POLICY POINT

Minister hopelessly ill- informed on labour market statistics

THE NEW ZEALAND INITIATIVE

Dr Bryce Wilkinson **5 July 2022**

Introduction

Last month, the Minister of Workplace Relations and Safety, Michael Wood, appeared before Parliament's Education and Workforce Committee in support of the Government's Fair Pay Agreement Bill.

He was asked for his response to the New Zealand Initiative's case that the wage rates were not showing a 'race to the bottom,' a decline in either employees' share of income, or labour productivity growth since the Employment Contracts Act in 1991.

In his response, the Minister asserted that:

1. Labour's income share has fallen since 1991, and
2. Productivity growth since 1991 had been poor, and only 46% below of that in Australia.

Gratuitously, since these are merely factual matters, he declared that The New Zealand Initiative's position was ideological. This research note focuses on the facts.

Official Income Share Statistics

Figure 1 shows the upwards trend in the share in GDP of compensation of employees since 1991. Contrary to the Minister's assertion, the trend line slope is (weakly) up rather than down.

Figure 1: Compensation of Employees Share of GDP from 1991 (post ECA)

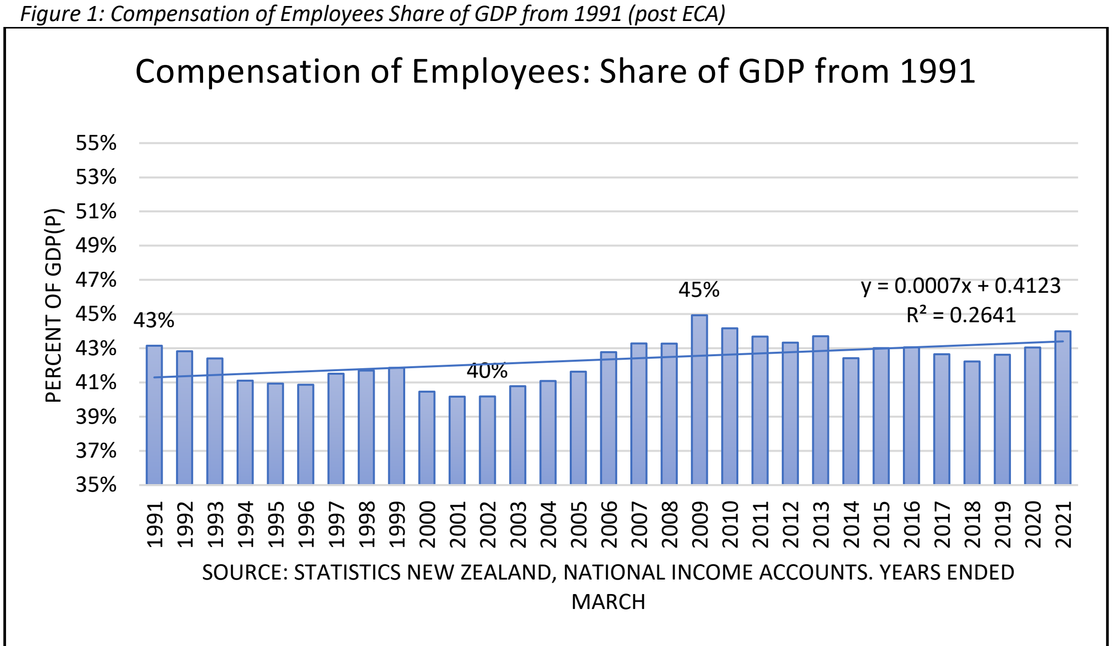

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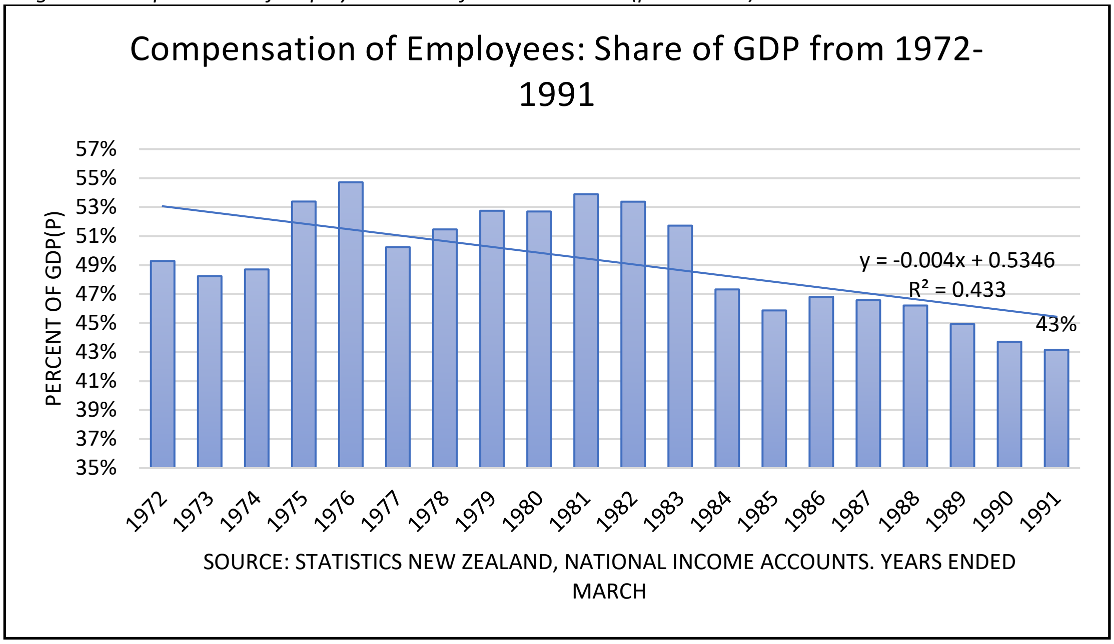
Figure 2 shows the same statistics for the 1972-1991 period. The marked downwards trend cannot possibly be blamed on the Employment Contracts Act 1991. Yet this is the period which had the sort of labour market regulation that the Minister prefers.

Figure 2: Compensation of Employees Share of GDP 1972-1991 (pre the ECA)



Note also that these statistics are official. None can dispute them. They are what they are – the best official estimates.

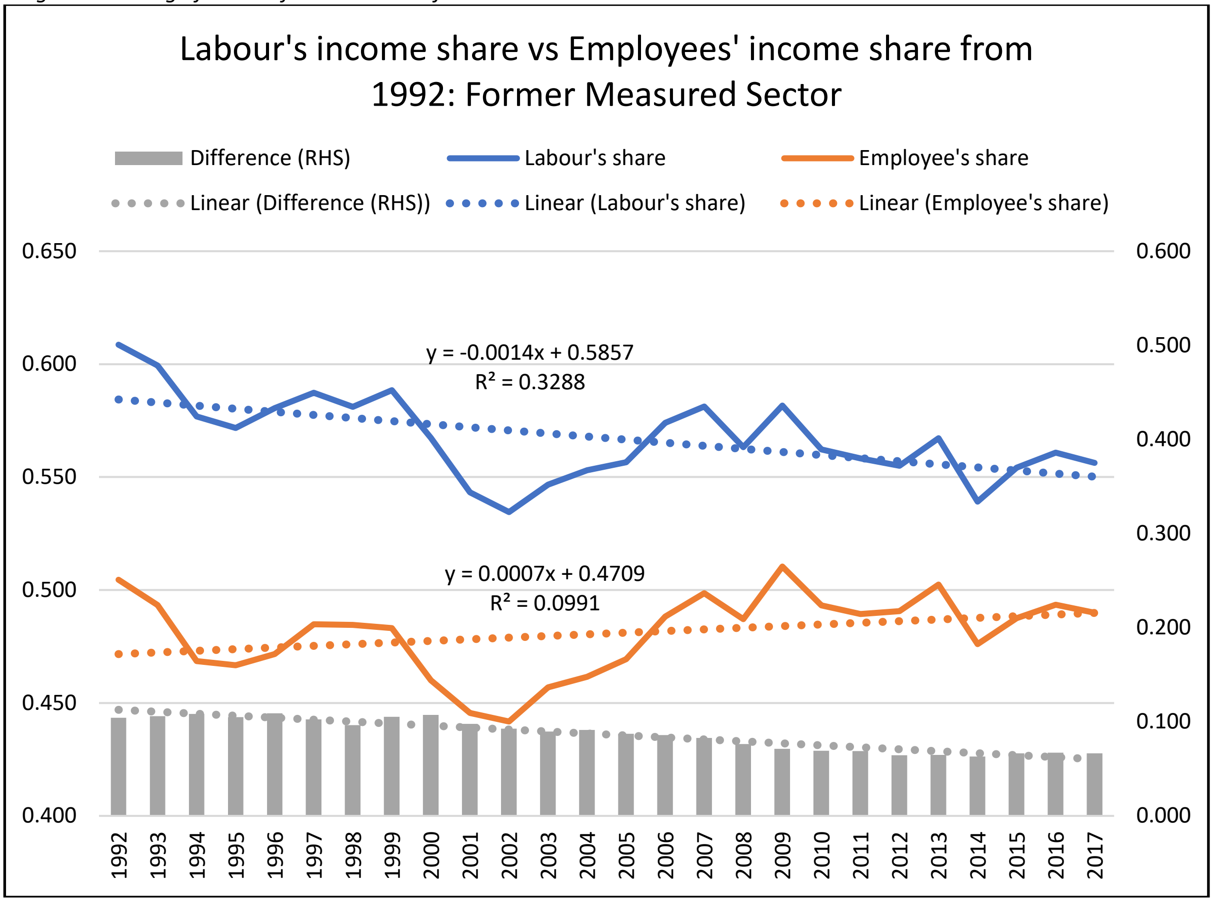
This is not to say that there is no point of contention. There is one. Income for the self-employed is a mixture of income from hours worked and income from invested capital. It is problematic to assess what portion of self-employed income from the family farm, for example, should be attributed to hours worked by the family, as distinct from a return on invested capital.

Statistics New Zealand must attempt to split such mixed income into two components for its productivity statistics. Otherwise, it cannot separate labour productivity from capital productivity. It only produces these statistics for the portion of economic activity for which this is least problematic.

Figure 3 shows the significance of this split for the portion of the economy that Statistics New Zealand calls the Former Measured Sector. The portion of mixed income attributable to labour has fallen appreciably since 1991. The share of labour income has appreciably trended down, whereas the share of employee income has been marginally positive.

The case for diminishing an employee's ability to negotiate mutually beneficial terms and conditions with employees because the share of output accruing to those who are self-employed is falling is not obvious. The Minister's comments give no clue as to what his case is.

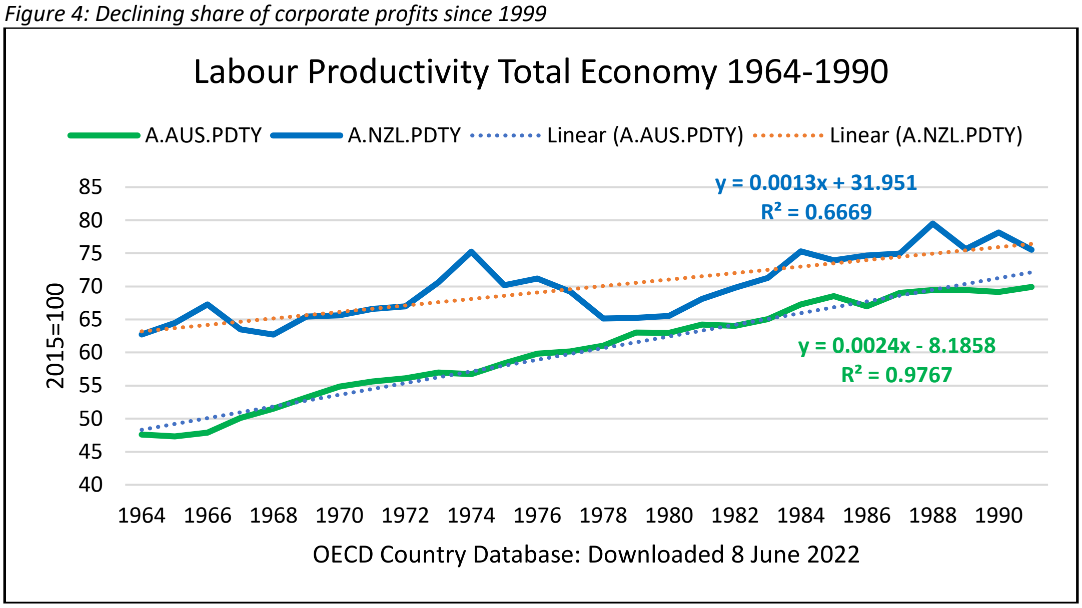
Figure 3: The significance of mixed income for trend assessment



One contrived argument is that contractors earn low incomes and should be counted as employees. The notion is that corporates have increased the share of profits in output by paying contractors less for their labour than if they were employees.

But where is the evidence for this? Since 1999, Statistics New Zealand has estimated the contributions to total corporate value added of each of operating surplus (corporate profits), mixed incomes and employee incomes. In fact, the share of corporate operating surplus has trended down markedly (see Figure 4).

Figure 4: Declining share of corporate profits since 1999



Official Labour Productivity Statistics

The OECD produces annual labour productivity statistics for its member countries. It has published estimates for both Australia and New Zealand since 1964.

Figure 5 shows that Australia's growth rate for labour productivity markedly exceeded New Zealand's between 1964 and 1990.

Figure 5: Labour Productivity from 1964-1990 – pre ECA

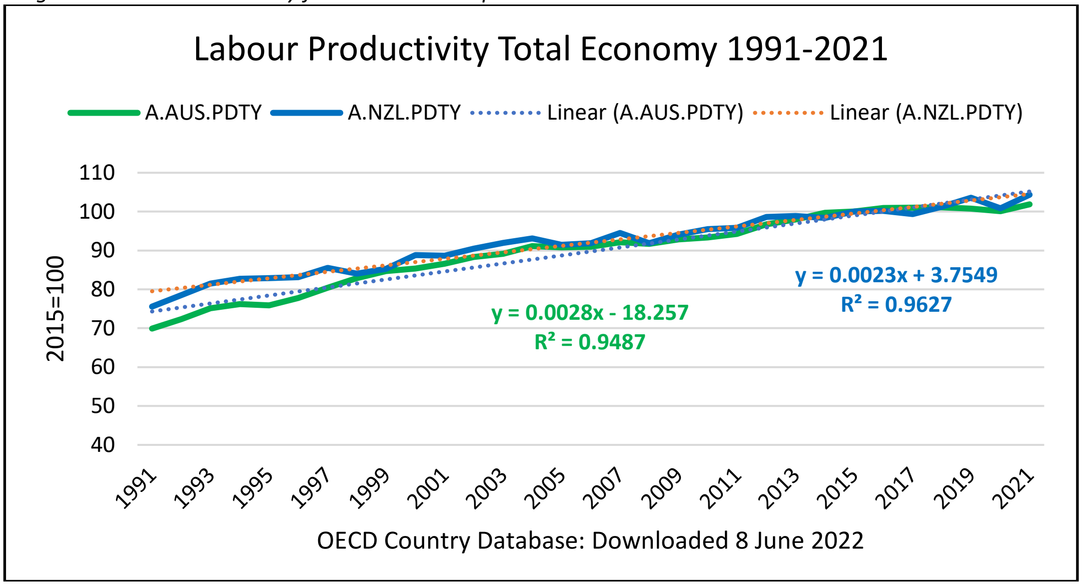
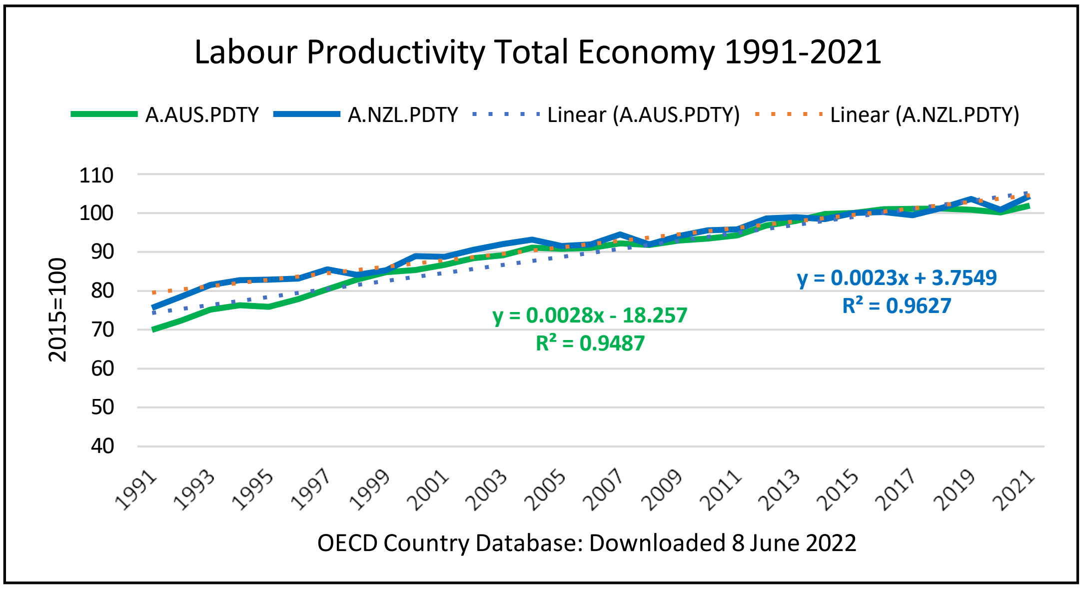


Figure 6 shows the same statistics for the 1991-2021 period. Australia's trend rate of growth has been only fractionally greater than New Zealand's. The favourable turn around in New Zealand's relative productivity performance is clear.

Figure 6: Labour Productivity from 1991-2021



The Minister's claim of an adverse 46% difference seems to have no substance in the face of this comparison. Perhaps he is misinformed or using a different data set or cherry-picked unrepresentative start and end periods. By itself, his 46% claim tells us nothing useful.

Concluding Comment

The Minister's claim that labour's share has fallen since 1991 is contestable but is not true for employee's share, and it is employees' liberty that he intends to reduce.

Productivity growth in New Zealand picked up sharply after 1991, both absolutely and relatively to Australia. The Minister's bald claim of a 46% fall is misleading.

The New Zealand Initiative's observations above are fact-based. They draw solely from official statistical sources. The charge of being ideological does the Minister no credit.

If employees' wellbeing were important to the government, it would take official statistical information seriously.

The Minister's failure to acknowledge and address the above facts suggests that the government's interests lie elsewhere.