NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission of the

New Zealand Council of Trade Unions

Te Kauae Kaimahi

to the

Children's Commissioner's Experts Advisory Group

on

Solutions to Child Poverty

P O Box 6645

Wellington

12 October 2012

Contents

1. Introduction

1.1. This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 350,000 members, the CTU is the largest democratic organisation in New Zealand.

1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU), which represents approximately 60,000 Māori workers.

1.3. The CTU commends the Children's Commissioner and the Expert Advisory Group (EAG) for this consultation paper, and welcomes the opportunity to respond and present CTU policy and recommendations to eliminate child poverty.

1.4. The CTU's response to the EAG's consultation paper is in two parts: a general commentary on the paper's approach and the issues raised; and specific answers to the questions listed at the end of the paper. Inevitably there is some overlap between the two parts of our response

2. Consultation paper – overall response

2.1. The CTU welcomes the Children's Commissioner's decision to focus on child poverty, having long argued that our rates of child poverty are a national disgrace. Child poverty is directly responsible for many of the difficulties that people experience later in life, and tackling it is the fairest, most effective and cheapest way of remedying those problems.

2.2. The CTU believes that all children should have the essentials of life: they need to be growing up in families that have enough money to feed them properly, keep them warm, and house them in healthy homes; they also need access to good education, healthcare and other public services. Only if this is achieved will all children have the opportunity to reach their potential. The CTU is committed to that goal and sees its achievement as one of our most fundamental obligations.

2.3. One of the best ways to tackle child poverty is to find good work in high-quality jobs for parents currently living in poverty. The CTU has a number of core values that it believes should govern people's working lives. Those values include fairness, promoting participation, security, decent jobs, and standing together. Those values stress the role of work in making people feel valued; in reducing inequalities; in giving workers a greater say over how their companies and industries are run; in giving people a fair share of the value created by their work; in building solidarity; and in providing people with security. The CTU has accordingly evaluated the EAG's report in the light of those values.

2.4. In general, the EAG is to be commended for its wide-ranging approach to reducing child poverty, and for acknowledging that co-ordinated action is needed across a large number of areas if we are to properly confront such a complex issue. The CTU also welcomes many of the individual initiatives outlined in the EAG's paper.

2.5. The CTU is broadly supportive of the paper's desire to see greater investment in children and their families, in particular through increased child benefit payments. It supports the principle of universalism, on the basis of the OECD evidence for its greater effectiveness and for the social benefits – a shared sense of benefit, and reduced stigma for recipients – that it brings.

2.6. More specifically, the CTU supports the concept of progressive universalism to provide greater support, where appropriate, for those who need it most.

2.7. The CTU also welcomes the paper's emphasis on the potential for better-resourced public services to address child poverty. In particular, the call for renewed investment in state housing is a useful and timely recommendation, and would greatly support other initiatives in a joined-up approach to tackling child poverty.

2.8. However, the paper's wide-ranging approach has failed to fully take into account the wider context in which child poverty sits. The paper's introduction (p1) does acknowledge that child poverty has become a significantly greater problem since the late 1980s. But it does not tease out the factors underlying that increase.

2.9. We go into more detail on important historical issues below, but it is worth briefly noting that the increase in child poverty has gone hand in hand with a sharp increase in inequality since the late 1980s – the greatest in the OECD, on some measures. The reasons behind this increased inequality are partly to do with international trends, including the greater openness of the world economy, the consequent outsourcing of many decently paid semi-skilled jobs and the greater opportunities for investors to earn larger returns.

2.10. However, they are also the result of specific policies implemented in New Zealand, including the precipitous opening of the economy without measures to replace the closed industries with high value production and address the inevitable social effects, a sharp reduction in taxes on the wealthy, severe benefit cuts, and particularly the large reduction in the bargaining power of workers through the 1991 Employment Contracts Act.

2.11. A fuller consideration of these causal factors might have helped the EAG avoid some of the surprising oversights in its paper.

2.12. While the paper focusses on lifting incomes at the bottom, it has nothing to say about constraining unjustified incomes at the top. This is not, as some might argue, irrelevant to child poverty, which is after all in part a relative issue. While lifting incomes at the bottom is of course the most important aspect of tackling inequality, the fact remains that there is plentiful evidence[1] of the damage caused – through

[1] See, for example, Wilkinson, Richard, and Pickett, Kate, *The Spirit Level*, London, 2010

the mechanism of psycho-social stress – by the existence of great wealth. High levels of accumulated wealth also entrench privilege and access to various goods, including education and political power, thus limiting opportunities and worsening outcomes for those at the bottom. Increased inequality is also strongly linked with worse social mobility, despite it being something the EAG is eager to foster.

2.13. The CTU also has strong reservations about the paper's endorsement of work-testing parents on benefits. We welcome the paper's insistence that this must be "appropriate" and "conditional on the needs of [their] children being properly catered for". However, we feel the paper fails to fully acknowledge the dangers posed by work-testing as it is currently understood. We make these points in greater detail in the second section.

2.14. The CTU is also concerned about the failure to address the damage caused by the Government's under-funding of core public services. It is difficult to see, for example, how the health service will fund an ever-increasing array of services, many of them free – as the paper recommends – when it has received real-terms funding cuts totalling approximately $400 million in the last two Budgets. This point is amply made by recent news that the pioneering Wellington Newtown Union Health Service which is particularly aimed at low income households, is closing maternity services after a $270,000 budget cut. This is far from the expanded maternity services that the paper advocates.

2.15. An even greater oversight is the lack of attention to workers' pay and conditions. The EAG looks extensively at getting more low-income and beneficiary parents into work, as if simply finding someone a job largely solves the problems of poverty. It is almost completely silent on the question of what kind of jobs people fill and the conditions in which they work, and, perhaps more importantly, on the pay that attaches to those jobs.

2.16. These points are vital to any discussion of child poverty. The report's failure to consider them adequately is therefore a major shortcoming.

2.17. We turn now to addressing the paper's specific questions.

3. Which proposals are likely to be effective in reducing child poverty?

Child Payment:

3.1. The EAG's recommendations for a universal Child Payment are to be greatly welcomed, as are its recommendations for increased support for younger and additional children. Many children in poverty come from larger families, and it is vital to address this.

The benefits system:

3.2. The CTU also supports a wider review of the benefits system, which has evolved in largely piecemeal fashion over the past 40 years. Although the benefits system remains an absolutely vital means of keeping individuals from destitution, and

supplements the clearly inadequate wages paid by many firms, it also has serious shortcomings, particularly in terms of the low levels of income it provides and the marginal tax rates faced by many recipients.

3.3. A review of the benefits system would also allow the adequacy of benefits to be assessed. Benefits have been inadequate to provide a reasonable standard of living and participation in society ever since – and arguably before – the 1991 benefit cuts. They need to be restored to a level that would eliminate poverty and then be tied to a proportion of the average wage.

3.4. In particular, the EAG's paper is right to note that the Income Tax (Universalisation of In-work Tax Credit) Amendment Bill provides an opportunity to "debate" the IWTC, but the CTU would like it to go further and support the bill, which is a useful vehicle to address poverty amongst the children of beneficiaries.

Early childhood education:

3.5. The CTU supports the report's focus on "high-quality" early childhood education (ECE), but this needs to be supplemented by ensuring ECE is also affordable. Despite the provision of, in theory, 20 hours of free ECE, many parents face significant costs in enrolling their children in ECE for the periods of time it is needed. In particular, equity funding mechanisms are needed for hard-to-reach groups and disadvantaged communities.

3.6. In addition, high-quality ECE requires qualified teachers, and the EAG report should be advocating a return to funding 100 percent qualified teachers in all ECE centres.

3.7. The EAG's advocacy of further out of school care and recreation (OSCAR) is also welcome, as long as such services are affordable to parents.

Target-setting:

3.8. The EAG is right to focus on measurement and target-setting. Progress on child poverty will be extremely difficult without, firstly, an agreed suite of measures, and secondly, a regular system for measuring and reporting on child poverty. The EAG's proposed targets are demanding but achievable.

3.9. We note increasing reports of children working not just for pocket money but to provide a necessary addition to household income. This heightens our concerns that New Zealand is one of the few developed countries that have not ratified the International Labour Organisation (ILO) Minimum Age of Employment Convention 138, one of the eight fundamental labour conventions. Therefore, a process to ratify ILO Convention 138, and thereby remove the reservations that New Zealand has under the United Nations Convention on the Rights of Children (UNCROC), should be part of any plan to improve the welfare of children. The standards contained in these conventions should be used as benchmarks for measuring progress in this area.

Employment:

3.10. The CTU supports measures to make workplaces more family-friendly, although it notes that this will likely require further legislation as employers are unlikely to take decisive action in this area if left to their own devices.

3.11. The CTU wholeheartedly endorses the notion that work must pay parents "enough to encourage them to take up paid employment" (p14), but notes that, firstly, current pay levels often do not meet that criterion, and secondly, as covered below, that aim is inconsistent with the EAG's unjustified dismissal of Minimum Wages increases and its otherwise total silence on pay rates.

3.12. Similarly, the call for a "high-wage" economy is welcomed but, as noted below, is unlikely to be achieved under the EAG's current approach.

3.13. The CTU also welcomes the desire for "better labour market matching", but notes the absence of details as to how this will be achieved.

Public services:

3.14. The CTU is generally supportive of proposals to use public services to improve the lives of our most vulnerable children. Expanding free health services for children up to 18 years of age is an especially important initiative, as long as their quality is maintained. We also welcome proposals for food to be provided in low-decile schools.

3.15. The EAG's paper also correctly identifies the school-work transition as an area needing attention. More effort – and investment – is needed to ensure that vocational qualifications are well-resourced, well-regarded vis a vis academic qualifications, and the appropriate pathways through school are made clear to those who wish to pursue them. Greater investment is also needed in areas such as apprenticeships to provide clear and logical transitions.

3.16. However, we have grave concerns about the ability of the public service to deliver expanded services in an era of budget cuts and job instability.

Community:

3.17. The CTU supports the call for greater effort to strengthen communities, and we suggest two crucial actions to achieve this: reducing income disparities that concentrate deprivation in certain areas, and requiring developers to create mixed communities.

Housing:

3.18. The CTU welcomes the paper's call for more and better quality social housing, although it believes there should be an explicit target for an increase in the

available stock. The drive for more social housing could also be enhanced by measures such as encouraging "inclusionary zoning" that requires developers to make provision for affordable housing in developments.

Maori and Pasifika:

3.19. The CTU applauds the paper's focus on helping children in Maori and Pasifika families. As the paper notes, unemployment among young Maori is over 30 percent, and in general Maori and Pasifika have much higher rates of unemployment than the general population. Improving workforce participation among these groups is therefore a key objective.

3.20. In particular we support moves to improve the education and training of young Maori. But it is not merely a matter of moving more Maori young people into work; in line with our general comments, we believe the areas of work and the pay rates of work also matter. Even when in work, Maori are disproportionately found in the low-skill, low-pay sectors of the economy. Attention must be given to helping young Maori people into high-value sectors and making full use of their talents.

3.21. In general, the CTU also notes and welcomes the determination to move beyond 'deficit' theorising for Maori and Pasifika, and to develop Maori-centred and Pasifika-centred, holistic measures of well-being. However this approach needs to extend beyond measurement. The actual programmes delivered to support these communities need also to be driven and shaped by those communities rather than imposed on them from the outside.

4. Which proposals are less likely to be effective?

4.1. Although there are a number of proposals that the CTU believes would be less effective than those endorsed above, we would like to focus here on an issue of particular interest: work-testing of beneficiaries.

4.2. The EAG's paper refers to "appropriate" work-testing of parents of young children, although it does not spell out what this means, as a possible means of reducing labour supply barriers for parents. This implies that the group believes further policies are needed in this area.

4.3. However, there is no evidence that stronger work-testing of parents is required. Benefit numbers in 2007-08 were below the levels the government is currently targeting. While large numbers of parents are on benefits, that is more a reflection of the current lack of decently paid jobs than any unwillingness to work. The numbers of people on benefits – including the DPB – fell steadily between 2003-08, when there were strong labour market conditions, and there have been well-publicised examples of large numbers of applicants even for poorly-paid jobs, for instance in supermarkets – all of which suggests that readiness to work is not a major issue for most people.

4.4. The CTU also disagrees with any suggestion that work obligations are not clear. Work obligations are already quite clear in policy and in legislation, and people capable of work are already required to seek it by Work and Income NZ.

4.5. In particular, we oppose any attempt to increase the sanctions for those who do not find work. In many cases, work is not a feasible option, either because people have a condition that makes regular work difficult, or because external factors – such as the lack of affordable ECE nearby or the expense of public transport – make it unfeasible.

4.6. Focussing on increasing the employment of single mothers is misplaced and poses huge social risks. Previous Children's Commissioners have raised concerns over the "real risk" to children posed by such measures, and we believe these concerns remain valid.[2] Children will be the ones who suffer if their parents have benefits cut because of some perceived failing, which will often be due to factors out of their control.

4.7. Single mothers in particular face a range of economic penalties as well as social difficulties. They are more likely to find only unpredictable, part-time work, making it hard for them to access the childcare and other support they need in order for work to be feasible. Forcing such women into low-paid, insecure work, given the exigencies they already face as solo parents, seems likely to worsen, not improve, their outcomes and the welfare of their children.

4.8. More broadly, a focus on work-testing overlooks some of the very real problems with work-testing itself. Current work tests are often inadequate, focussing as they do on taking a snapshot of an individual's capacity to work, without understanding their true situation.

4.9. Work-testing also fails to take into account other factors outlined above, such as the external and financial constraints on people's ability to work.

4.10. If more parents are to be placed in work, the focus needs to be on measures that will actually support that process, such as active labour market policies, notably in increased education and training, as well as job creation schemes and a wider refocusing of the economy on returning to full employment. Greater work-testing of parents, and stiffer sanctions, are not the solution.

5. What are the most important proposals to reduce child poverty?

5.1. The CTU's response in the section above should provide some guide to this question. However, we would single out as the likely most effective measures: a universal Child Payment; a review of all benefits to restore their adequacy; defined targets for reducing child poverty and a system for measuring them; a significant increase in state housing; greater vocational training, especially for Maori and Pasifika; free healthcare for under-18s; food provided in low-decile schools; and a

[2] Vance, Andrea, 'Cutting DPB punitive says children's advocate', *Dominion Post*, December 2010 http://www.stuff.co.nz/national/politics/4412911/Cutting-DPB-punitive-says-childrens-advocate

much greater focus on designing solutions around the needs of Maori and Pasifika groups.

5.2. However, that list must be read in the context of the CTU's arguments below, which is that there are other measures at least as important that have been almost entirely omitted from the EAG's paper. It should also be read in conjunction with the CTU's own 10-point plan to reduce child poverty, included here in the Appendix.

6. What needs to be done first and why?

6.1. The CTU does not have a strong view on the sequencing of the proposals in the EAG's paper, with two exceptions. The first is that the targets and measurement for child poverty should logically be introduced early on, so that the effectiveness of other policies can be properly assessed.

6.2. Second, as stated above, the CTU opposes increased work-testing for parents. If, nonetheless, it is to be implemented, that must happen after the full array of support for such schemes – notably cheap, readily available ECE – is put in place. Doing things in the opposite sequence would be highly damaging for the children of parents thus affected.

7. What is missing from the package?

7.1. The CTU's response to the above points has already highlighted some omissions, including the lack of analysis of the dangers posed by work-testing, and the failure to appreciate the strain under which public services are operating. However, we believe there are at least two more serious omissions from the EAG's paper, which we highlight at some length below.

1. Analysis of market wages

7.2. The report's lack of analysis of market wages as an important driver of poverty is a significant gap. Their importance is acknowledged in the phrase, "A crucial part of the solution to child poverty lies in building a vibrant, high-skill, high-wage economy" (p14), but this is barely addressed in the remainder of the report. The report does stress the important of "making work pay" (p14), but then provides no indication of how it might go about this.

7.3. Almost all the following references to the labour market are about providing jobs without any indication as to whether they provide sufficient income. An exception is the abrupt dismissal in four lines of any discussion of an increase in the minimum wage (p.14). We will return to this below.

7.4. This dismissal is followed by a strikingly one-sided two-line mention of employment regulation, with the only consideration being of reducing regulation (thankfully

dismissed). It is worth noting, in contrast, that a recent report by the OECD[3] specifically urged "inclusive" employment practices – including greater protection for temporary workers – as a means of tackling in-work poverty. This indicates New Zealand should be considering greater, not less, regulation of employment.

7.5. Wages are important. Statistics New Zealand's 2011 New Zealand Income Survey indicates that 74 percent of income for households with members in the 18-64 age range is from wages and salaries (before tax but after transfers). It is slightly higher for couples with dependent children but still over 50 percent for single parents with dependent children who are much more likely to have to depend on benefits. Wages therefore have a huge impact on the income available to a household.

7.6. Leaving aside for the moment issues of productivity improvement and the distribution of the gains from them, if wages are inadequate to keep children out of poverty, we have two policy choices. We can change employment regulation to ensure wages are more adequate; or we can subsidise market incomes through transfers such as benefits and tax credits. The report dismisses the first choice. It is therefore choosing to increase the dependency of households on government transfers. This is a valid policy choice for which we have sympathy given the low wages available to New Zealanders. The report's recommendation for a universal child payment is consistent with this approach. However, if that choice is taken, New Zealanders and interest groups such as employers that wish to keep wages low cannot then complain about the growing size of government and the increased taxation required to maintain this system.

7.7. We should be aware, though, that many people will feel uneasy at being the long-term recipients of such a system of distributing income. Many would much prefer the feeling that they are "paying their way" by supporting their families from their earnings from employment. This will be intensified to the extent that the government transfers are increasingly conditional and those conditions are becoming more and more obtrusive into people's private affairs. Unless such payments are structured as a universal right, we can expect that from such a system we will have a permanent outflow of New Zealanders to Australia and elsewhere, seeking not just higher incomes but dignity and independence.

7.8. If the committee is indeed proposing to move further down this path, it should be seriously considering a system of universal or guaranteed basic income that is paid to people by right in recognition of their being residents of New Zealand, rather than highly conditional transfers that create a substantial class of citizens who are treated as second class by constant intrusion into their private affairs. The latter is a charity state rather than a welfare state. It lacks dignity and is not socially sustainable.

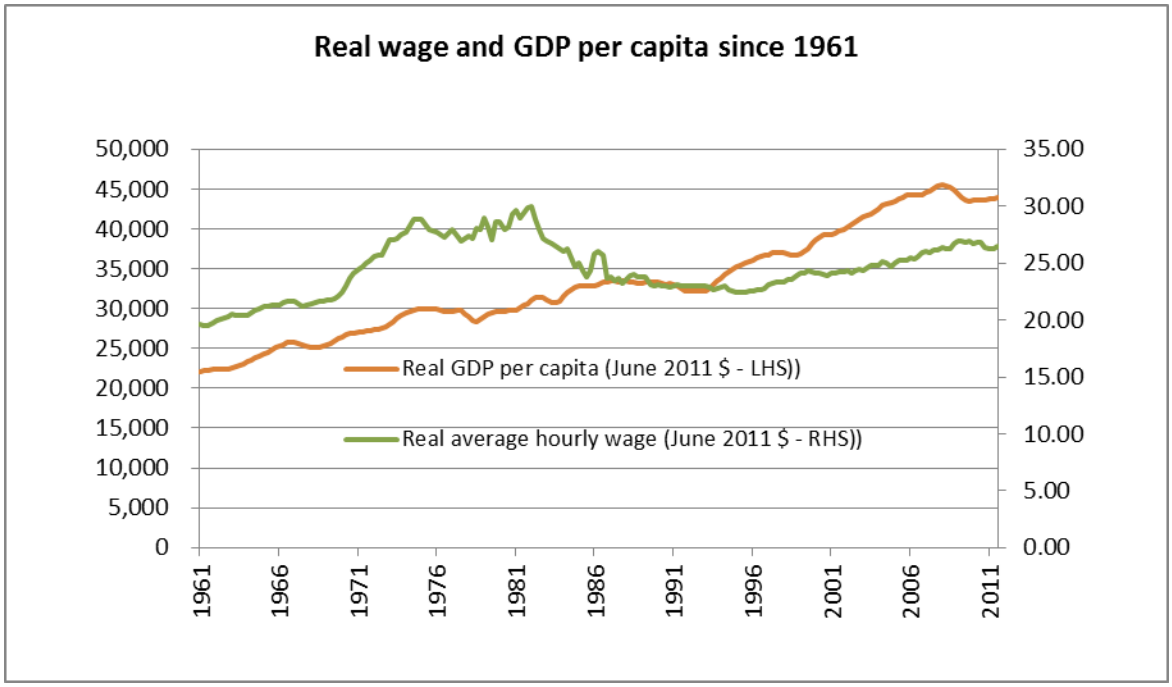
7.9. A response to the above may be that New Zealand has inadequate income to pay all its employees enough to keep them out of poverty; that until we increase productivity, that will remain the case. But that disregards distributional issues. Just

[3] OECD, *Divided We Stand*

as the sharp increases in poverty during the 1980s and 1990s occurred in parallel with sharp increases in income inequality, so may distributional issues determine whether wages are inadequate *relative to the ability of the economy to afford them*.

7.10. Are wages in fact inadequate? That is self-evident in that two in five poor children living in poverty are from households where at least one adult was in full-time employment or was self-employed, according to MSD's 2012 Household Incomes Report[4]. However, to understand why wages are not simply low compared to other developed countries, but low in comparison to the income available, some history is necessary.

7.11. A simple place to start is to look at average hourly wage statistics over the 50 years since 1961 and compare it to per capita growth in the economy. These are graphed below. The real average wage (that is, after consumer price inflation is taken into account) was at its highest in March 1982 when it was $29.97, using June 2011 dollars. In June 2011 it was $26.27. The current level of the average wage is about the same as it was in December 1972. Yet the output of the economy per person (real GDP/capita) in June 2011 was 41 percent higher than it was in March 1982 and 58 percent higher than it was in December 1972[5]. Clearly, wages fell substantially from the early 1980s and have not yet recovered.



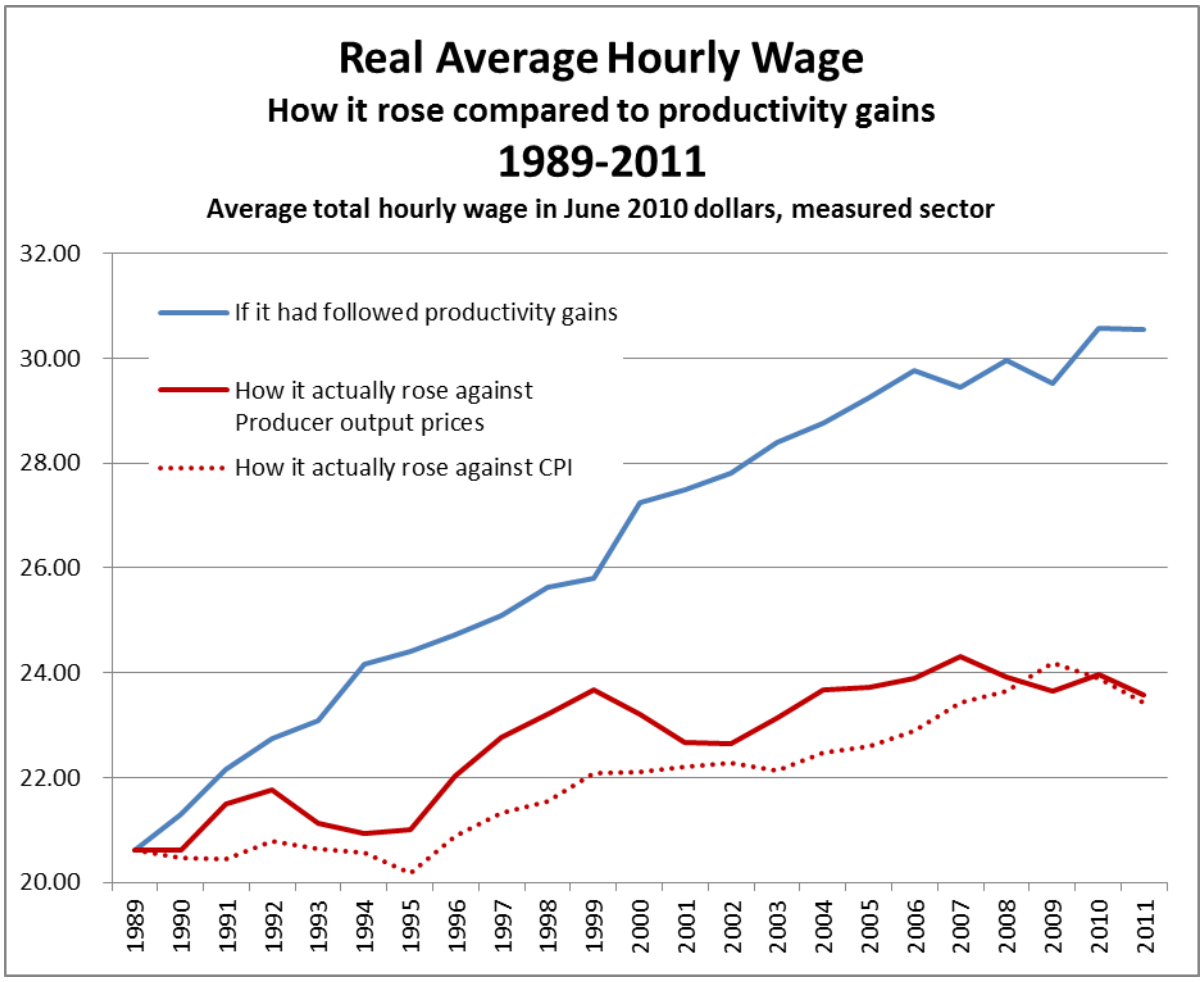
7.12. Per capita GDP is a measure of productivity. A more precise measure is the labour productivity series provided by Statistics New Zealand. Orthodox (neoclassical)

[4] Perry, Bryan. *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2011*. Wellington, New Zealand: Ministry of Social Development, August 2012, p.21. http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html.

[5] "The New Zealand Economy: An Introduction", by Ralph Lattimore and Shamubeel Eaqub, Auckland University Press 2011, long term data series http://sites.google.com/site/eaqubs/.

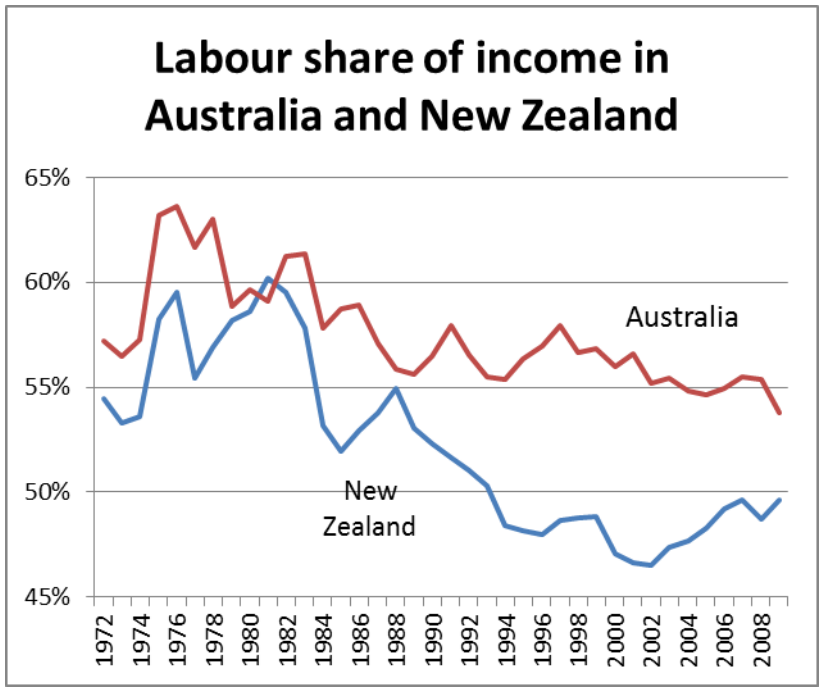
economic theory says that real wages should rise at the same rate as the growth in labour productivity. Treasury bases its economic models on this assumption. It is common in everyday argument and in wage negotiations: "Real wages can only rise if productivity rises." One of the founders of welfare economics, Arthur Pigou, called a situation where wages fell behind productivity "exploitation". Productivity is therefore a useful benchmark for wages.

7.13. Statistics New Zealand's labour productivity measure is calculated for the part of the economy where productivity can be reliably measured (the 'measured sector', which is not very different to the private sector). Labour productivity in this sector rose 48 percent between 1989 and 2011. The real average hourly wage rose just 14 percent. The picture looks very similar if the prices firms received for their products are used to calculate (deflate) the real average wage, or if we use a wider measure of wages including other benefits to employees such as employer contributions to superannuation.



7.14. Another way of looking at this is to examine how income generated by the economy is shared. The share that employees get is called the "labour share". The remainder is mainly interest and dividends going to owners of capital. In New Zealand, the labour share fell from 60 percent in the early 1980s to a low of 46

percent in 2002, having fallen through most of the 1980s and 1990s[6]. In other words, during that period wage and salary earners lost about a quarter of their share of the income the economy generated. It began to rise again but by 2010 was only 51 percent – still well below thirty years earlier. The labour share can fall if production becomes more capital intensive – if employers have invested in plant and machinery to make their firms more productive. In fact it is well recognised that that kind of investment was weak in New Zealand.



7.15. By comparison, Australia's labour share has been higher than New Zealand's for virtually this whole period. Its labour share did fall from 64 percent in 1976, but bottomed out around 56 percent in 1989 and stayed around that level while New Zealand's continued to fall[7]. Yet if anything, Australia's capital intensity is higher than New Zealand's.

7.16. Australia's economy has thrived, with more of its income going to wage and salary earners than in New Zealand. That was almost certainly helped by its award system, which sets scales of rates that underpin the country's wages. Though the award rates are lower than most actual rates, Australian research has shown that around 80 percent of wages are influenced by award increases[8], and 60 percent of wages are set directly by awards and collective agreements compared to 18 percent in New Zealand.

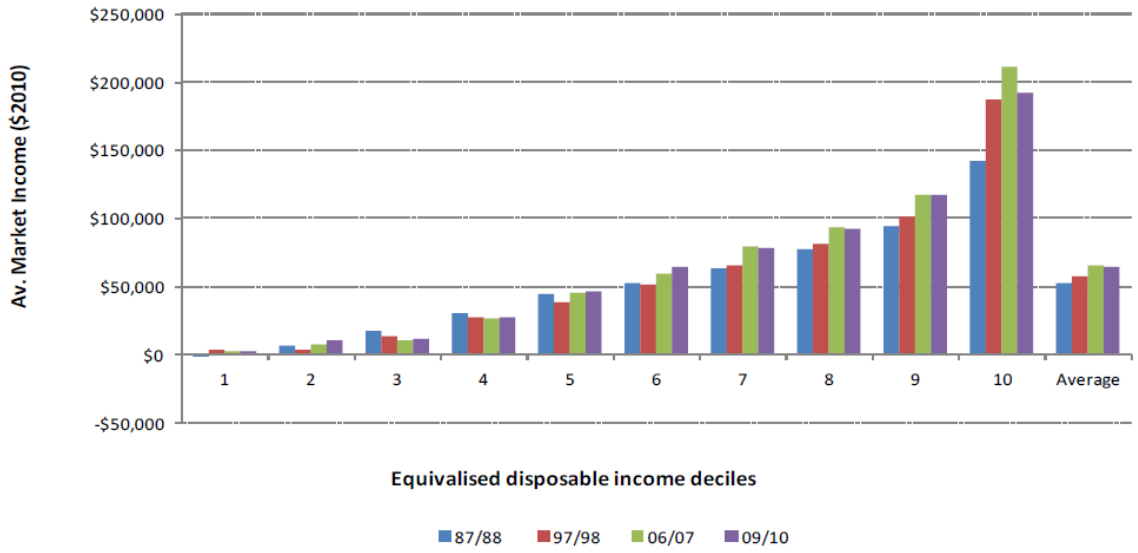
7.17. In fact, New Zealand has one of the lowest labour shares in the OECD according to OECD data. Only Turkey and Mexico have lower[9].

7.18. The result of this has been stagnant household incomes for the lowest income 50 percent of households. The following figure comes from a recent Treasury report[10].

[6] National Accounts, Statistics New Zealand.
[7] Australian data from Australian Bureau of Statistics.
[8] "The significance of minimum wages for the broader wage-setting environment: understanding the role and reach of Australian awards", by John Buchanan and Gillian Considine, in: "2008 Minimum Wage Research Forum Proceedings, Volume 1", October 2008, Australian Fair Pay Commission.
[9] This refers to a slightly different measure of labour share, which includes the labour income of self-employed people (called real unit labour cost).

It shows market income for the ten equivalised household deciles. Recall that market income for working age households is overwhelmingly wages and salaries. Between 1988 and 2010, the market incomes of deciles one to five were static. Given that many families with children will be in the lower deciles, particularly in the children's earliest years, this suggests that very many families, particularly in their earliest and most vulnerable years, are receiving no more income in real terms than a generation ago, despite significant growth of income in the economy, and also despite increased hours worked. Increased hours come from both individuals working longer hours and from increasing numbers of households having both partners working. Even deciles 6 to 8 had relatively modest increases in income. Only decile 9 and – particularly – decile 10 had significant increases in market income. Decile 10 had a reduction in market income between 2007 and 2010, probably due to falling investment income as a result of the global financial crisis, but as MSD's Household Incomes Report 2012 has documented, this reversed in 2011. For 2007, Treasury calculated a Gini coefficient of 0.54 for market income and 0.52 for 2010. These levels of income inequality are exceptionally high by OECD standards.

Figure 2: Average household market income by decile ($2010)



7.19. Many of these matters are investigated in detail by Stillman, Le, Gibson, Hyslop and Mare (2012)[11] in their recent study, "The Relationship between Individual Labour Market Outcomes, Household Income and Expenditure, and Inequality and Poverty in New Zealand from 1983 to 2003". Looking only at households that have at least one member aged 25-59, so excluding most of the households without dependent children (such as student households and the retired), they note that "labour

[10] "Fiscal Incidence in New Zealand: The Distributional Effect of Government Expenditure and Taxation on Household Income, 1988 to 2010", by Omar A. Aziz, Matthew Gibbons, Chris Ball and Emma Gorman, Treasury, June 2012. Available at http://www.nzae.org.nz/wp-content/uploads/2012/07/Aziz_Fiscal-Incidence-NZAE-2012-Conference-Paper.pdf.

[11] "The Relationship between Individual Labour Market Outcomes, Household Income and Expenditure, and Inequality and Poverty in New Zealand from 1983 to 2003", Steven Stillman, Trinh Le, John Gibson, Dean Hyslop, and David C. Maré, Motu Working Paper 12-02, February 2012.

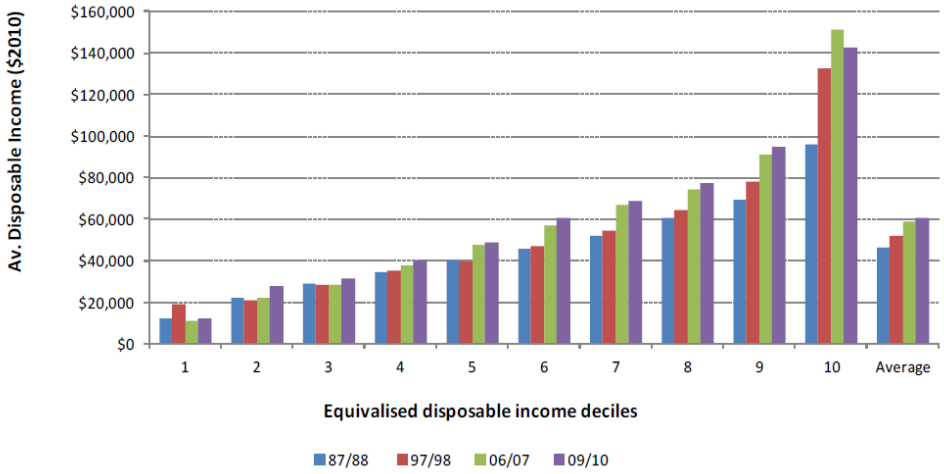
income is by far the largest component of income and made up between 84 percent and 90 percent of regular income during the sample period" (p.10) and conclude (p.29):

> "controlling for changes in household composition, demographics, qualifications, and employment rates does not explain the increase in poverty that occurred in the 1980s. Taken in conjunction with previous work by Gibson and Harris (1996), Dalziel (2002) and Stillman et al. (2011), these results suggest that the structural reforms undertaken in the 1980s led to permanent changes in the distribution of resources across households in New Zealand, in particular a reduction in resources for the poorest households."

7.20. They make the stark observation that "the cohort of individuals born in the 1960s stands out for the fact that, compared to those born in the 1940s and 1950s, mean incomes and expenditure have generally been declining in real terms over their entire lifetimes. This is quite likely related to the fact that this is the cohort which was just getting started in the labour market when New Zealand underwent comprehensive economic reforms." (p.15)

7.21. We have deliberately focussed only on market incomes here. Taxes, transfers (including benefits, allowances and tax credits such as Working for Families) clearly moderate this effect to a degree, but still leave much slower growth in the incomes of lower income households than high income households. The effect of market income is still very apparent in the following figure from the Treasury report.

Figure 6: Average household disposable income by decile ($2010)



7.22. While reforms that made taxes less progressive, and benefits which were cut savagely in the early 1990s and have continued to fall relative to market incomes, both also carry heavy responsibility for poverty in New Zealand, market incomes and the drivers of them (such as structural reforms and changes in employment legislation) are major contributors that cannot be ignored. New Zealand lower-income working age households suffered significantly due to structural and regulatory reforms during the 1980s and 1990s, from which they have barely recovered. According to Perry, only Working for Families and income-related rents

– not market wages – have made a difference, and it is apparent that they have done little more than to stop the rise in income inequality and poverty, not significantly reverse it.

7.23. Under these conditions it is no surprise that we have severe problems of poverty among very many families. Low wages and salaries play a significant part in causing those problems.

7.24. The report summarily dismisses an increase in the minimum wage as a useful contributor to poverty reduction. We acknowledge that the minimum wage is a blunt instrument in increasing wages for families dependent on them. It is also true that New Zealand's minimum wage is high relative to that of other countries. But it is the only regulatory means that the government has left to influence wages and salaries. It also an effective one, in that it improves wages without damaging employment. There is now a voluminous literature on the minimum wage, to which we can refer the Commission. (It is summarised in our submission on the 2011 Minimum Wage Review, for example, and is currently being updated.) This literature makes clear that modest increases in the minimum wage have little if any effect, positive or negative, on unemployment rates.

7.25. We also acknowledge that income supplements such as Working for Families greatly moderate the effect of market wages at the level of the minimum wage so that an increase in the Minimum Wage would have only a small effect on household income for those on it or near to it and thus affected by an increase in its level. But it would have a positive effect nonetheless. In addition, if the abatement of Working for Families credits would tend to nullify the effect of an otherwise worthwhile action, the logical step is surely to reduce the abatement rate – or the point at which it cuts in – so as to allow Minimum Wage increases to have the desired effect of making work pay.

7.26. In this situation, an increased Minimum Wage would have a valuable role to play in alleviating poverty. Even where it did not lift families over the 60 percent median threshold, it would lift them substantially closer to it, thus reducing the depth of poverty – itself an important aim, as the EAG's working paper on poverty measurement makes clear.

7.27. The EAG's Working Paper no 3 claims that the Minimum Wage is already sufficient to keep families out of poverty. However, the research on which it relies shows that sole parents working full-time on the Minimum Wage earn 61.4 percent of median income – only just over the threshold, and therefore a) only marginally out of poverty, and b) highly susceptible to falling back under the poverty line depending on shifts in median income and Minimum Wage relativity.

7.28. Furthermore, one-earner couples on the Minimum Wage earn just 50.3 percent of median income, and thus remain clearly in poverty. In addition, both measures assume full-time work, something many Minimum Wage workers are unable to achieve. Therefore, the EAG's evidence does not in fact back up its claim that the Minimum Wage is, in general, sufficient to keep families out of poverty.

7.29. In any case, a more effective intervention would be to review the weak pay-setting mechanisms in New Zealand in order to strengthen them to return some equity to market incomes from wages and salaries. Such improvements should be accompanied by active labour market policies and, though beyond the scope of this inquiry, programmes to develop high-productivity workplaces with active employee participation, and industry policies which address the structural problems in the economy. Changes to employment legislation made and proposed by the current government are moving in directly the opposite direction, making it more difficult for employees, and particularly low income employees who are often in precarious employment situations with next to no bargaining power, to achieve pay increases reflecting their contribution to society.

7.30. In particular, the Cabinet paper[12] on proposed amendments to the Employment Relations Act makes clear that the amendments will help employers pay less than they do currently. Such developments should concern the EAG, given that, as stated above, nearly two in five children in poverty come from working households.

7.31. This brings us back to the point with which this section began: that either pay setting is reformed to restore income to wage and salary earners, or a much more substantial form of income entitlement must be instituted through the taxation system and government transfers. Otherwise the problem of poverty, and particularly child poverty, cannot be resolved.

7.32. The CTU's preference is for action to be taken on the Minimum Wage, collective bargaining and benefits.

7.33. We recommend raising the Minimum Wage to $15 an hour immediately, and to two-thirds of the average wage within three years. Meanwhile, collective bargaining for workers should be strengthened, and the adequacy of current benefit levels reviewed.

2. Analysis of the conditions of work

7.34. The EAG's analysis of the solutions to poverty often seems to end once work has been obtained. This gives the appearance that people should be thankful to have jobs, whatever the jobs are like.

7.35. The report appears to have tacitly accepted the ideology that informs, for example, the 2010 'Welfare Working Group Options Paper', which asserted that any form of work was beneficial, and that taking low-paid work tended to lead to higher paid jobs.

7.36. However, several commentators, notably Paul Dalziel[13],, have pointed out the weakness of the working group's case. Their options paper relied on one American

[12] Office of the Minister of Labour, 'Employment Relations Amendment Bill 2012: Paper One - Collective Bargaining and Flexible Working Arrangements', 2012

[13] Dalziel, Paul, 'Welfare and Social Sector Policy and Reform: Options and Alternatives', AERU Research Unit, Lincoln University, June 2011

study that covered 1978-1993, and which in any case contained warnings about the ability of many people to sustain full-time work.

7.37. There is considerable evidence to the contrary: the quality of work matters. The 2010 Marmot Review of Health Inequalities[14] found,

> However jobs need to be sustainable and offer a minimum level of quality, to include not only a decent living wage, but also opportunities for in-work development, the flexibility to enable people to balance work and family life, and protection from adverse working conditions ...
>
> Insecure and poor quality employment is also associated with increased risks of poor physical and mental health. There is a graded relationship between a person's status at work and how much control and support they have there. These factors, in turn, have biological effects and are related to increased risk of ill-health. Work is good – and unemployment bad – for physical and mental health, but the quality of work matters. Getting people off benefits and into low paid, insecure and health damaging work is not a desirable option.

7.38. An extensive literature review of "Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes"[15] for the Ministry of Women's Affairs found that

> employment conditions are important in relation to the mother's time spent away from home and parenting behaviours. Research indicates that low job satisfaction and work-place tension have negative impacts on child development (OECD, 2003: 138). Difficult job conditions create psychological distress, which affects parenting, which affects child outcomes…
>
> Part-time work and family-friendly policies that allow parents time with young children have a positive impact on cognitive development (OECD, 2003: 138). Family-friendly workplace policies can help to reduce negative stress (for example, Reynolds, Callender and Edwards, 2003). However, part-time work, the most common 'flexible arrangement' for women, can reduce career prospects and opportunities. Part-time work conditions are generally worse than full-time work: fewer promotion opportunities, fewer financial benefits (such as less superannuation and sick and annual leave) and fewer training opportunities (Bittman, Hoffman and Thompson, 2004: 47). In addition, part-time work is available only in a small range of sectors, constraining women's choices and career opportunities (Byrne, 2002: 17–18).
>
> Two types of part-time work exist: work negotiated by 'career women' and work that suits employers (with more unreliable hours, and so on). The latter type has worse conditions of employment, but both suffer from a lack of

[14] Marmot, M *Fair Society , Healthy Lives Review of Health Inequalities* , 2010, p.26.
[15] Brewerton, Melissa, "Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes", Ministry of Women's Affairs, October 2004, p.28.

promotion opportunities (State Services Commission, 2002: 71; Bittman, Hoffman and Thompson, 2004: 47-8).

7.39. The working group's claim is further contradicted by a 2005 literature review for the Department of Labour that found: "Low quality jobs are usually dead-end 'McJobs' with little training to improve the worker's human capital and their chances of moving to better quality jobs. Hence, a bad job is seldom a stepping stone to a better job."[16]

7.40. As mentioned earlier, this view is backed up by recent OECD research into inequality. In particular, Divided We Stand noted that countries should create "jobs that enable people to avoid and escape poverty. Recent trends towards higher rates of in-work poverty indicate that job quality has become a concern for a growing number of workers. Policy reforms that tackle inequalities in the labour market, such as those between standard and non-standard forms of employment, are needed…"

7.41. These points are especially relevant to solo parents, who face numerous obstacles in holding down employment. This is not only a matter of inadequate ECE, something the EAG's report correctly identifies as an issue. Another significant obstacle is that it is extremely difficult for solo parents to hold down jobs that are casualised and have unpredictable hours. These are often the jobs available to solo parents; as Johri points out, "People who are disadvantaged in some way and/or are at the margins of the labour market are more likely to be in low quality employment."[17]

7.42. In companies where the 'right to manage' is seen as inviolate, staff's hours can be varied from day to day, often with very little notice. This is hard enough for single people or single earner couples to manage. But for a solo parent, who has to arrange childcare, get their child to and from that childcare, and arrange transport to and from work, this unpredictability can literally be unmanageable. The stress of attempting to manage it can, as the Marmot Review makes clear, be damaging to health.

7.43. This stress in turn directly affects children, as Johri points out: "Workers' families feel the effects of poor quality employment in work-life balance, health costs, social interaction and their standard of living."[18]

7.44. Low-wage, low-quality work may also be harmful to the long-term employment prospects of parents. As Schmitt has pointed out, "Low-wage jobs, like spells of unemployment, may, for example, be associated with the erosion of a worker's accumulated skills. If so, a worker's long-term earnings potential would be enhanced more by a period of education and training than by working in a low-wage job … Based on an analysis of data for the United Kingdom, Stewart, for

[16] Johri, R. (2005). 'Work values and the quality of employment: a literature review'. Wellington: Department of Labour, p2
[17] Johri, R., p2
[18] Johri, R., p2

example, finds that low wage work has 'almost as large an adverse effect as unemployment' on low-wage workers' future employment prospects."[19]

7.45. There are further issues – too complex to be set out fully here – around the way the benefit system handles, or rather does not handle, variable incomes. Parents in casualised, variable work have to contend with a benefit system whose abatement rates are designed around predictable levels of weekly work. Trying to manage these issues adds a further layer of stress, especially for parents who have no savings and are therefore unable to 'ride out' any delays in getting their entitlements from WINZ.

7.46. In closing, we would also note that the EAG should not pin its hopes on economic growth as a solution to any of the problems of low-wage, low-quality work. As the research quoted above shows, "Countries do not appear to 'outgrow' low-wage work. Higher levels of GDP per capita, for example, are not associated with a reduction in the share [proportion of the workforce] of low-wage workers."[20]

7.47. It is difficult, therefore, to see how getting parents into low-paid, insecure or health-damaging work – work that is characterised by poor employment protection – can be a solution to child poverty. The above evidence is reason to believe that it may in fact do more harm than good, both to parents and to their children.

8. Conclusion

8.1. We welcome the consideration given by the Children's Commissioner and the EAG to this critical issue. We support many of the report's recommendations and the broad view it has taken as to many aspects of child poverty. A multi-faceted response is essential to resolve this problem.

8.2. However there are significant gaps in the analysis and recommendations, particularly around wages and the quality of work. We have shown that a greatly weakened wage setting system has been a major factor in the marked increased levels of poverty we have seen in New Zealand in the last two to three decades. We are strongly opposed to forcing parents into unsatisfactory employment which we have shown can be more damaging than remaining on a benefit.

8.3. We would welcome further engagement on these matters.

[19] Schmitt, John, "Low-wage lessons", Center for Economic and Policy Research, Washington DC, USA, January 2012, p.9.
[20] Ibid, p.2.

APPENDIX: Ten Actions to reduce poverty in New Zealand

The proposals below were provided to the government's Ministerial Committee on Poverty in May 2012.

NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Ten Actions to reduce poverty in New Zealand

1. Raise low wages

Though beneficiaries are the main victims of poverty, two in five poor children were from households where at least one adult was in full-time employment or was self-employed, according to the Ministry of Social Development's 2011 Household Incomes Report. This is a result of market wages being very unequally distributed. New Zealand has one of the most unequal income distributions and one of the lowest wage shares of income in the OECD. It can be addressed by raising the minimum wage significantly and strengthening collective bargaining for low paid workers. Collective bargaining is an effective means of raising the pay of low paid workers. Supplements to low wages can also be increased through programmes like Working for Families.

> **Recommendation:** Raise low wages by raising the minimum wage immediately to $15.00 per hour and to two-thirds of the average wage within 3 years, strengthening collective bargaining for low paid workers, and increasing Working for Families tax credits for low income families.

2. Increase incomes to households reliant on welfare benefits

According to the MSD's report, "poverty rates for children in beneficiary families are consistently around 70 percent, much higher than for children in families with at least one adult in full-time employment". It is inescapable that increasing incomes to families reliant on benefits is the single most important way to address poverty, particularly for children. Our benefit levels are low. The same Report notes that income tested benefit levels have fallen significantly as a proportion of average earnings since the mid 1980s with the exception of a small increase in 2004-05. As one international benchmark, OECD comparisons[21] show that in 2010, for initial stages of unemployment the net income

[21] Benefits and Wages: OECD Indicators, at http://www.oecd.org/document/3/0,3746,en_2649_33729_39617987_1_1_1_1,00.html

replacement rates including housing assistance and other "top-ups" for a low-income (67% of the average wage) sole parent with two children, was 6th lowest out of 32 OECD countries[22]. It was the lowest in the OECD for a two-earner couple and 10th lowest for a single earner couple, both with two children. Allowing beneficiaries to earn more from work would have social benefits as well as financial ones, but it will not help unless the jobs available are at decent wage rates, secure and recognise child care needs. Help with costs of getting to work and child care is essential.

> **Recommendation:** Raise the level of benefits and tie them to a percentage of the average wage, and increase thresholds of earnings from work which beneficiaries can retain without abatement.

3. Provide good jobs

High levels of unemployment are a contributor to poverty, forcing people onto inadequate benefits, and leaving many people with no choice but to take jobs that cannot be described as decent work. At December 2011 we had 150,000 people officially unemployed, 105,100 people who wanted to work more hours and 261,300 jobless. Casualised and insecure employment and contracting out have grown – all of which have adverse effects on people's ability to save, keep up with their bills, provide a secure environment for their families, and commit to owning their own house, as well as having adverse effects on their physical and mental health. Government policy and action can do much to stimulate job creation and encourage employers to improve job security and working conditions. As the 2010 Marmot Review of Health Inequalities[23] found, "jobs needs to be sustainable and offer a minimum level of quality, to include not only a decent living wage, but also opportunities for in-work development, the flexibility to enable people to balance work and family life, and protection from adverse working conditions... Getting people off benefits and into low paid, insecure and health damaging work is not a desirable option."

> **Recommendations:** Improve employment conditions for casual workers by strengthening minimum employment rights around use of casual employment, termination of employment, and conditions such as parental leave. Give contracted workers the protections of employment law including the right to bargain collectively, and prevent the use of contracting as a means to lower pay and working conditions.

4. Create the conditions for good employment practices and job creation

The government has a unique role in setting the conditions for improved employment opportunities and the quality of jobs. It can legislate to encourage fair and productive employment and management practices, strengthen and extend the reach of collective bargaining and set effective minimum wages and working conditions. Through active labour market policies it can assist unemployed people to retrain or gain work-related skills, match skills with jobs, and create work schemes that help people into more permanent work. Alongside this, it can ensure that the costs of flexible employment practices do not land on the workers involved by providing substantially increased income replacement rates for workers who become unemployed. Through active industry policies it can assist and

[22] "Benefit generosity", Benefits and Wages: OECD Indicators, at www.oecd.org/els/social/workincentives.
[23] Marmot, M *Fair Society , Healthy Lives Review of Health Inequalities* , 2010

encourage firms to raise their productivity, their exporting capability and the participation of their workers in the industry's continuing development to provide good and sustainable jobs.

> **Recommendation:** Strengthen collective bargaining and extend its benefits within industry sectors. Repeal legislation which encourages poor management practices such as the 90-day trial. Extend the assistance given to people out of work to gain skills and match their skills with jobs and pay them 90 percent income replacement for the first year of unemployment conditional on commitment by the worker to acquiring new skills if necessary, and job searching. Create more jobs in work schemes that help people into more permanent work. Institute industry policies which support the creation of good and sustainable jobs.

5. Provide strong public health programmes and services

Poor health and poverty are closely connected. There is now well established evidence that many serious forms of ill-health cannot be effectively addressed without reducing high levels of income inequality[24]. In turn, poor health can lead to low incomes through poor employment prospects and even loss of employment. As well as addressing income inequality and maintaining accessible, high quality public health services, strong public health programmes such as warm homes, vaccinations, health and nutrition education in schools, improved safety practices in workplaces and anti-smoking campaigns can be cost effective and long lasting.

> **Recommendation:** Ensure all New Zealanders have affordable access to quality primary health care. Strengthen public health programmes such as warm homes, vaccinations, health and nutrition education in schools, improved safety practices in workplaces and anti-smoking campaigns.

6. Ensure access to low cost, good quality housing

Housing is the single most important cost to a family and high housing costs can plunge it into poverty. In addition, low quality housing can contribute to poor health and make it difficult for children to make educational progress, leading to further cycles of poverty. Income-related rents in publicly provided housing, law changes to provide stronger protection for long term tenancies, low cost, good quality housing designed to suit different family compositions and different cultures, assistance with mortgages for first home buyers, programmes that meet Māori needs, and stronger building regulations can all contribute.

> **Recommendation:** Maintain and extend the stock of state and local government housing with income-related rents. Provide stronger protection for long term tenancies, ensure an adequate supply of low cost, good quality housing designed to suit different family compositions and different cultures, provide assistance with mortgages for first home buyers, programmes that meet Māori needs, and stronger building regulations to maintain standards for health homes.

[24] See for example Marmot (op cit) and "Social determinants of health", World Health Organisation, www.who.int/social_determinants.

7. Make sure people have good nutrition and enough food

Children going to school hungry or without lunches can lead to educational and social difficulties with long term implications for their social development and earning potential. Inadequate nutrition can lead to avoidable but serious health problems for both children and adults. Educational programmes on good nutrition are important but so are adequate incomes and provision of nutritious food in schools through quality controls on their cafeteria food and programmes such as free milk or lunches in schools where they are needed. Competition between supermarket chains should be closely monitored to ensure food prices are kept as low as possible.

> **Recommendation:** Provide food and milk in schools where there is evidence of need, and establish nutritional guidelines for food and drinks sold in schools. Review whether benefits and low household incomes dependent on people in paid work are meeting minimum nutritional, housing, energy, health and other essential needs. Establish an inquiry into retail competition in the supermarket sector.

8. Build education and skill levels, and the rewards for them

For many children from low income families the way out of poverty is by gaining higher levels of education and skills. For people already in work, gaining additional skills can benefit both their own incomes and the productivity of their employer. Investment in early childhood education is one of the means of providing the best start in life for children. Raising educational levels must start at early childhood education by lowering costs of attendance and providing ECE with a qualified workforce. There are identified problems in transitions from schools to vocational education and work-based training which should be addressed. Caps on enrolments in tertiary education should be raised. However, raising educational and skill levels will not address poverty if incomes do not rise as a result. The evidence in New Zealand is that there are very poor returns to employees for qualifications below the degree level. That should be addressed through strengthened obligations and conditions placed on employers which benefit from government funded training programmes to recognise and reward increased skill levels in wages levels.

> **Recommendation:** Ensure every child has access to affordable quality early childhood education provided by qualified teachers. Clarify paths for transition from school to vocational education and training and provide advice and guidance to school pupils and staff. Raise the returns to trainees from vocational education by requiring employers to tie qualification achievement to pay levels. Raise caps on tertiary education enrolments.

9. Address inequalities

Underlying poverty and many of its causes is the very unequal distribution of income and wealth in New Zealand, which is among the highest in the OECD and rose the fastest of any OECD country between the mid 1980s and mid 1990s. Raising wages, benefit levels, employee bargaining power, and job creation are all important contributions to addressing incomes. A progressive tax system also has a crucial role to play by reducing tax rates on low incomes, raising them on higher incomes, substituting asset taxes such as a capital gains tax for regressive taxes like GST, and investigating financial transactions taxes and taxes on super-profits. Boosting tax credits such as Working for Families to lower income households, including those relying on benefits, has been effective in the last decade in stopping the rise

in inequality. Other identified contributors to growing inequality have been increased international trade and financial integration and their interaction with increased use of labour-saving technology. Further opening of the economy should not occur without compensating actions to ensure it does not worsen inequalities and other social conditions.

> **Recommendation:** Increase the progressivity of the tax system by instituting a 38 percent rate on income more than approximately twice the average wage ($100,000) and a 45 percent rate on income more than approximately three times the average wage ($150,000). Institute a capital gains tax while progressively reducing GST. Review the social impacts of international commercial agreements and the form of New Zealand's international trade and financial integration with the rest of the world.

10. Provide quality public services

A significant check on the worst effects of poverty is the universal availability of essential public services. Free or low cost access to primary health care, free public hospitals and public health programmes prevent even the lowest income families suffering from the most serious immediate effects of ill health or accidents. Access to universal health care regardless of the ability to pay is critical. Lack of this in other countries is one of the most frequent causes of bankruptcy and impoverishment. Free, high quality education provides opportunity and the possibility of social mobility. There are many other public services that could do more to alleviate poverty including lowering the cost and raising the quality of public transport, addressing housing needs, and ensuring households have their basic needs for electricity, water and other essential services provided at low cost.

> **Recommendation:** Maintain quality public services and provide assistance to low income households in essential services other than those already discussed such as electricity and water by providing essential entitlements at low cost, and low cost quality public transport in our cities.

14 May 2012