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Labour Market Conditions in New Zealand

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Introduction

Due to a change of government in November 1999, resulting in the election of a Labour/Alliance Coalition, there has been a major reorientation of policy. This has included the repeal of the Employment Contracts Act, which effected a major deregulation of the labour market in 1991. Individual contracts were promoted ahead of collective bargaining, and union rights were largely removed. A new Employment Relations Act primarily based on good faith collective bargaining went into effect on October 1, 2000. The government has also re-nationalised workers compensation, which was privatised in 1999 and introduced 12 weeks paid parental leave.

Minimum wages have been increased each year since 1999 and there has been a reduction of the age of application of the adult rate and an increase in the youth minimum wage which is now set at 80% of the adult minimum. The Government also increased pensions; reduced rents for state housing; increased funding for elective surgery; and reduced interest payments on tertiary student loans.

In July 2002 a Labour-led Government was re-elected and are in a minority coalition government with the Progressive Coalition party which has 2 members of Parliament. The Green Party or United Future Party are needed on each occasion to support legislation and Budgets and have separate agreements with the Government to ensure this occurs. The Green Party does not support the Government on confidence and supply now that a moratorium on GM field trials ended in October 2003.

The Government has passed new Health and Safety legislation, a revised Holidays Act with improved payments for work on public holidays and the introduction of 4 weeks annual leave to apply from 2007. A new Bill, the Employment Relations Law Reform Bill was introduced in December 2003 and aims to strengthen collective bargaining. It also includes measures to protect workers in the case of the sale, transfer or contracting out of their employer's business. Another bill not yet passed into law provides a higher level of protection for workers in insolvency situations.

A Pay and Employment Equity Taskforce has been established to make recommendations to promote equal pay for work of equal value and introduce measures to address the gap between male and female wages. The Government is also introducing a family-friendly work/life programme. This is at an early stage.

Labour Party policy also includes commitments to regularly increase the minimum wage, upgrade paid parental leave to 14 weeks, extend to those who have had more than one employer in previous year, extend to self-employed, review the adequacy of redundancy law by establishing a Ministerial Advisory Group, introduce a minimum code of practice for state sector contractors, and also measures to offset the adverse effects of casualisation.

Broad Social Democratic Programme

The labour market reforms are just one part of a broad social democratic programme by the Government. Underpinning the change in policy is a recognition that the market reforms of the last 15 years have not produced a stronger economy nor improved labour productivity, but have created serious levels of disparity and dysfunction in New Zealand society. The experiment failed. The new set of policies are not however a return to the past. But there is a greater degree of government involvement in economic development, a renewed commitment to state sector capacity, and a clear social programme.

The Government is attempting to address major social deficits which have emerged in the last 15 years including huge problems in terms of poverty, illiteracy and dysfunctional communities due to long-term unemployment, lower wages and reduced benefit payments.

The Government is slowly rolling out a reasonably significant economic development programme concentrating on grants to innovative small businesses, regional plans, and some industry initiatives to complement the greater investment in education and skill development. In addition, the Government has invested in the national airline company to avoid a collapse, rail infrastructure, and transport infrastructure in Auckland – the largest city.

General Economic Situation

There are several positive economic indicators. Unemployment is down to 4.4%. The current account deficit fell from over 7% in 2000 to 2.2% in 2002 but is now 4.7% and rising. While the export returns are declining, they had increased by over 20% in the 2000/01 period and are still significantly up on the late 1990s. Commodity prices rose by more than 10% in the November 2003 year, but due to the rise in the dollar, prices received by exporters were actually 10% lower than for the same time in 2002.

GDP for the September 2003 year was up by 3.9%. Employment and hours of work were up but real wages are subdued. Inflation is running at 1.5%.

Meanwhile, ordinary time wages as measured by the Quarterly Employment Survey (September 2003) were up annually by 3% in the private sector and 3.1% in the public sector. The Labour Cost Index (September 2003) showed private sector wages up 2.1% for the year, and public 2.9%. For those firms where there were wage increases in the last measured quarter, the average rate of increase was 3.6% and the median increase was 3%.

The Government continues to run a strong surplus on the operating side of the accounts, and low debt on the capital side. The OBERAC [Operating Balance Excluding Revaluations and Accounting Changes] has come in at \$5.6 billion for the 2002/03 year, which is around \$1.5 billion above the budget night forecast and reflects higher tax revenues, delays in spending and higher State Owned Enterprise and Crown entity

surpluses. If we look at the Core Crown Cash Flows from Operations, the Government actually had \$4.85 billion net cash flows from operations, they applied net advances of \$896 million to student loans, housing corporation, Tranzrail, Health Boards etc, another \$1.68 billion on capital expenditure in the health sector and NZ Super (\$1.2 billion), leaving \$1.2 billion available for debt repayment.

The Government, in its December Economic and Fiscal Update and Budget Policy Statement revealed even stronger surpluses, and is indicating a welfare package aimed at low income families in the May 2004 Budget. The Government has also set aside \$2.7 billion to prefund future superannuation costs.

The “official cash rate” is currently 5.00%. There is a new Governor of the Reserve Bank and a new “policy targets agreement” which focuses on the importance of achieving inflation targets in the medium term without damaging the prospects of economic growth.

But one of the main problems in the economy is the reality of the burden of private debt after years of neo-liberal economic policies. Although public debt is low, private debt is over 106% of GDP. Household debt as a proportion of household annual disposable income has risen dramatically from 48% in 1990 to 114% in 2003.

The economy was also severely weakened by the privatisation programme. Since 1987, 40 state-owned commercial assets have been sold for a total of \$19.1 billion. This included the Bank of New Zealand, Petrocorp, New Zealand Steel, Postbank, Shipping Corporation, Air New Zealand, State Insurance, Tourist Hotel Corporation, Telecom, State Railways, and State forests. As at August 1999 these assets had an estimated value of \$35.7 billion, nearly double the original sale price. Remaining government commercial assets are worth below \$5 billion. The privatisation has been a huge windfall for overseas investors. Just over 79%, or \$13.1 billion, of the increase in value has gone to offshore interests. The net gain to domestic investors has been just \$1.9 billion.

In December 1986, many of New Zealand’s largest companies were government owned, and the share market was more than 95% owned by New Zealand based companies, managed funds, and individuals. However, overseas ownership of the New Zealand stock market (NZSE40) rose from 19% in December 1989 to 61% in August 1997. In the last two years foreign ownership has declined to 55%, as international investors became impatient with New Zealand’s poor economic performance. This may also reflect growing concerns about New Zealand’s ability to continue attracting foreign capital to finance its large current account deficits.

New Zealand missed out on a whole cycle of growth in the late 1980s and 1990s. The trend rate of growth used to be roughly along the same lines as Australia. If the New Zealand economy had grown at its previous trend rate, or matched Australia over the same period, output would be a third higher than it is now. The amounts of personal and public income associated with this are staggering. The extra income would have

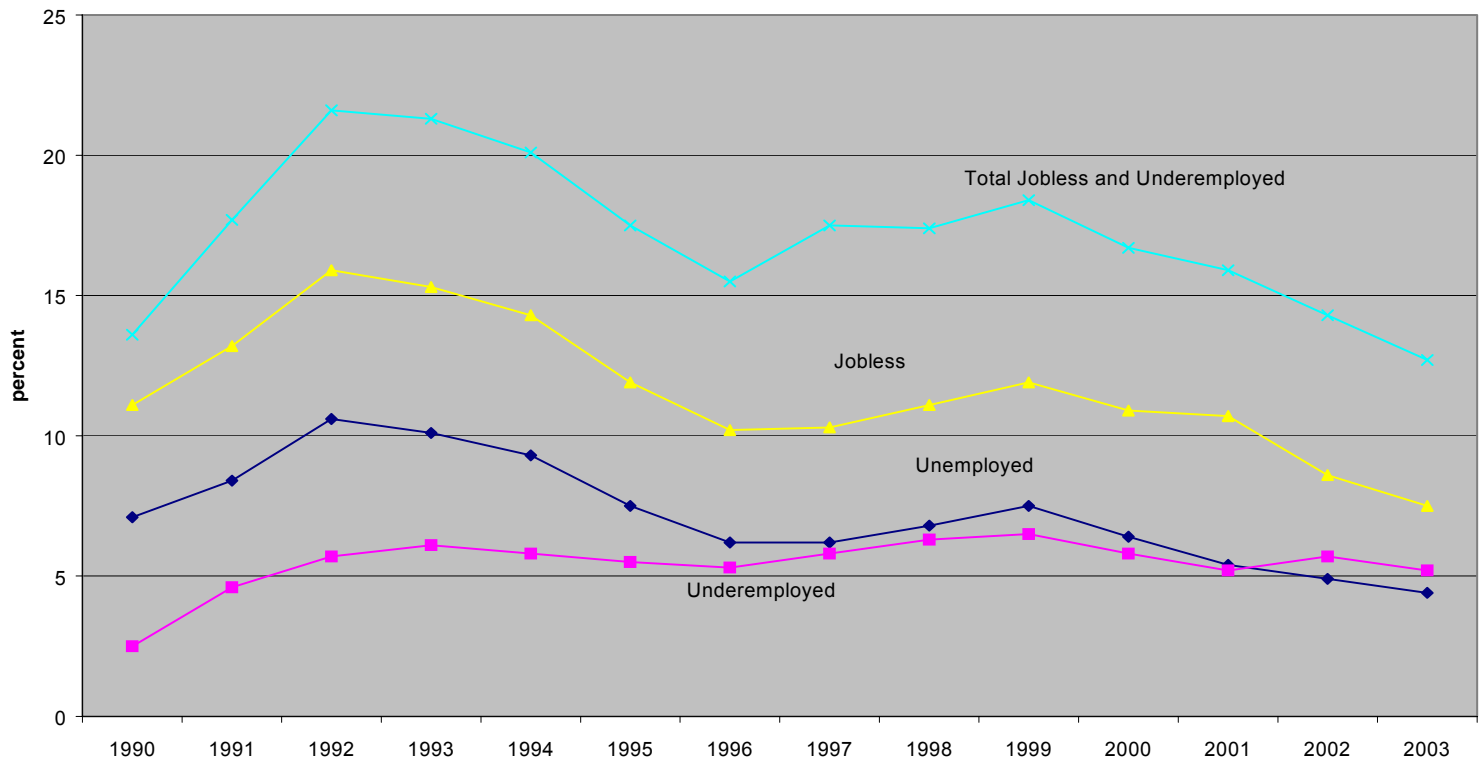
generated an extra \$11 billion of tax revenue per annum – enough in 1999 to halve net government debt, or double spending on health and education.

So the economy is in reasonable shape under the circumstances. There is considerable concern however that a major reallocation of assets and investment in the U.S. could have negative consequences as it impacts directly and indirectly through our major trading partners.

Unemployment

Unemployment is now at 4.4%. This means there are 88,000 unemployed, 19,000 fewer than in September 2002. Employment increased by 26,000 in the September quarter and was up by 51,000 full-time jobs and 10,000 part-time jobs in the year. The jobless rate is 151,000 and underemployment (those wanting additional hours) was 104,300. Unemployment among Māori was 9.7% with 6.6% for Pacific peoples, and 3.3% for Pākehā. The share of long-term unemployed has fallen from nearly 50% in 1993 to 21.5%. In addition, a measure that includes those who are seeking work but are not registered unemployed and also the underemployed (who are working part-time but looking for more hours), produces a much higher statistic of 12.7%. While lower than the 22% figure in 1992 this is still higher than in 1987, which was around 9%.

Unemployment, Underemployed and Jobless



	%	%
	Unemployed	Jobless
1997	6.2	10.3
1998	6.8	11.1
1999	7.5	11.9
2000	6.4	10.9
2001	5.4	10.7
2002	5.4	8.9
2003	4.4	7.5

Migration

Immigration is easing after a period of strong growth. In the year ended October 2003 there were 94,900 permanent and long-term arrivals, down 600 or less than 1% on the October 2002 year. Over the same period permanent and long-term departures fell by 2,500 or 4% to 55,600. The overall result was a net migration gain of 39,300 in the October 2003 year – 5% higher than the net inflow of 37,500 people in the previous year. Compared with the October 2002 year, New Zealand citizen departures were down 4,900 and New Zealand citizen arrivals were up 2,600. In contrast, non-New Zealand citizen arrivals were down 3,200 and non-New Zealand citizen departures were up 2,500. There were significant net inflows from China (12,400), India (5,200), Japan (2,300), Fiji (1,900), South Africa (1,700) and Korea (1,500) in the year ended October 2003. There was also a substantial net inflow from the United Kingdom (10,000), up 72% on the October 2002 year figure (5,800). Conversely, there was a net outflow to Australia of 9,600 in the October 2003 year, compared with net outflows of 12,800 in the October 2002 year and 27,100 in the October 2001 year.

Wages

The Labour Cost Index (LCI) recorded an increase of 0.8% in salary and wage rates (including overtime) from the June 2003 quarter to the September 2003 quarter. This is the largest rise since the series began in the December 1992 quarter. On an annual basis, salary and wage rates (including overtime) were 2.3% higher than in the September 2003 quarter, following increases of the same size for the March 2003 and June 2003 quarters. Public sector salary and ordinary time wage rates rose 1.0% in the September 2003 quarter, and were 2.9% higher than in the September 2002 quarter. Private sector salary and ordinary time wage rates rose 0.6% in the September 2003 quarter, and were 2.1% higher than in the September 2002 quarter.

The median increase recorded for all surveyed salary and ordinary time wage rates that rose from the September 2002 quarter to the September 2003 quarter was 3.1%. The average increase was higher, at 4.4%. Looking at the latest quarter, the median increase of surveyed salary and wage rates that rose from the June 2003 quarter to the September 2003 quarter was 3.0%, and over the same period the average increase was 3.6%. Of the private sector salary and ordinary time wage rates that rose in the September 2003 quarter, the average increase was 3.7%, compared with 4.2% in the June 2003 quarter. Eighteen percent of surveyed private sector salary and ordinary time wage rates recorded an increase in the September 2003 quarter. Of the public sector salary and ordinary time wage rates that rose in the September 2003 quarter, the average increase was 3.2%, compared with 2.5% in the June 2003 quarter. Thirty-three percent of surveyed public sector salary and ordinary time wage rates recorded an increase in the September 2003 quarter.

The Quarterly Employment Survey for the September 2003 quarter showed a 0.5% increase for private sector wages (3% for the year) and a public sector increase of 2.6% for the quarter and 3.1% for the year. Note that these figures are affected by compositional changes within and between industries. The average ordinary time hourly wage is \$19.59. The female rate is \$17.94, 85.6% of the male rate at \$20.97. The private sector average rate was \$18.44 while the public sector average hourly wage was \$24.27.

Real wages have only lifted at a modest rate in the last decade as is indicated by the Table below.

Table 2. Average real wages have only grown at a modest rate in the last decade

Hourly Wages (Feb 02 dollars)		
Year (Feb.)	Real Wages (\$NZ)	Real Wages (\$US)
1992	17.66	11.48
1993	17.52	11.39
1994	17.44	11.34
1995	17.11	11.12
1996	17.25	11.21
1997	18.00	11.70
1998	18.23	11.85
1999	18.45	11.99
2000	18.50	12.03
2001	18.51	12.03
2002	19.00	12.16
Dec2003	19.30	12.55

Minimum Wages

The government has regularly increased the minimum wage since 1999.

Table 3. Hourly minimum wage in NZ dollars

	16/17 years old	18/19 years old	20 years and over
2000	\$4.55	\$4.55	\$7.55
2001	\$5.70	\$7.70	\$7.70
2002	\$6.40	\$8.00	\$8.00
2003	\$6.80	\$8.50	\$8.50

Hours of work

There are very few legal restrictions on hours of work on a generalised basis (as distinct from some particular groups, such as driving hours for transport workers). An eight hour day and 40 hour week applies unless agreed otherwise (but this is largely an ineffective protection). The protections in respect of hours of work were largely contained in industry and occupational agreements that disappeared after 1991.

Income Disparity

There are lingering income disparities. In 1984 per capita income stood at 95% of OECD average – by 1992 it was down to 80.6%, and by 1995 it rose to 87%. Briefing Papers to the Minister of Youth Affairs (November 1999) indicated that median incomes for those in the 15-25 year age group had fallen from \$14,700 in 1986 to \$8,100 in 1996). A study by Stephens, Waldegrave, and Frater shows that, from 1984 to 1998, the top 10% of households increased income by 43% and the bottom 50% of households decreased income by 14%. A Treasury Working Paper states that 90% of New Zealanders are worse off in 1996 than they were in 1981. The Gini coefficient increased by 13% between 1986 and 1998.

Union Membership

Union membership has been increasing in the last 3 years. The data in Table 4 show the trends in trade unionism since 1985. The data highlight that while the decline in union membership is a longer-term trend, pre-dating the Employment Contracts Act, the magnitude of this decline has been greater since that Act's passage. This is especially true of the first 19 months of the Act's operation during which union membership fell by nearly 30 percent.

Table 4: Trade Unions, Membership and Union Density 1985-2001 (selected years)

	Union membership (1)	Number of unions (2)	Potential union membership		Union density	
			Total employed labour force (3)	Wage and salary earners (4)	(1) / (3) %	(1) / (4) %
Dec 1985	683006	259	1569100	1287400	43.5	53.1
Sep 1989	684825	112	1457900	1164600	47.0	55.7
May 1991	603118	80	1426500	1166200	42.3	51.7
Dec 1991	514325	66	1467500	1153200	35.1	44.6
Dec 1992	428160	58	1492900	1165700	28.7	36.7
Dec 1993	409112	67	1545400	1208900	26.5	33.8
Dec 1994	375906	82	1629400	1284900	23.1	29.3
Dec 1995	362200	82	1705200	1337800	21.2	27.1
Dec 1996	338967	83	1744300	1389500	19.9	24.4
Dec 1997	327800	80	1747800	1404100	18.8	23.3
Dec 1998	306687	83	1735200	1379200	17.7	22.2
Dec 1999	302405	82	1781800	1414100	17.0	21.4
Dec 2000	318519	134	1818400	1454500	17.5	21.9
Dec 2001	329919	165	1860700	1500700	17.7	22.0
Dec 2002	334783	174	1905100	1543200	17.6	21.7

The additional 32,378 members since 1999 represents a 10.7% increase as the number of wage and salary earners grew also. This is a positive trend but as the above table shows growth has tapered off in density terms and there is a long way to go to climb back towards the levels of 15 years ago.

Conclusion

The change of government in late 1999 has ushered in a new period of reform that impacts the labour market. This involves investment in economic development, investment in skills and education, and reform of workplace laws.

However, the legacy of neo-liberalism has left the country weakened by the loss of key economic assets, high levels of private debt, increases in poverty, and low labour productivity. Unemployment is trending down, but real wages have not really responded to strong labour market conditions because individual wage bargaining still predominates.

There is a positive atmosphere in the labour movement in New Zealand. The re-election of a Labour-led Government with a strong social democratic programme, the growth in union membership, the unity within the union movement, and the rise in employment and hours worked are all contributing to this atmosphere.

However, the embedded poverty, lower levels of state sector capacity, reliance on commodity exports, and infrastructural weaknesses mean that there is a clear recognition that although a lot has been done since 1999, there remains a lot more left to do.