salary earner in their annual pay.

Fact check #2

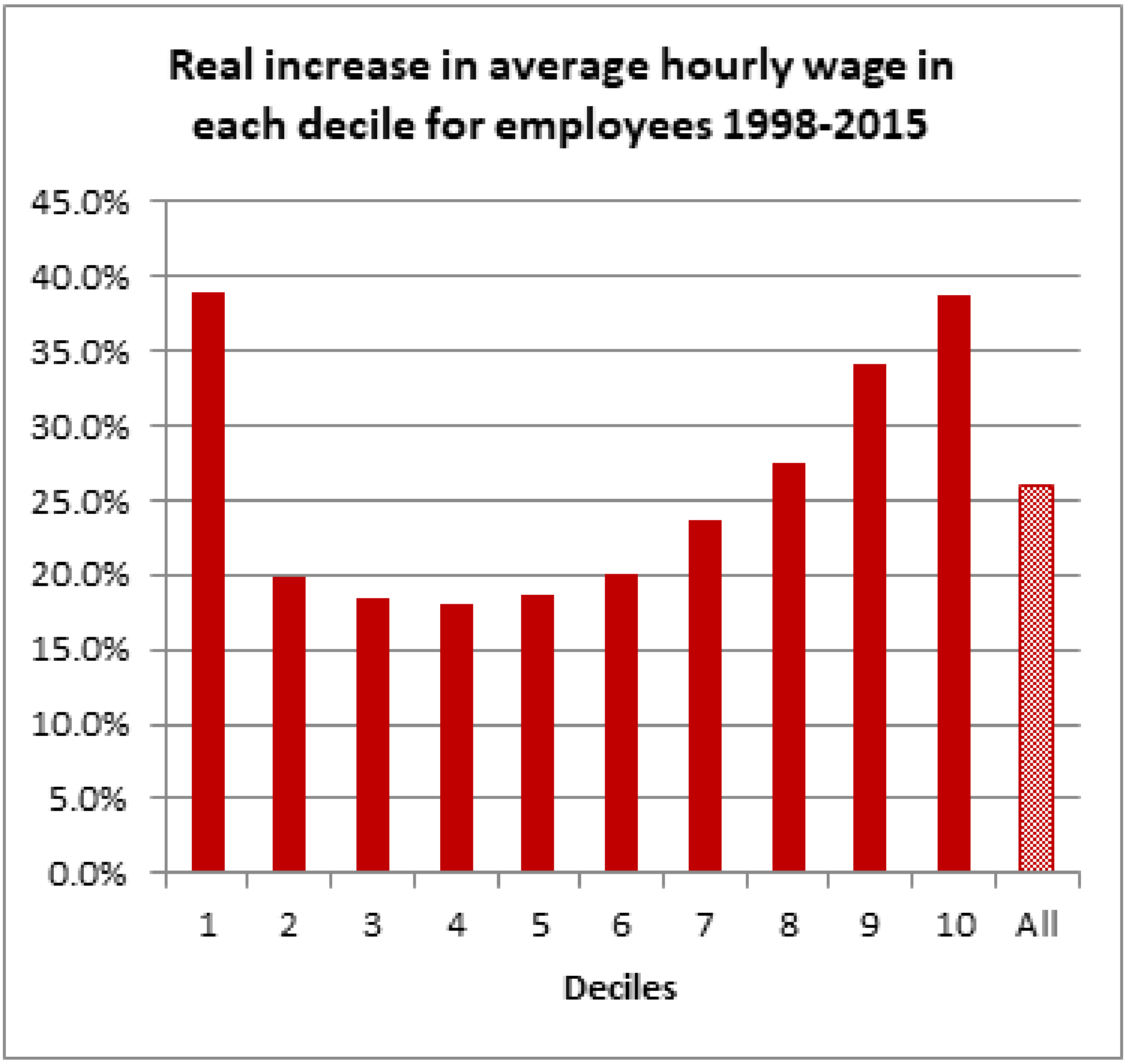
Claim from the NZI - *The second concern relates to an alleged rise in income inequality and a "hollowing out" of middle-income wages since the 1991 reforms. This concern is also misconceived. Though income inequality has been rising* in many other countries *since the early 1990s, income inequality before taxes and transfers has actually* declined *in New Zealand since the 1990s.*

Data shows - The hollowing out of wages found by the Fair Pay Agreement Working Group was based on data from Statistics New Zealand for the period 1998-2015. It shows that employees paid below the average wage received either low wages, or experienced low wage growth, or both.

The Minimum Wage maintained wage rate increases for the lowest paid ten percent (decile) of wage and salary earners but the next half (50%) of employees ranked by hourly wage all received average increases in real terms (after adjusting for cost of living) between 1998 and 2015 - at half the rate of the Minimum Wage and the top tenth of wage and salary earners.

The higher the hourly earnings for the top 40 percent of employees, the higher their rate of wage and salary increase over that period. That shows that inequality among wage and salary earners has risen over that period.

Many people on low wages compensated by working longer hours. The claim of falling income inequality before taxes and transfers appears to be based on data that includes other forms of income than wages, and is unable to take into account people working longer hours and multiple jobs to compensate for poor wage rates.



Fact check #3

Claim from the NZI - *The third concern postulates that the current regime sees "good" employers being disadvantaged by "bad" employers by undercutting them in a "race-to-the-bottom". This concern is also a myth. The data shows that average wage rates have risen faster than inflation across* all *income deciles. Workers' wages are simply not being bid down by employers on an ever-decreasing basis.*

In fact - Rising as fast as inflation is a poor measure of good wage growth: it means wages just keeping up with costs, and there is no increase in working people's standard of living. Real wages have not kept up with (the weak) labour productivity growth New Zealand has experienced. In other words they have not fairly shared in the growth of income in the economy.

A 'good' wage is one that New Zealanders can live on decently. Far too many workers in industries that should be thriving like security, cleaning and retail are living on poverty wages below a living wage. It's obvious for most New Zealanders that too many people are struggling to afford the basic costs of living.

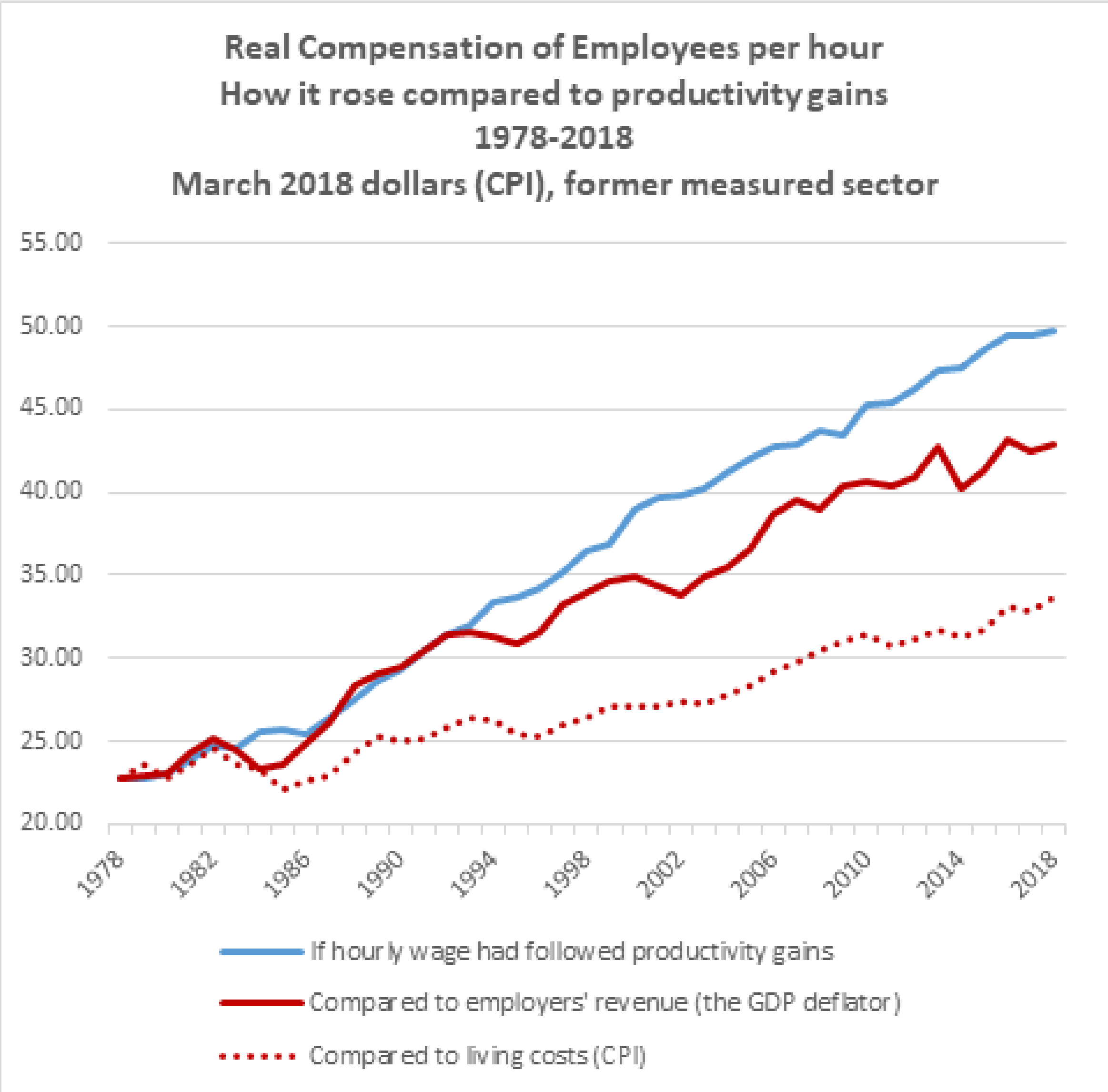
There is so much more to 'good' employment than wages, too. Fair Pay Agreements can address training and qualifications, career pathways, minimum hours, and protect working people's health and safety too – moving away from a narrow focus on wages.

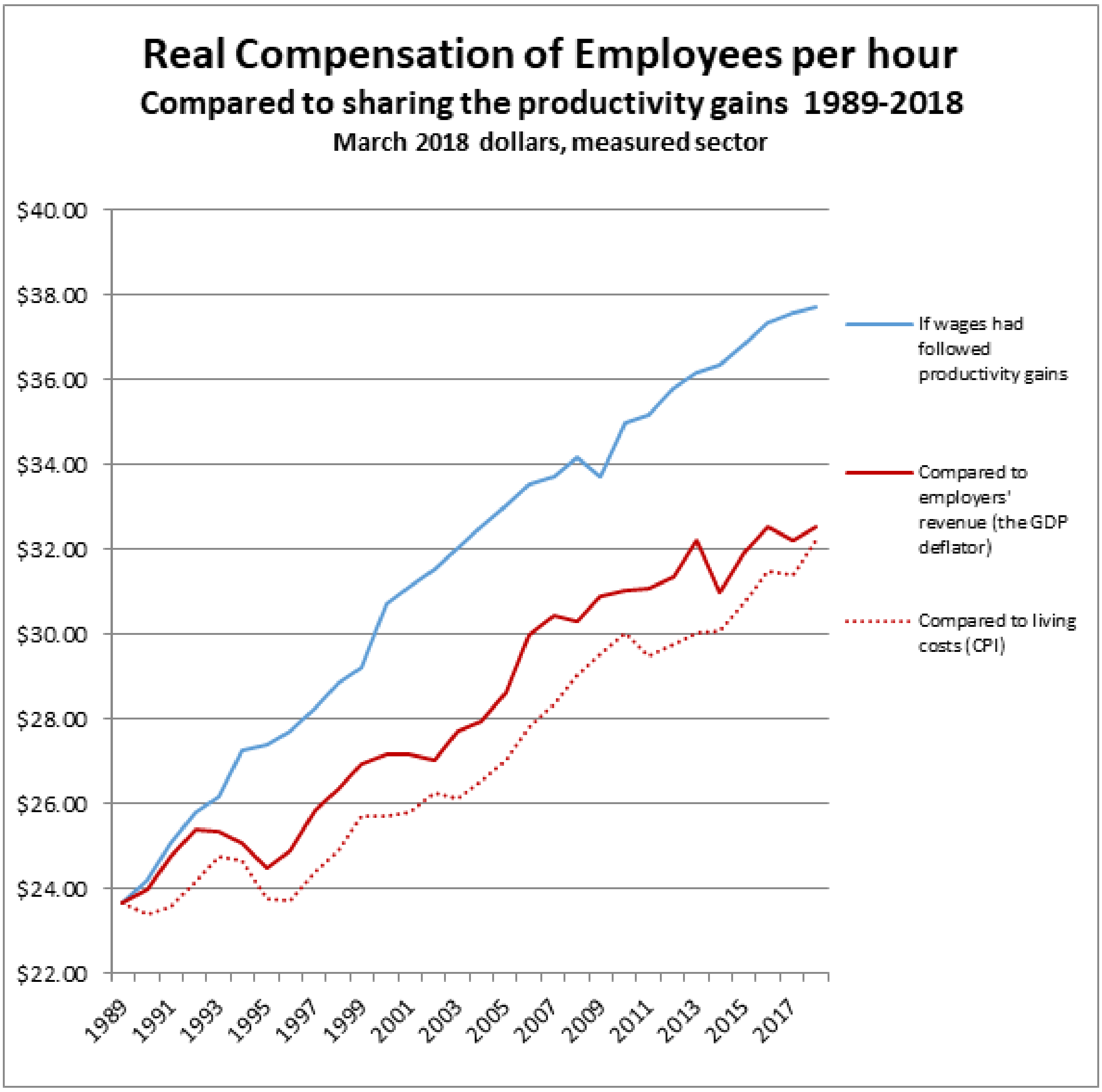
Fact check #4

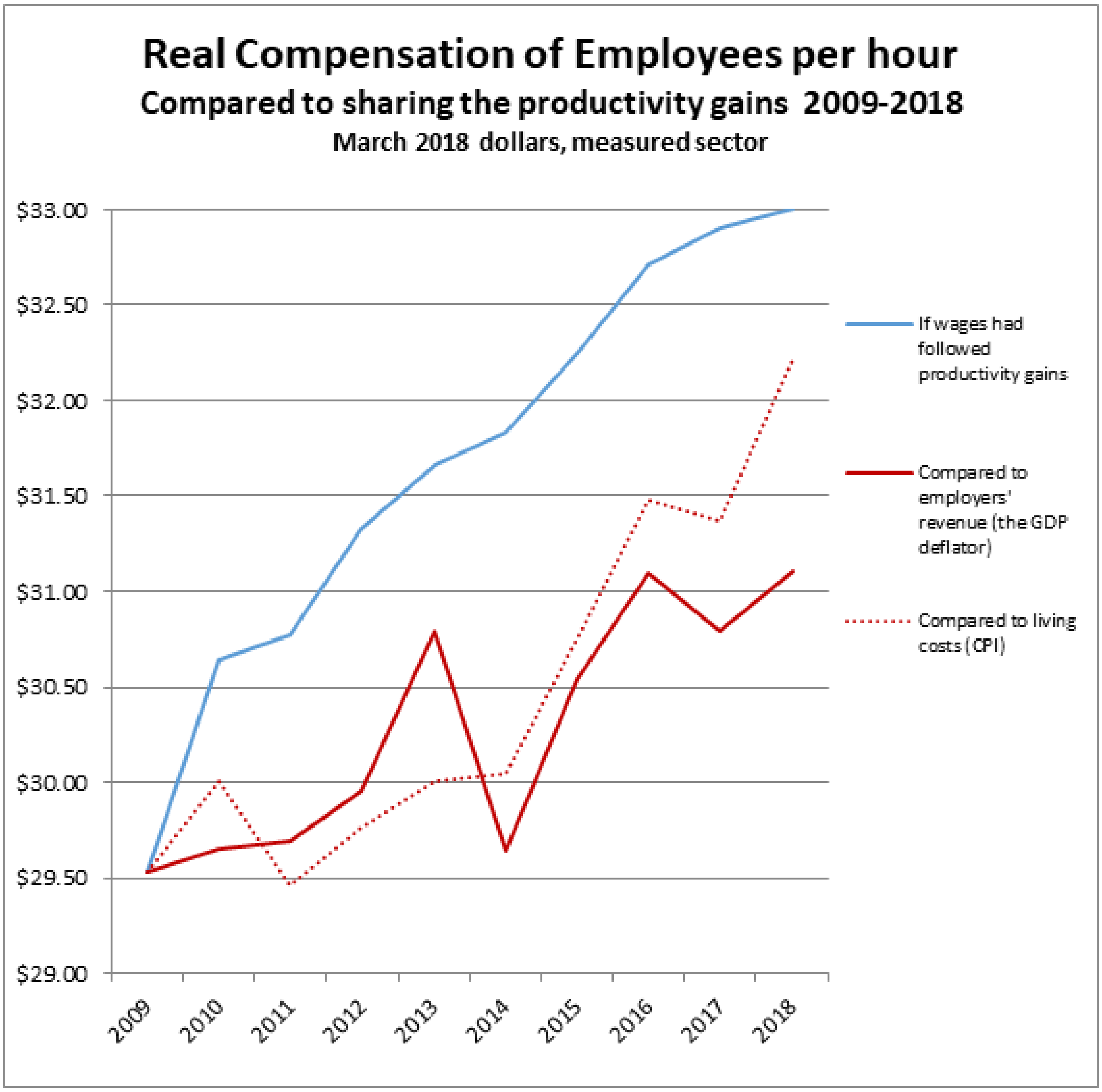
Claim from the NZI - *The final concern relates to New Zealand's comparatively poor productivity growth rates. It is true that New Zealand has a productivity growth problem. However, this problem spans the last 50 years. There is no evidence linking low productivity growth over the last decade or two with our current labour market settings.*

Data shows - The economic and employment policy changes of the 1980s and 1990s still advocated by the New Zealand Initiative led to weak productivity growth, continuing to fall behind the rest of the OECD. Real wages have not even kept up with that growth, and the gap widened after 2009. The changes failed to raise New Zealand's economic performance but brought about a massive transfer of income from low income to high income people, increasing inequality.

It's unfortunate that the thinking of some employers and business groups is still stuck in the 90's – a failed radical experiment in free markets that led to redundancies and conflicts between working people and the owners of capital. Fair Pay Agreements open the door for industry-wide conversations about how we can all do better with our time and our investment, together.




Real Compensation of Employees per hour
Compared to sharing the productivity gains 1989-2018
March 2018 dollars, measured sector
$40.00
$38.00
$36.00
$34.00
$32.00
$30.00
$28.00
$26.00
$24.00
$22.00
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
If wages had followed productivity gains
Compared to employers' revenue (the GDP deflator)
Compared to living costs (CPI)



Real Compensation of Employees per hour
Compared to sharing the productivity gains 2009-2018
March 2018 dollars, measured sector
$33.00
$32.50
$32.00
$31.50
$31.00
$30.50
$30.00
$29.50
$29.00
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
If wages had followed productivity gains
Compared to employers' revenue (the GDP deflator)
Compared to living costs (CPI)