NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi

to

Statistics New Zealand

on the

Household living-costs price indexes public consultation

P O Box 6645
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1. Introduction

1.1. This submission is made on behalf of the 31 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 320,000 members, the CTU is one of the largest democratic organisations 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. Thank you for the opportunity to comment on this important development, the creation of new population-specific price indexes. We answer your questions in turn below.

2. Beneficiary household definition

Question 2.1a

What definition of beneficiary do you consider to be the most appropriate to classify beneficiary households? Why?

- **Highest-income recipient receives a ‘main’ benefit**
- **Highest-income recipient receives a ‘main’ and/or ‘supplement’ benefit**
- **Households that receive a minimum proportion of their total income from benefits**

2.1. We support the recommendation for the first of the options. It is simple, and is consistent with the public conception of such households. The second definition could include some receiving mainly wage income but with an accommodation supplement. The third option at a 50% income proportion is similar to the first option, and at a higher threshold captures only 6 percent of households which is unlikely to provide statistically robust data.

3. Superannuitant household definition

Question 2.2a

What definition of superannuitant do you consider to be the most appropriate to classify superannuitant households? Why?

- **One or more people aged 65 or over (65+), where the highest income earner receives a New Zealand government pension**
- **Highest-income recipient receives a New Zealand government pension**
- **Households that receive a minimum proportion of their total income from a New Zealand government pension**

3.1. We support the second option – that is, dropping the age criterion. It is dependency on superannuation that is relevant, not age. The third option has the same issues as it has for beneficiaries.

Question 2.2c

What pension types do you think should be classified as New Zealand government pensions? Why?

3.2. You note that only a very small proportion of the Household Economic Survey sample who received a New Zealand government pension did not receive New Zealand Superannuation, and provide the information that the types of pension recognised in the Survey are:

- New Zealand Superannuation paid by Work and Income
- veterans pension
- war disablement pension
- surviving spouse pension
- overseas pension top-up payment from Work and Income
- overseas pension paid by Work and Income using the special banking option
- other type of New Zealand government pension.

3.3. We do not have a strong view on this, but note that Government Superannuation can provide quite high incomes compared to New Zealand Superannuation, as could some overseas pensions, which could distort the population for the index.

However it is not clear if it is proposed to include Government Superannuation and we don't have any information on the amount and occurrence of overseas pensions.

4. Māori household definition

Question 2.3a

Should a household be classified as a Māori household where any household member reports Māori ethnicity as an ethnicity in the Household Economic Survey (HES)? Why?

4.1. We have consulted the CTU Rūnanga on this question. We find it difficult to identify what is a 'typical' Māori household for the purposes of expenditure patterns (or otherwise). There is a wide variety of households in which Māori live, including urban, rural, multi-family, multi-generational and marae-based in which even the concept of 'household' may be inappropriate. Some find the whole idea limiting and inappropriate. A definition that spans too broad (or too narrow) a range of households will be misleading.

4.2. This is consistent with Callister, Didham, Newell, and Potter (Callister, Didham, Newell, & Potter, 2007) who after considering a number of definitions of the related term, 'family', concluded that "ethnicity is primarily a personal attribute that cannot be easily assigned to a group". They state: "The importance of incorporating all available information on all individuals within the family is centrally important to a full understanding of family form and function." The characterisation of households raises similar concerns.

4.3. You inform us that the suggested definition is used by Te Puni Kōkiri in some publications. It may be a suitable definition for some purposes though it conflicts with Callister et al's conclusions. There are other possibilities which Callister et al survey in addition: prioritised ethnicity; fractional ethnicity; main, single and multiple counts; and, for families with children, the ethnicity of the children versus that of the parents. A table (Callister et al., 2007, p. 44) shows significant income differences between Māori families defined as above and, for example, Māori-only families (which had some support in the Rūnanga).

4.4. Perry in his Household Income Reports for MSD does not classify households by ethnicity but instead proceeds as follows:

> Ethnicity of individuals aged 15 and over is as reported by the individual, and children under 15 are attributed with the ethnicity of the survey respondent… The household's

> equivalised disposable income is attributed to the individual for ranking purposes, just as it is for analysis by age. (Perry, 2015, p. 67)

4.5. In this method, the survey respondent is influential in how individuals in the household are categorised, and individuals “carry” the household’s characteristics.

4.6. However it is very difficult to make an informed choice without seeing the effects of the definition. It would be useful to see the effect of different definitions of Māori households on attributes including income, household size, household composition, urban vs rural, and expenditure patterns (or at least the resulting price index) in order to compare them against other household groups.

Question 2.3b

Should we change the definition of a Māori household once descent information is available from the 2015/16 HES? Should the definition be based on ethnicity, descent, or both? Why?

4.7. We do not have a strong view on this, but observe that an increasing proportion of the population has some Māori ancestry so a definition based on descent may become too broad to capture the differences between households’ expenditure patterns.

5. Definitions of households based on income group

Question 2.4a

What would be your primary use of income quintile price indexes?

5.1. We recognise that there are limitations to using income as a proxy for standard of living, particularly at a time when housing costs are increasing rapidly for some people. However any single measure has the problem of being only a proxy and must be considered alongside other factors. Incomes have the benefit of having the widest range of statistics available for them.

5.2. Our uses would include

5.2.1. In pay negotiations for workers from low income households

5.2.2. In comparing real incomes between different household income groups

5.2.3. In comparing progress in terms of real incomes for different household income groups

5.2.4. In considering the impact of different price movements and policies (e.g. interest rates, petrol and household energy prices, GST)

Question 2.4b

Do you think we should use income equivalisation to adjust income information? Why?

5.3. Equivalisation of household incomes is used to allow comparison between households with different numbers, and different composition (numbers of adults and children). In effect it provides comparisons between individuals with a standard of living equivalent to the members of a multi-person household after taking into account the fact that people in a single household share costs (such as housing).

5.4. While equivalisation makes it more difficult for people to understand the types of households in each income group, it is needed to make valid comparisons. Otherwise the spending patterns of, for example, a young professional person or couple without dependents is not distinguished from the spending patterns of a family with children on a similar income but with substantially different (and greater) needs. We therefore support the use of equivalisation.

Question 2.4c

If equivalisation is used, which of these equivalisation scales would be the most appropriate? Why?

- **OECD-modified scale**
- **square root**
- **Jensen**
- **other, please state**
- **no preference.**

5.5. While there are import conceptual and value-based differences embedded in different equivalisation scales, you present evidence that “The differences between the three scales investigated (Jensen, OECD, and square root) are often small, and therefore hard to reliably observe within the limits of the statistical power of HES”. It therefore appears that in practice the choice will make little difference. We therefore have no preference, other than observing that there are advantages in being consistent with other uses of equivalence scales in household income comparisons and inequality research (e.g. Perry, 2015).

Question 2.4d

Is gross income or disposable (net) income a better approach? Why?

5.6. It appears that in practice, the choice makes little difference. Disposable income adds complexity and possibly delays. We therefore support using gross income.

Question 2.4e

Is expenditure, or a joint expenditure and income measure, a better approach than income? Why?

5.7. This concerns the way to measure the spending power available to a household in order to judge whether it is 'rich' or 'poor'. It appears from Bentley (2015, Figure 13) that introducing expenditure either as the full measure or jointly with income (averaging the two) is more sensitive to differences between high and low spending-power households, which is an advantage.

5.8. On the other hand, the quality of expenditure data in the HES is variable, subject to one-off unusual expenditures and incomplete in some instances. Using expenditure makes the series less comparable with household income studies. Gaps in surveyed expenditure are often filled from national sources and are therefore unlikely to be able to be attributed to particular household income groups. The correlation between expenditure and income quantiles is also relatively weak.

5.9. You note that that Stiglitz, Sen, and Fitoussi emphasise the need to take account of consumption and wealth as well as income. Moving to solely an expenditure measure therefore seems no more valid than relying solely on income and has the above practical difficulties. An average of income and expenditure does seem a better proxy for the resources available to the household (though of course still does not take wealth into account). It has the disadvantage that it is more difficult to understand and use: frequently only household income is readily available when people make decisions as to which price index is appropriate. The decision is already complicated if incomes are equivalised (which we support).

5.10. On balance we support averaging income and expenditure as an approach that moves closer to taking account of consumption and wealth as well as income if practical difficulties can be overcome.

6. Aggregating household expenditure patterns

6.1. The prices of the many goods and services that make up the price index must be weighted according to the proportion of them purchased. This question considers whether household spending patterns should be combined at the level of the whole group of households (e.g. an income group) and the weights of items used by the whole group are then used in building the price index, or whether the weights should be an average of those found for each household. The former (‘plutocratic’ or household-sector) method treats the whole group as if it were a single household and leads to higher income households having greater influence on the proportions used. The latter (‘democratic’ or household) method gives equal weight to all households and is also better suited to a price index used for indexing monetary payments to maintain purchasing power

Question 3.1

Which customer need should be given higher priority: to understand the inflation experience of:

- **each household group overall**
- **a ‘typical‘ household within each group?**

Why?

6.2. We support the democratic or household method (the ‘typical household’). It gives fairer weighting and is more representative between households of different incomes, is more suitable for the purposes for which it will be used (indexing monetary payments to maintain purchasing power) and produces more precision in estimates.

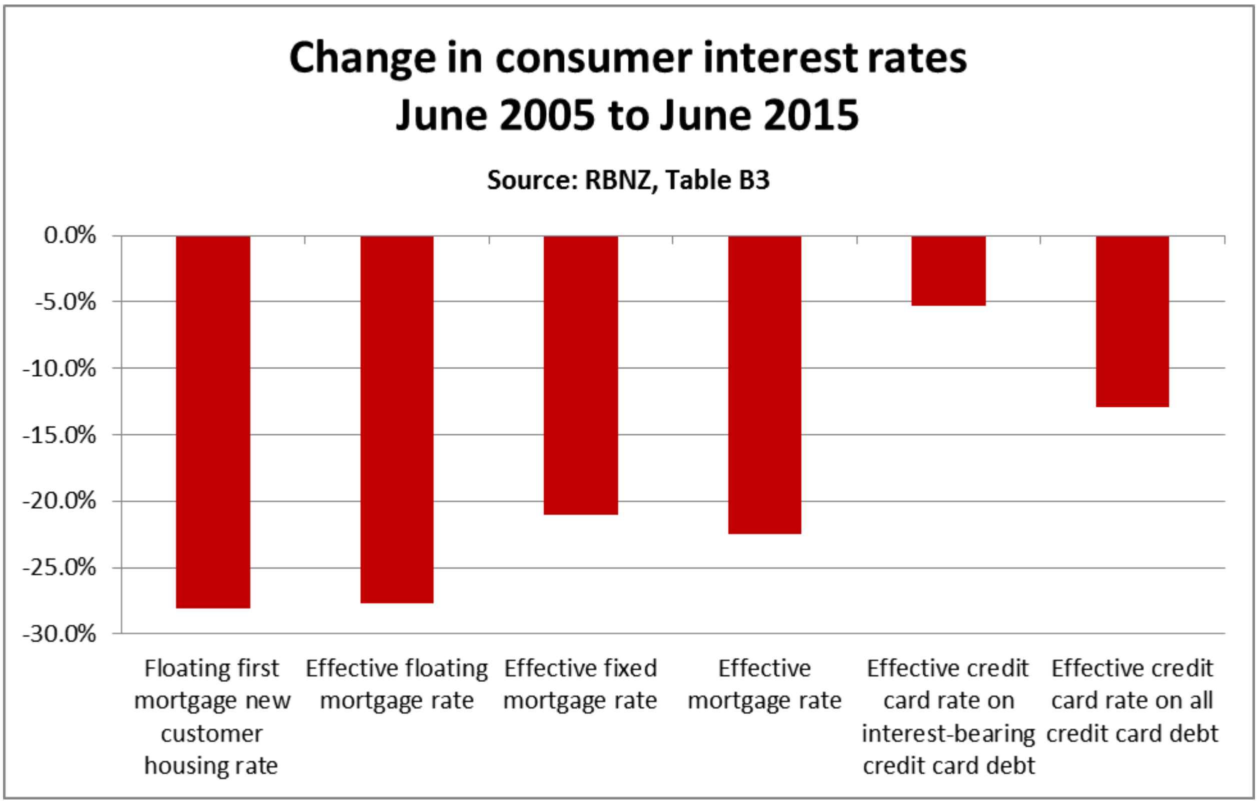
7. Practical application of a ‘payment’ approach

Question 4.1a

What scope of consumer debt would be most appropriate to measure price change for interest payments? Why?

- **mortgage debt used for housing costs**
- **all mortgage debt**
- **all consumer debt.**

7.1. We consider that all household debt should be covered. While mortgage debt is by far the largest form of debt in dollar terms, for lower income households, other forms of debt such as credit cards, hire purchase, pay-day loans and other personal loans are frequently a reality. The latter in general have much higher interest rates than mortgage debt and have different dynamics. This is illustrated in the following graph which compares the change in interest rates between 2004 and 2014 for a number of forms of consumer debt, not including the highest interest rate personal loans. They show significant variation. The underlying assets (if any) are also very different.



Question 4.1b

Which debt index – a price index to quality-adjust nominal interest rates – makes most sense to you? Why?

- **new-dwelling (construction) price index (the 'home ownership' CPI subgroup)**
- **market-value property price index (such as Property IQ's house price index)**
- **a broad measure of inflation, such as the CPI.**

7.2. We wonder about the logic of this adjustment. Interest is the price of credit (the monetary liability), not of the underlying asset – and not all debt is secured on an asset. The value of the liability is its nominal monetary value, not the asset or consumer goods it is used to purchase. Debtors discover the consequences of this difference when assets fall below the nominal value of the debt secured by them – and, conversely, often take on debt in the hope of making a capital gain on the underlying asset if its value rises to exceed the nominal value of the debt.

7.3. The 'quality' of the debt (and hence its interest rate) is determined by characteristics such whether it has a security, the quality of that security, its term and the risk of non-repayment (which the size and security of the household's income will affect). These seem more relevant than the movement in the value of underlying assets.

7.4. If however it is decided that the adjustment of the kind described should be made, given that we are advocating all forms of debt be covered, there should be different debt indexes for housing mortgages and for other debt. For mortgages we would favour the market-value price index because, once constructed, a new dwelling's value is determined by the market, not its construction cost.

Question 4.2

Do you agree that using gross expenditure on items insured is an appropriate practical application of the 'payment' approach? If not, why not?

7.5. Under this, expenditure resulting from insurance claims is included in full, rather than net of the insurance payout because one cannot be sure that the payout will all be spent on the replacement item.

7.6. We agree.

Question 4.3

Do you agree that a net expenditure approach should be used for second-hand goods – that is, expenditure on goods that are 'new' to the household-group? If not, why not?

7.7. It is not clear to us why second-hand goods should be treated differently from insurance. If it were treated consistently, the purchase price of the goods would be included in full and the sale of goods would be treated as income. The sale of the goods could be conceptualised as a transaction of an unincorporated business. Presumably an approach similar to this is used for the purchase of a service by one household from another household (e.g. paying a neighbour to mow the household's lawns or do some repair work).

7.8. It is also not obvious how it will be determined whether goods are 'new' to the household group. If group A (e.g. income group 1) spends $10,000 on second hand goods and sells second-hand goods for $5,000, those purchases and sales could have all been within the group or all to and from group B (e.g. other income groups) or some mixture of these. As we understand it, the survey is not capable of telling which. It is not valid to simply subtract sales from expenditure to determine what is 'new' to a particular household group, though it has more validity for a group consisting of all households.

8. References

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