Are New Zealanders getting Poorer?

Keith Rankin, 4 March, 1993

We have heard a lot about the problem of unemployment, but we don't always appreciate that employment is not an end in itself. Employment is a means to procure income. Work is an economic cost, not a benefit; economists assume that rational people try to minimise the amount of work that they do. There has been much less research done on personal incomes than on the labour market, yet it is our incomes that really concern to us.

Before we can intelligently assess policy alternatives, we need to be clear in our minds as to what really are the key problems. In the 1980s we were simply told that certain things were problems. We gullibly accepted what we were told as a *fait accompli*. While we dutifully accepted our shares of the pain we were told we had to have, our incomes started to slide, whether or not we were employed.

I have recently commenced an analysis of post-war incomes as revealed in the 5-yearly censuses. Because the information is not well known, I present a number of tables from my research here. If we are to have constructive public debate, we most need simply presented factual information, placed in an historical context. With the recent availability of data from the 1991 census, we have a source of information about our incomes from which we can assess the impact of the political changes in the 1980s on our lives. Also, the data will prove to be a convenient starting point for analysis of the long-run impact of the Employment Contracts Act.

The latest census news is grim, especially for the young, for males, and for the self-employed.

The data for 20-24 year olds is the easiest to interpret, because young adults in full-time employment have little investment income to supplement their wages, and because their experiences generally reflect those of people recently hired. Young adults are at the cutting edge of the labour market. The incomes of young full-time workers are the best indication we have of wage trends.

Table 1 shows the numbers of full-time employees and self-employed (entrepreneurs), for each census from 1951. The most important trend to note is the accelerating decline in male employment after 1976, reversing the growth of earlier decades.

When the numbers of male employees were rising, the numbers of self-employed were falling. However, there has been a switch back to self-employment in the 1980s, partly because of a slowdown in the growth of traditional jobs. The growth in employment between 1981 and 1986 is understated in Table 1 because of the change in definition of full-time employment. The fall in employment from 1976 to 1981, followed by the rise to 1986, reflects the exodus and subsequent return of many young New Zealanders during the "Muldoon years".

For young adults, there has been a very marked decline in full-time employment that only dates from after 1986. This is mirrored by a big decline in young entrepreneurs, despite the greater numbers of young people available for self-employment. The data here, suggesting a high level of young adult dependence, is bad news for an expansion next century based on "Kiwi Enterprise".

Wages represent two different concepts: a price and an income. As a price, wages are measured as a rate of pay per hour. As an income, wages are best measured on an annual basis. Table 2 summarises calculations of real wage rates for two age groups: 20-24, 35-44. The figures are derived from average incomes, and average hours worked, as declared in census returns.

Average wage rates were consistently rising until 1981. Since then they have fallen back sharply, with the exception of women of middle working-age who were very lowly paid in the late 1960s.

The impact of the equal pay legislation in 1972 was especially great for young women in the 1970s, who had almost achieved pay equity by 1976 and had in fact achieved that goal in 1991. However, in the 20 years from 1971, the wages of older women increased by much more than those of younger women. Pay equity for new female workforce-entrants has been achieved by their real wage cuts being a little less severe than those faced by young men.

Today, the average real hourly wage for young women in full-time work is about the same as it was in 1970, before equal pay was introduced. For young men, real wages have returned to the levels of the early 1960s. The labour of women aged 40 is now being priced 50% higher than it was 20 years ago, whereas for men aged 40, wages have returned to 1972 levels.

Because of the way incomes are distributed, with a few people on very high incomes, the typical experience is often best expressed by measuring the *median* value. Half of the people in each group have incomes below the median, and half above. Table 3 shows median real incomes for full-time employees and the self-employed. Wage incomes show a different pattern from wage rates, especially at times of high unemployment when hours of work vary through the year. New Zealand is moving into another era in which the main determinant of personal income will be hours worked rather than wage rates.

Again, the figures show that pay equity has been achieved for new workforce entrants. The percentage of female to male wages in the years 1976-86 differs from that shown in Table 2 because of the falling amount of overtime being done by males. Real incomes for young men are now barely above those received by young women before equal pay! The big income gains have been made by older female employees, especially in the years from 1981 to 1986 when their numbers also increased markedly. (Note that, in Table 1, women working between 20 and 30 hours a week have been included in 1981, but excluded in 1986. Yet there was still a rise in women aged 35-44 working full-time.)

Older men still in jobs have seen their incomes severely cut while their female counterparts have continued to receive higher salaries. This of course largely reflects the huge inequities between male and female wages in the 1960s. Middle working-age males still in work receive much more on average than their female counterparts, mainly because most of them are at the earning peak of established careers. Also, their incomes are probably boosted to a greater extent than female incomes by investment receipts: rents, interest, share dividends. Indeed, falls in investment income following the sharemarket crash may help to explain why incomes of older men in work fell while their partners' incomes continued to rise.

Entrepreneurial incomes for men have taken a sudden dive, back to the average levels of 1951. Traditionally, employers and the self-employed earned much more than wage workers. At times of full employment, to work for oneself was a positive choice, a means of improving one's economic position. Business failure was less common than today, and the cost of failure was not high; a return to employee status.

Today, self-employment is becoming an alternative to unemployment, indeed, for some, a form of unemployment. For many men, it is something to do while their wives have become principal family breadwinners. It is of course incorrect to infer that their work is not useful. Socially useful work doesn't necessarily pay well. And it is middle working-age men (and women), with securely employed partners, who can afford to take risks in their new enterprises, and who have sufficiently competitive technical skills to make long-run success possible.

For older women, the growth in self-employment has reflected their increased participation in the labour force. Female entrepreneurs are much more likely than males to be working part-time, hence their lower incomes, although many self-employed men have also become part-time homemakers. However, the fact that income gains for women have been greater as employees than as employers suggests that neither female employees nor female-dominated occupations have been subjected to adverse discrimination by employers in the 1980s. Rather, incomes reflect what workers themselves have been willing to accept. In recent years, woman have not willingly accepted second class status.

Table 4 shows that, for all men, average entrepreneurial premiums fell from 76% to 7% in 25 years, and fell even more rapidly for women. The 1960s was a period of considerable inequality between employers and employees, a result of wage awards being tied to the rate of inflation during a period of high economic growth, leaving more income in employers' hands. The difficulties for entrepreneurs really set in only in the 1980s. They probably improved their position during the Muldoon years (as in 1981 compared to 1976), but suffered badly during the rural crisis of 1985/86. While the Employment Contracts Act is seen as a vehicle to restore the post-1984 imbalance in employers' incomes, it can be inferred from Table 3 that employers collectively do better when employees also experience rising disposable incomes.

Table 5 tells an alternative story about generational differences in incomes from that told by David Thomson in his book "Selfish Generations?". In 1950, 40 year-old women in full-time employment received 7% more than did 20 year-old women. But, by 1970, they were getting 23% less. For men the position was stable until 1980, with 1966 showing up as the year in which young men did best relative to their fathers. In a previous article I described 1966 as a year of comfortable inequality. The inequality was between groups rather than within them (Table 6). Because 1966 was a year of full employment, there was a considerable amount of wage drift - ie above-award settlements - especially among new workforce entrants.

Table 5 points to the existence of an advantaged generation who were born between 1940 and 1955, and less advantaged generations born in the 1920s (especially women) and the 1960s. Thomson identifies those people born between 1920 and 1945 as a favoured if not selfish generation. The generation born between 1940 and 1955 - my own - can accurately be described as selfish as well as favoured, as it is salaried people born in or close to those years who have by-passed democratic processes to impose a set of institutional changes that have impacted most negatively on the young.

The most common measure of income inequality within groups is called the Gini Coefficient (Table 6). Any coefficient under 0.1 is a mark of income equality, and the higher the Gini number the greater is the degree of inequality. Thus we see that, for young adults, there remains a high degree of equality in their drift into poverty. Many professional young people who will eventually become rich do not enter the workforce until they are about 25. But not all young lawyers, accountants and doctors will get well paid jobs in the 1990s.

For male employees, Table 6 shows a trend to inequality that began in 1976. We can say that, from that time, inequality has been growing within groups of like people, but has been diminishing between groups of unlike people. The blip in 1986 reflects the omission from the statistics of people working 20-30 hours a week, as well as a reduction in overtime in traditional male occupations. Female inequality was at its peak 20 years ago, reflecting the large numbers of new female workforce entrants, and the large numbers of mothers, having completed their families at a historically young age, returning to the workforce in junior positions. Their incomes contrasted sharply with those of "career women" who had experienced continuous work records. The distinction between the two types of female employee largely disappeared in the 1980s.

Table 7 shows the combined effects of changes in employment and changes in wages in the late 1980s, covering a wider range of age groups and employment statuses. These figures include benefits and student allowances as well as wages. Collectively, the only people to have improved their incomes are women over 30. This is the group of people with growing disposable incomes that advertisers can be expected to further appeal to when marketing their products. The young are easily the worst affected, suggesting a much greater dependence than ever before by people in their twenties on parental accommodation and income support. The social implications of prolonged economic dependence within a generation should be an urgent topic for public debate, and may be the seeds of an economic crisis in perhaps the 2020s, just when there will be record numbers of elderly dependents.

Total incomes of the full-time labour force have not fallen as rapidly as those of full-time workers. This reflects the ability of the unemployed to maintain their real incomes up until March 1991. Benefit cuts were implemented just after the census was taken. The benefit cuts will have a major impact on the income figures in the 1996 census. Benefit cuts have made wage cuts possible. Indeed, it is probable that the major reason for the benefit cuts was not to cut the Government's deficit (which hasn't happened) but as a complement to the Employment Contracts Act, as a wage-cutting device.

The experience of 1986-91 dispels the view that lower wages will bring about full employment. Despite young adults' willingness to accept very low real wages, employers have been less willing than ever before to utilise their labour.

There is some good news amidst the gloom. At the end of the 1930s' depression, there was a business recovery based largely on a big fall in the real exchange rate coinciding with a fall in labour costs. The recovery was already beginning to peter out by the end of 1935, and a similar recovery died in Australia in the late 1930s. In New Zealand, the high wage policy adopted in 1936 (and the return to a regulated labour market) came just at the right time, enabling the new enterprises established in 1933-35 during a low-cost low-demand environment to become more successful than they had dared to hope. The shake-out during the depression had created a group of initially reluctant entrepreneurs.

In New Zealand in the 1990s, by dint of similar circumstances, there are more self-employed people than ever before; people whose enterprises can expand slowly by taking advantage of low wages, so long as the exchange rate and moderating tariffs give a basic level of protection from imports. The numbers of shoestring entrepreneurs will grow further in the early 1990s as domestic markets remain weak. Political forces favouring a move to more generous labour market and social welfare policies after 1996 could well boost the confidence and incomes of today's tenacious entrepreneurs, bringing about a recovery comparable with that associated with the Savage Government of 1935-40. As in the 1930s, the increased purchasing power and entrepreneurial confidence of women could play a major role in bringing about better times.

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Table 1:
Numbers of Workers declaring their Incomes in the Census

	Aged over 15		***Age 20-24***		***Age 35-44***	
	male	female	male	female	male	female
Full-Time Wage/Salary Earners						
1950/51	418,810	149,953	61,743	34,372	88,997	22,582
1955/56	471,288	171,499	59,979	31,751	95,492	27,654
1960/61	533,668	205,516	70,231	37,028	110,829	34,322
1965/66	602,613	255,184	83,663	46,511	124,513	41,252
1970/71	641,567	300,768	99,750	59,007	121,971	50,607
1975/76	689,690	357,892	107,306	69,500	122,141	64,089
1980/81	655,584	367,821	101,682	71,784	126,504	74,733
1985/86	639,944	375,220	104,006	79,172	135,903	77,793
1990/91	535,167	354,672	77,343	63,789	131,700	87,414
Employers and Self-Employed (Entrepreneurs)						
1950/51	133,669	13,271	4,976	622	39,326	3,251
1955/56	138,230	13,616	4,704	525	41,195	3,483
1960/61	122,821	10,365	3,755	399	36,507	2,541
1965/66	127,055	14,678	5,075	756	37,335	3,979
1970/71	120,421	17,558	4,945	1,027	32,718	5,083
1975/76	145,770	26,307	7,107	1,406	38,697	8,005
1980/81	134,289	29,295	6,558	1,473	37,617	9,699
1985/86	186,204	59,847	7,671	2,565	57,795	20,913
1990/91	192,897	67,893	5,250	2,082	62,196	23,190

Note: The numbers of wage/salary earners for 1986 and 1991 exclude those working between 20 and 30 hours per week.

Table 2:
Average Real Hourly Wages

Full-Time Wage/Salary Earners			
year to March	male	female	female as % of male
	$1990/91		
Age 20-24			
1960/61	$8.57	$6.50	75.9%
1965/66	$9.48	$7.64	80.6%
1970/71	$10.75	$8.91	82.9%
1975/76	$11.71	$11.41	97.4%
1980/81	$12.24	$11.80	96.4%
1985/86	$10.79	$10.30	95.5%
1990/91	$9.15	$9.21	100.7%
Age 35-44			
1960/61	$11.59	$5.96	51.5%
1965/66	$12.77	$6.51	51.0%
1970/71	$14.33	$7.11	49.6%
1975/76	$16.37	$9.26	56.6%
1980/81	$17.97	$10.36	57.7%
1985/86	$16.20	$10.07	62.2%
1990/91	$15.40	$10.47	68.0%

Table 3: Median Real Incomes of New Zealanders in Census Years

	Full-Time Wage/Salary Earners			Entrepreneurs		
year to March	male **$1990/91**	female	female as % of male	male **$1990/91**	female	female as % of male
Age 20-24						
1950/51	$15,290	$10,230	66.9%	$18,300	$9,540	52.1%
1955/56	$17,310	$11,760	67.9%	$22,210	$11,960	53.8%
1960/61	$19,400	$13,500	69.6%	$25,580	$14,140	55.3%
1965/66	$21,560	$15,610	72.4%	$27,970	$17,850	63.8%
1970/71	$23,790	$17,840	75.0%	$26,790	$17,280	64.5%
1975/76	$26,310	$22,880	87.0%	$27,460	$19,370	70.5%
1980/81	$26,500	$23,760	89.7%	$26,980	$19,910	73.8%
1985/86	$23,570	$21,840	92.7%	$23,640	$15,740	66.6%
1990/91	$20,240	$19,940	98.5%	$20,220	$14,420	71.3%
Age 35-44						
1950/51	$20,550	$10,970	53.4%	$27,770	$13,240	47.7%
1955/56	$23,740	$11,970	50.4%	$33,010	$14,810	44.9%
1960/61	$25,900	$12,570	48.5%	$34,520	$16,250	47.1%
1965/66	$28,110	$13,350	47.5%	$37,870	$19,310	51.0%
1970/71	$31,770	$13,650	43.0%	$36,420	$18,610	51.1%
1975/76	$35,810	$17,860	49.9%	$37,090	$19,990	53.9%
1980/81	$38,310	$20,570	53.7%	$36,560	$20,250	55.4%
1985/86	$36,570	$22,370	61.2%	$31,720	$18,490	58.3%
1990/91	$33,830	$23,400	69.2%	$27,880	$18,250	65.5%

Table 4: Income Margin of Entrepreneurs compared to Full-Time Employees

% increase in ave. incomes	all workers over 15 male	female
1960/61	69.1%	71.8%
1965/66	76.5%	72.1%
1970/71	51.6%	50.4%
1975/76	36.3%	23.0%
1980/81	39.4%	26.4%
1985/86	15.1%	1.2%
1990/91	7.1%	-2.8%

Notes:

All data in these tables is estimated from census returns in which people nominate the income band to which they belonged in the previous year. Data from 1986 includes Social Welfare benefits. Also in 1986, the definition of full-time work changed from 20 hours a week to 30 hours. A full-time worker may be in two or more part-time jobs. Adjustments for inflation to give real incomes use the consumer price index (CPI), with a further 5% adjustment in 1986 to correct for the lag in the big wage adjustment of 1986 following the big rise of the CPI in 1985. All incomes are before tax. Fulltime wage/salary earners with very low incomes mainly represent people who gained employment during the 12 months before the census.

Table 5:
Wage Margins of 35-44 year-olds over 20-24 year-olds

% increase	average hourly male	average hourly female	median annual male	median annual female
1950/51			34.4%	7.2%
1955/56			37.1%	1.8%
1960/61	35.2%	-8.3%	33.5%	-6.9%
1965/66	34.7%	-14.8%	30.4%	-14.5%
1970/71	33.3%	-20.2%	33.5%	-23.5%
1975/76	39.8%	-18.8%	36.1%	-21.9%
1980/81	46.8%	-12.2%	44.6%	-13.4%
1985/86	50.2%	-2.2%	55.2%	2.4%
1990/91	68.3%	13.7%	67.1%	17.4%

Table 6:
Income Distribution within Groups of Full-Time Wage/Salary Earners

Gini Coefficient	age 20-24 male	age 20-24 female	age 35-44 male	age 35-44 female
1950/51	0.092	0.090	0.119	0.145
1955/56	0.088	0.090	0.093	0.137
1960/61	0.085	0.090	0.096	0.151
1965/66	0.087	0.091	0.104	0.155
1970/71	0.094	0.103	0.113	0.177
1975/76	0.092	0.095	0.110	0.159
1980/81	0.104	0.103	0.120	0.155
1985/86	0.103	0.096	0.115	0.137
1990/91	0.109	0.101	0.131	0.134

Table 7:
Total Real Incomes in 1990/91 compared to 1985/86

% change	Ages				
Males	over 15	20-24	25-34	35-44	45-59
Full-time wage/salary	-18.5%	-36.1%	-14.7%	-6.7%	-17.4%
Full-time labour force	-14.0%	-33.0%	-12.9%	-3.9%	-11.4%
Part-time labour force	-1.2%	-19.2%	-9.1%	6.0%	4.1%
Entrepreneur	-6.1%	-41.5%	-16.8%	-2.5%	0.3%
Population	-10.6%	-28.5%	-10.4%	-1.7%	-8.7%
Females					
Full-time wage/salary	-1.8%	-26.7%	9.3%	18.7%	10.4%
Full-time labour force	0.3%	-24.1%	9.3%	18.1%	12.9%
Part-time labour force	9.9%	6.3%	6.3%	11.5%	12.4%
Entrepreneur	13.1%	-25.1%	6.5%	13.6%	23.2%
Population	3.8%	-15.3%	14.4%	19.2%	11.1%

note: people not specifying their incomes are ignored