

The Employment Contracts Act 1991 and the labour share of income in Aotearoa/New Zealand: an analysis of labour market trends 1939- 2023

Paper for AIRAANZ Conference, Perth, 31 January-2 February 2024

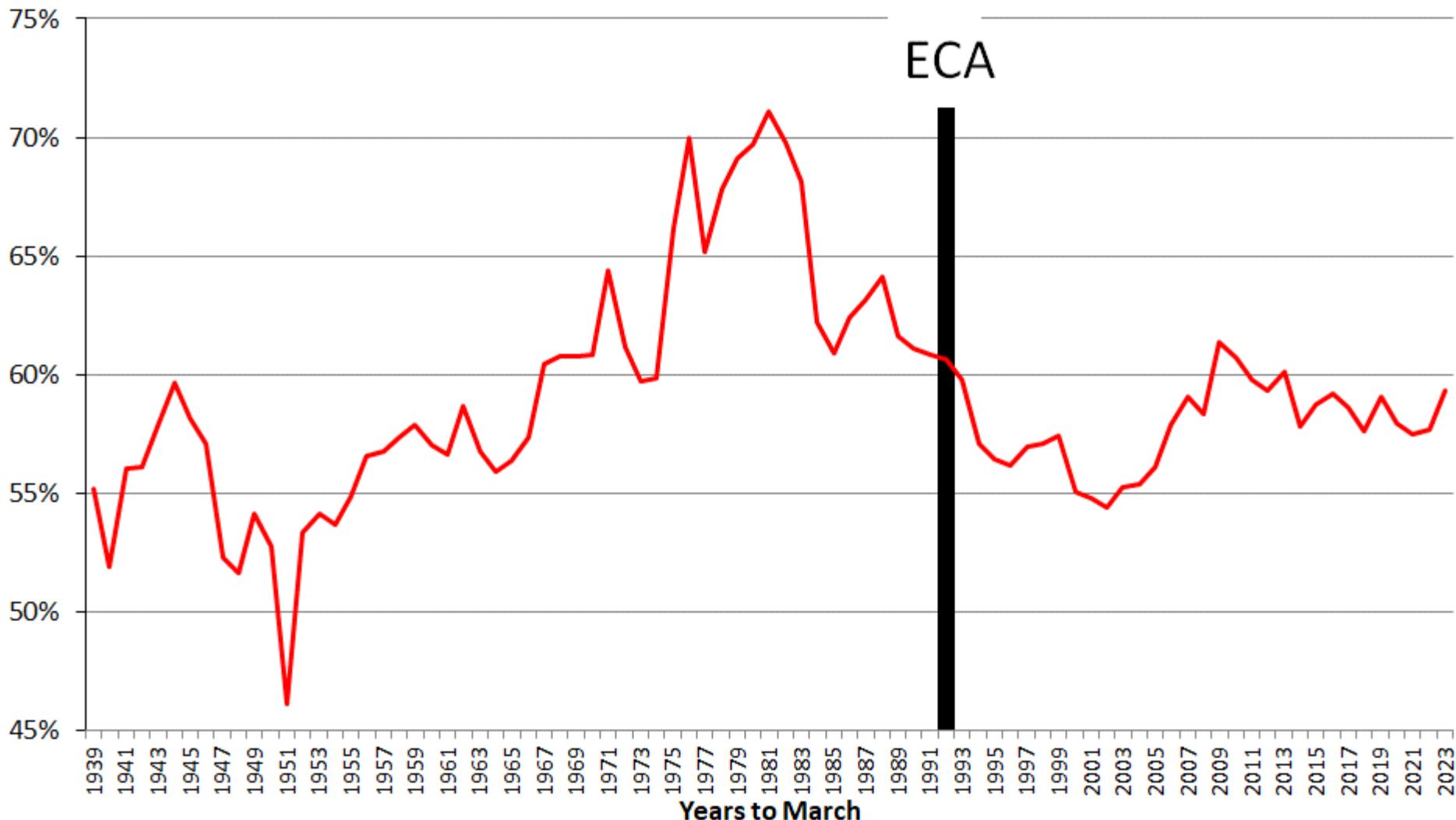
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Our big question:

- The Employment Contracts Act 1991 (ECA) was a central plank in Aotearoa/New Zealand's sweeping neoliberal revolution
- It swept away industry awards and most of the rights and negotiating power of organised labour
- Yet the most widely-used measure of labour-market bargaining power – the Labour Income Share - shows no obvious break in trend
- Why not?

Compensation of Employees as a percentage of Net Domestic Income 1939-2023



Apparent trends:

- up WW2 – 1981
- down 1981 – 2002
- Up briefly 2003-2009 to 1992 level
- then falling slowly again to slightly below 1992

But the Labour Income Share is not a reliable measure of workers' bargaining power because it reflects also the economy-wide employment rate

$$\frac{\text{compensation of employees}}{\text{national income}} = \frac{\text{compensation of employees}}{\text{number of employees}} \times \frac{\text{number of employees}}{\text{adult population}} \times \frac{\text{adult population}}{\text{national income}}$$

$$= \frac{\text{number of employees}}{\text{adult population}} \times \frac{\frac{\text{compensation of employees}}{\text{number of employees}}}{\frac{\text{national income}}{\text{adult population}}}$$

$$= \frac{\text{number of employees}}{\text{adult population}} \times \frac{\text{compensation per employee}}{\text{national income per adult}}$$

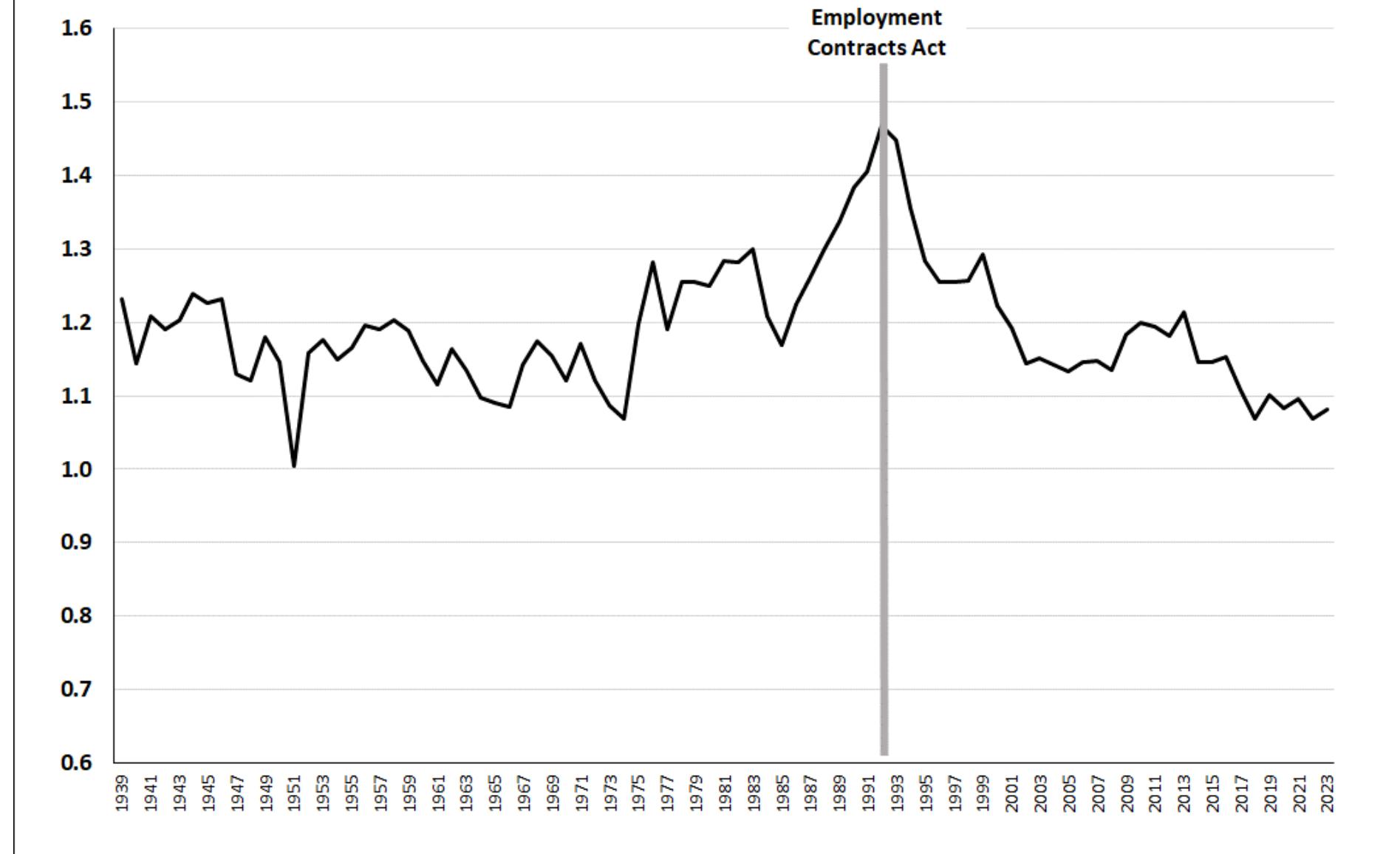


=> Labour Income Share = Employment rate x Wage Ratio

shows how many of the adult population are in waged work

shows what workers collectively receive as a share of what they produce (working with capital and land)

Aotearoa/New Zealand Wage Ratio 1939-2023



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KEY POINT

=> Labour Income Share = Employment rate x Wage Ratio

The conventional Labour Income Share (LIS)

- rises and falls with the Wage Ratio

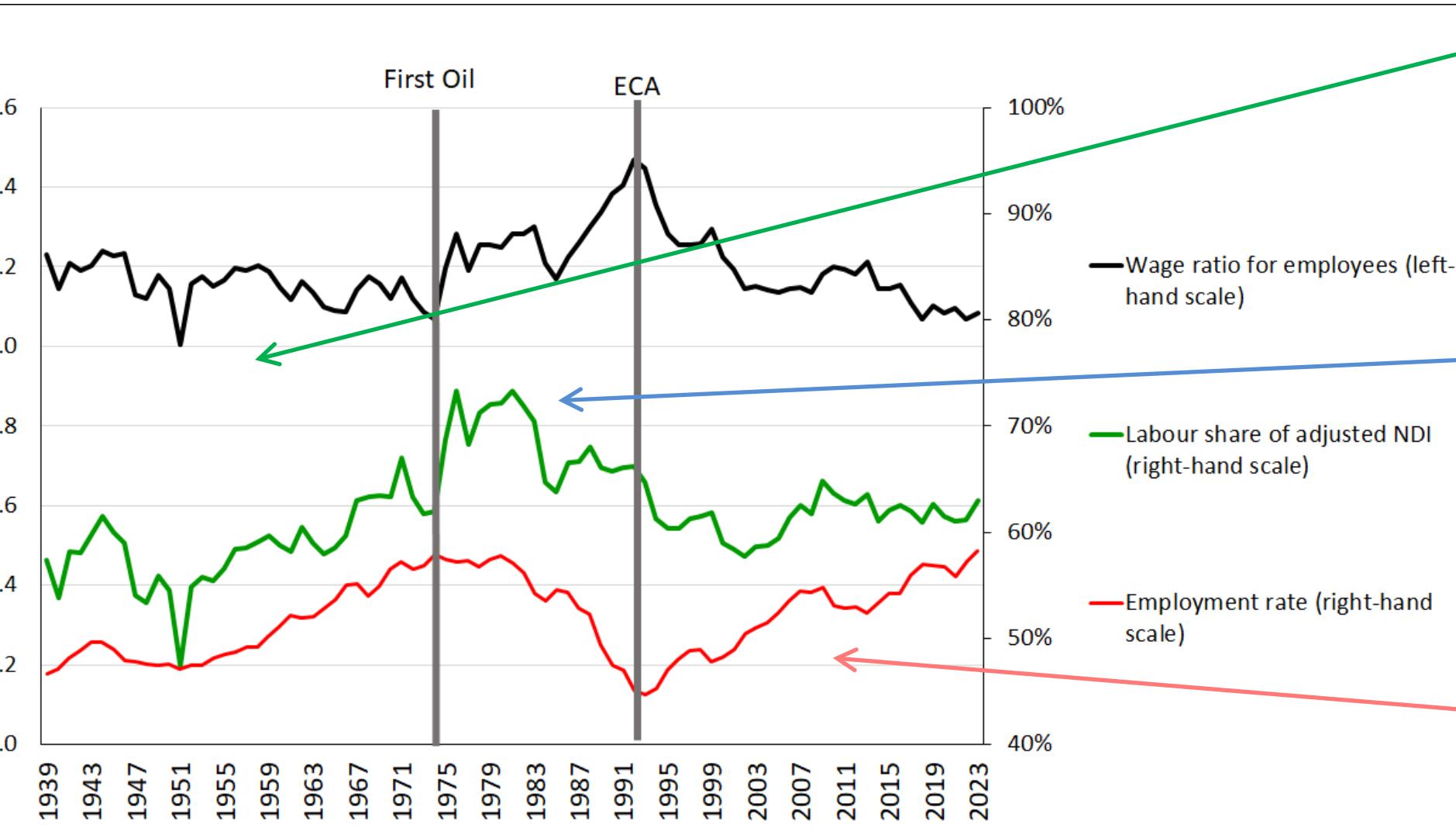
BUT ALSO

- rises and falls with the employment rate

Only with a constant employment rate does LIS reflect labour's wage-bargaining power

Which of the two relationships dominates in different periods?

Here's the picture for Aotearoa/New Zealand: three distinct periods



1939-1974: The rise in LIS is driven by EMP while WR is flat => the wages share increases as more people enter work

1975-1993: An initial jump in WR raises LIS but then falling EMP drags it down => wage-bargaining gains for the employed are outweighed by falling employment

1994-2023: rising EMP is counterbalanced by falling WR => wage suppression as a fixed labour share is spread across rising numbers employed

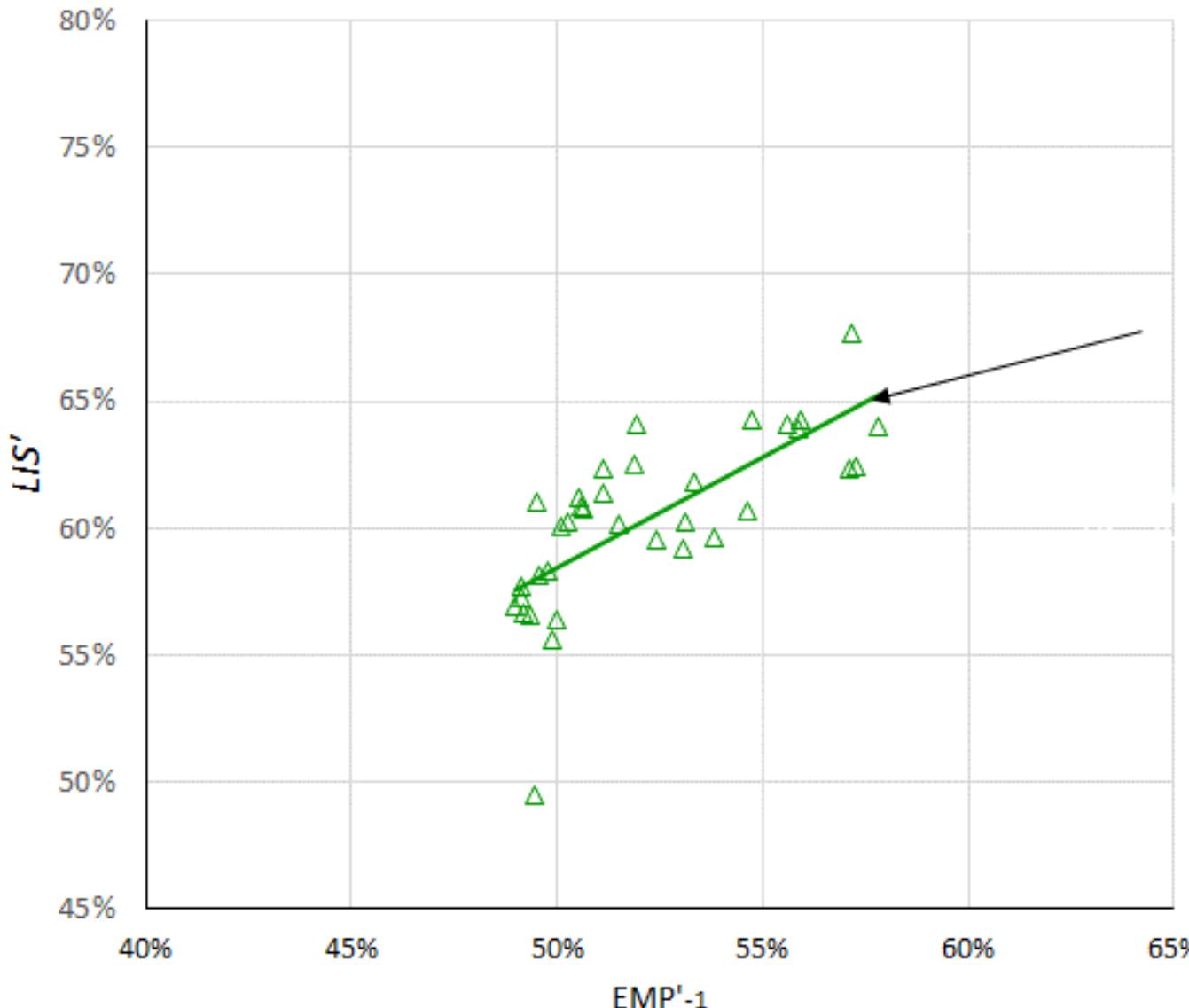
Regression analysis

To see how much of the change in LIS is driven by EMP rather than WR we set up and estimated a regression equation

$$LIS_t = \beta_0 + \beta_1 EMP_{t-1} + u_t \quad t = 1940 - 2023$$

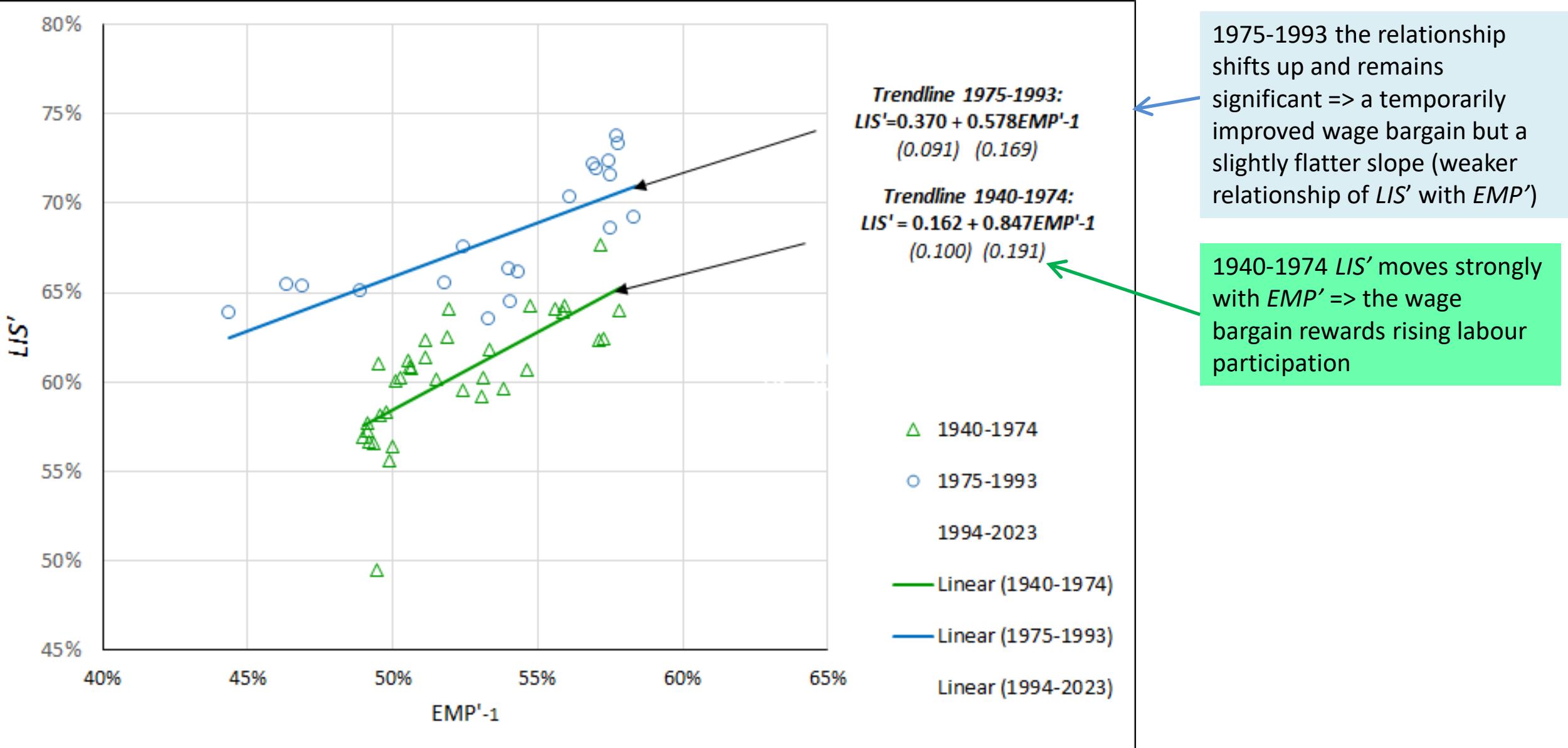
using de-trended values of LIS and EMP.

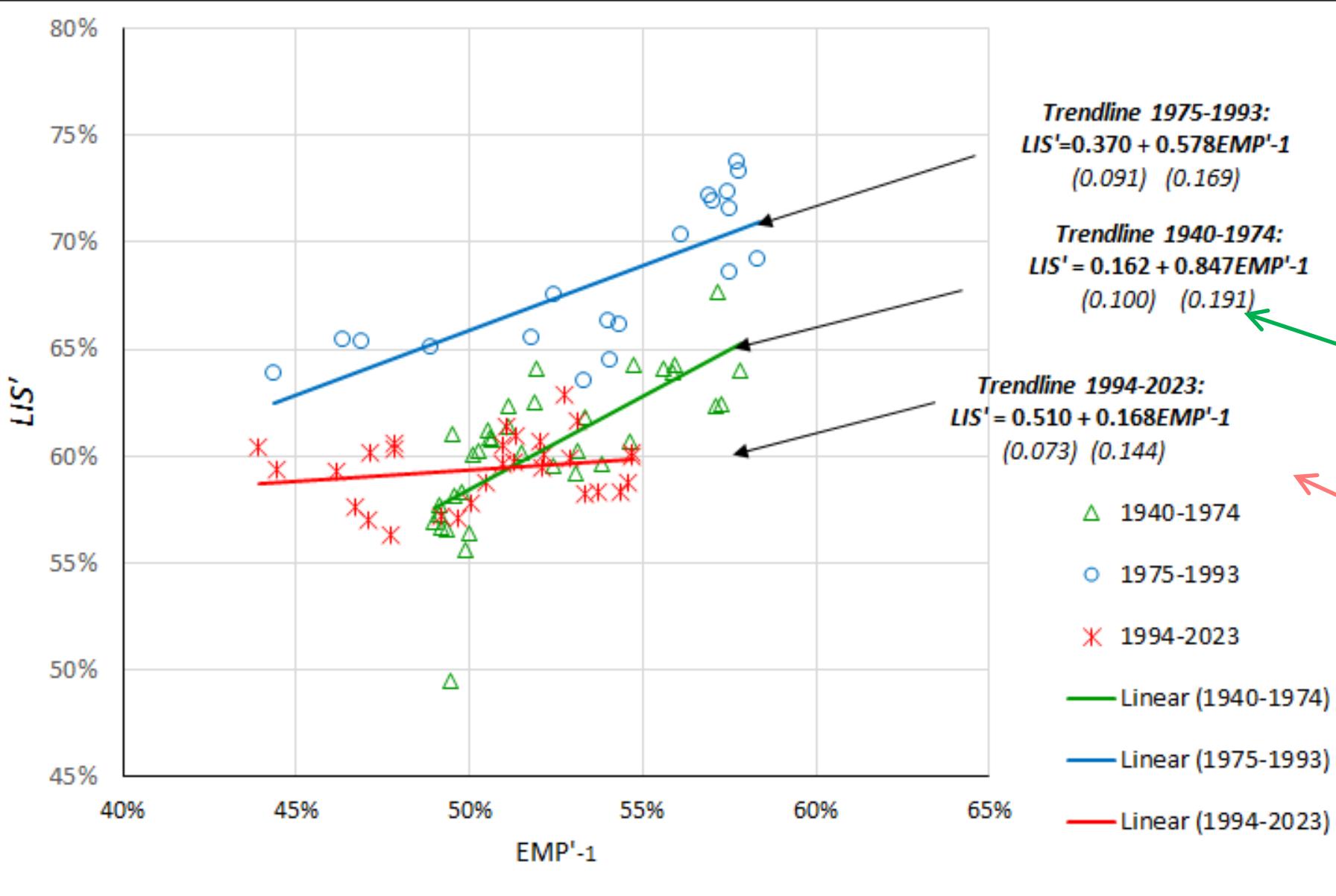
Distinctive features of the three periods identified above:



Trendline 1940-1974:
 $LIS' = 0.162 + 0.847EMP'-1$
 $(0.100) \ (0.191)$

1940-1974 LIS' moves strongly with EMP' => the wage bargain rewards rising labour participation





1975-1993 the relationship shifts up and remains significant => a temporarily improved wage bargain but a slightly flatter slope (weaker relationship of LIS' with EMP')

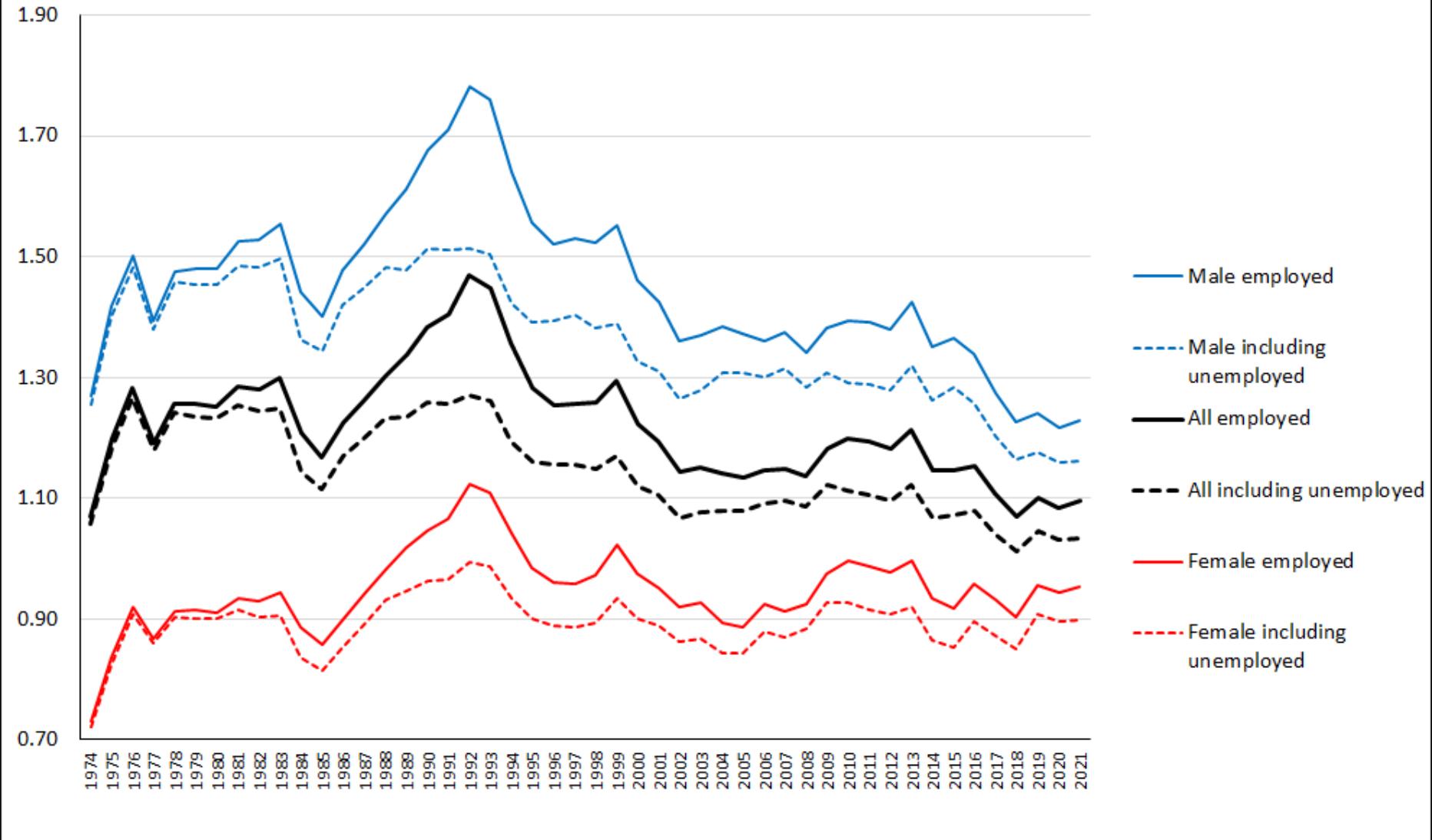
1940-1974 LIS' moves strongly with EMP' => the wage bargain rewards rising labour participation

1994-2023 a downward shift and no significant positive slope => wage suppression: workers collectively unable to secure an increase in the wage share to compensate for rising participation and employment

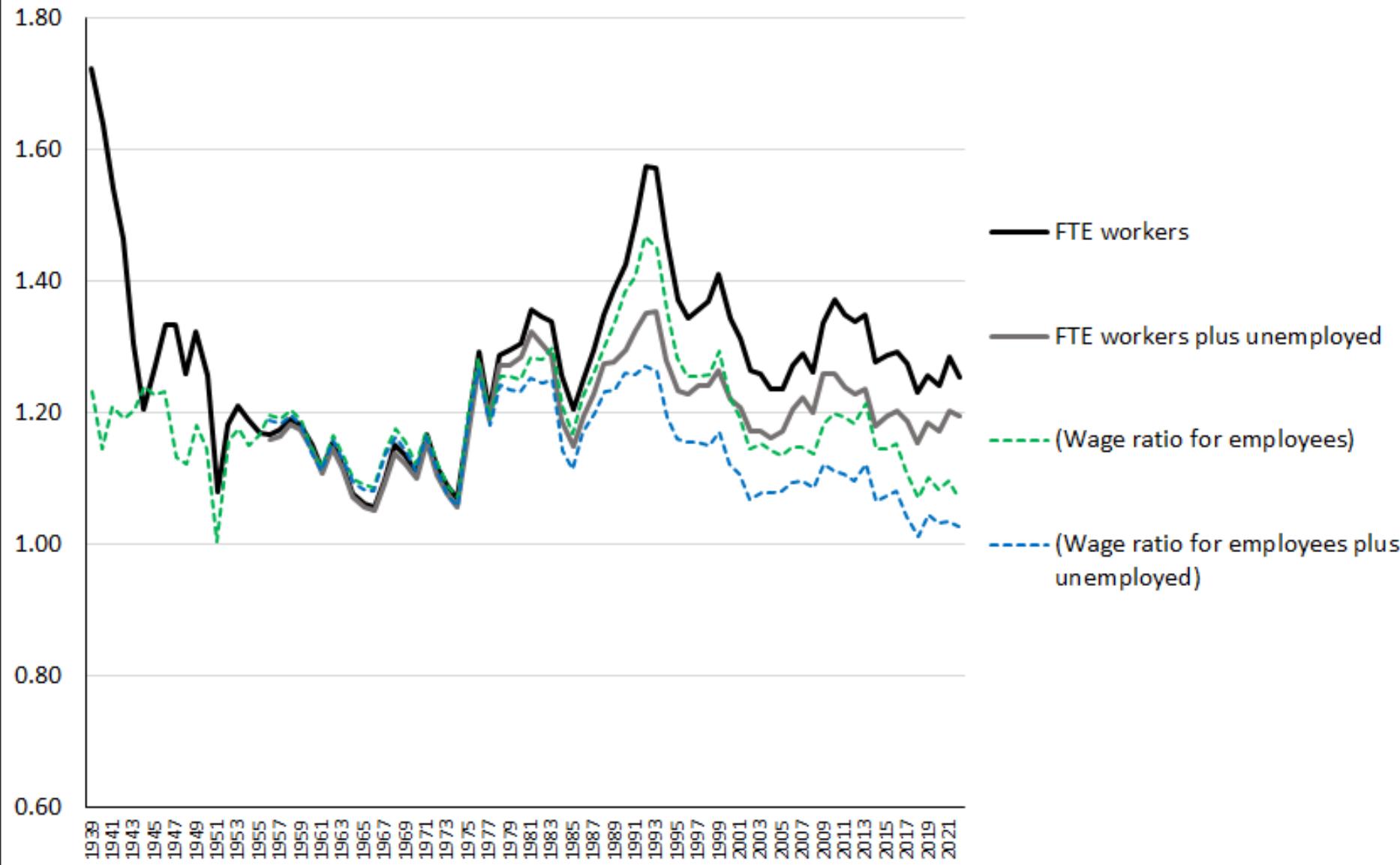
Robustness checks: does our story hold for

- hours worked in place of employee numbers?
- male versus female employees?
- self-employed separately or combined with employees?

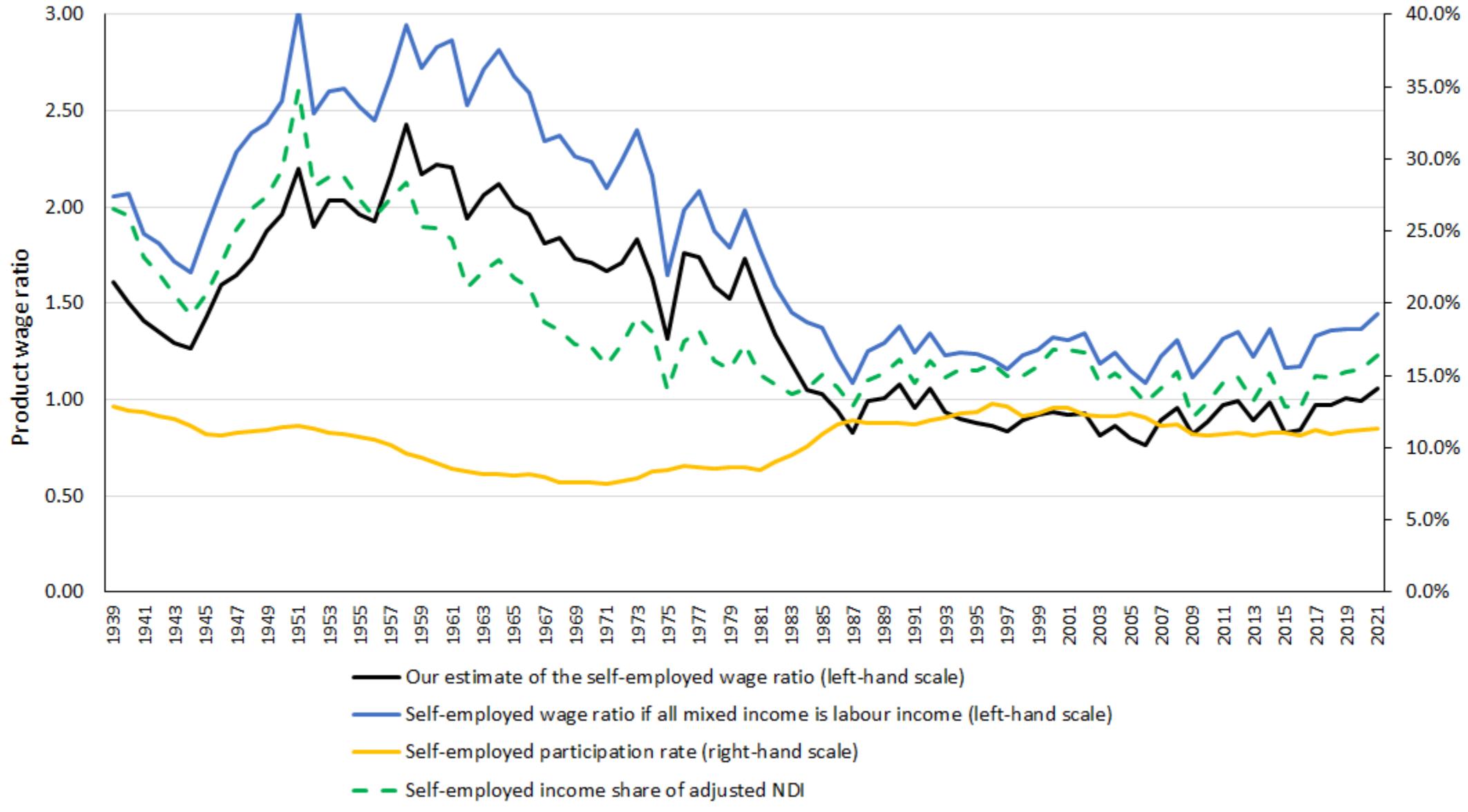
Wage ratios by gender, 1974-2021



Wage ratio for full-time equivalent workers

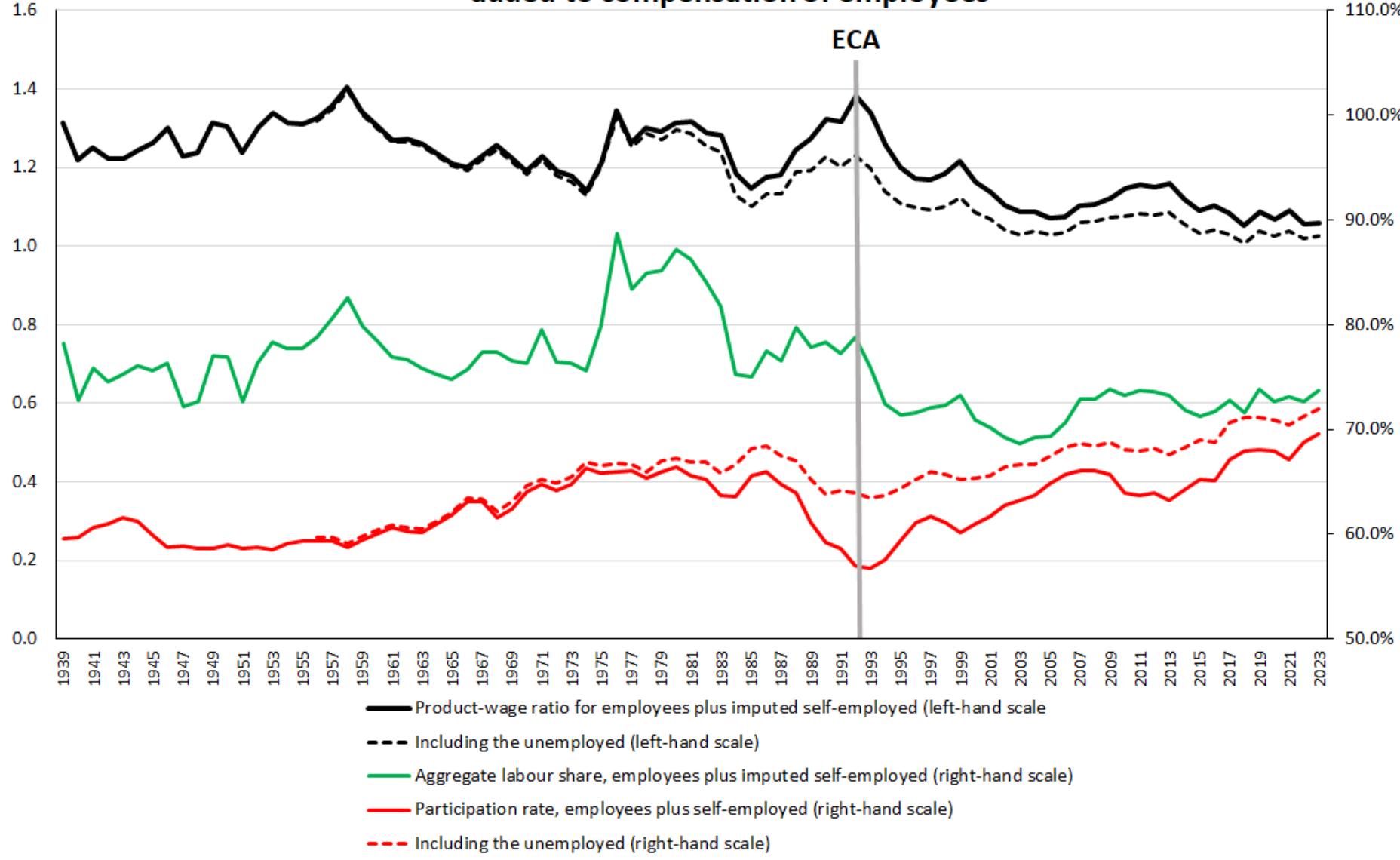


Results of imputing labour income to the self-employed



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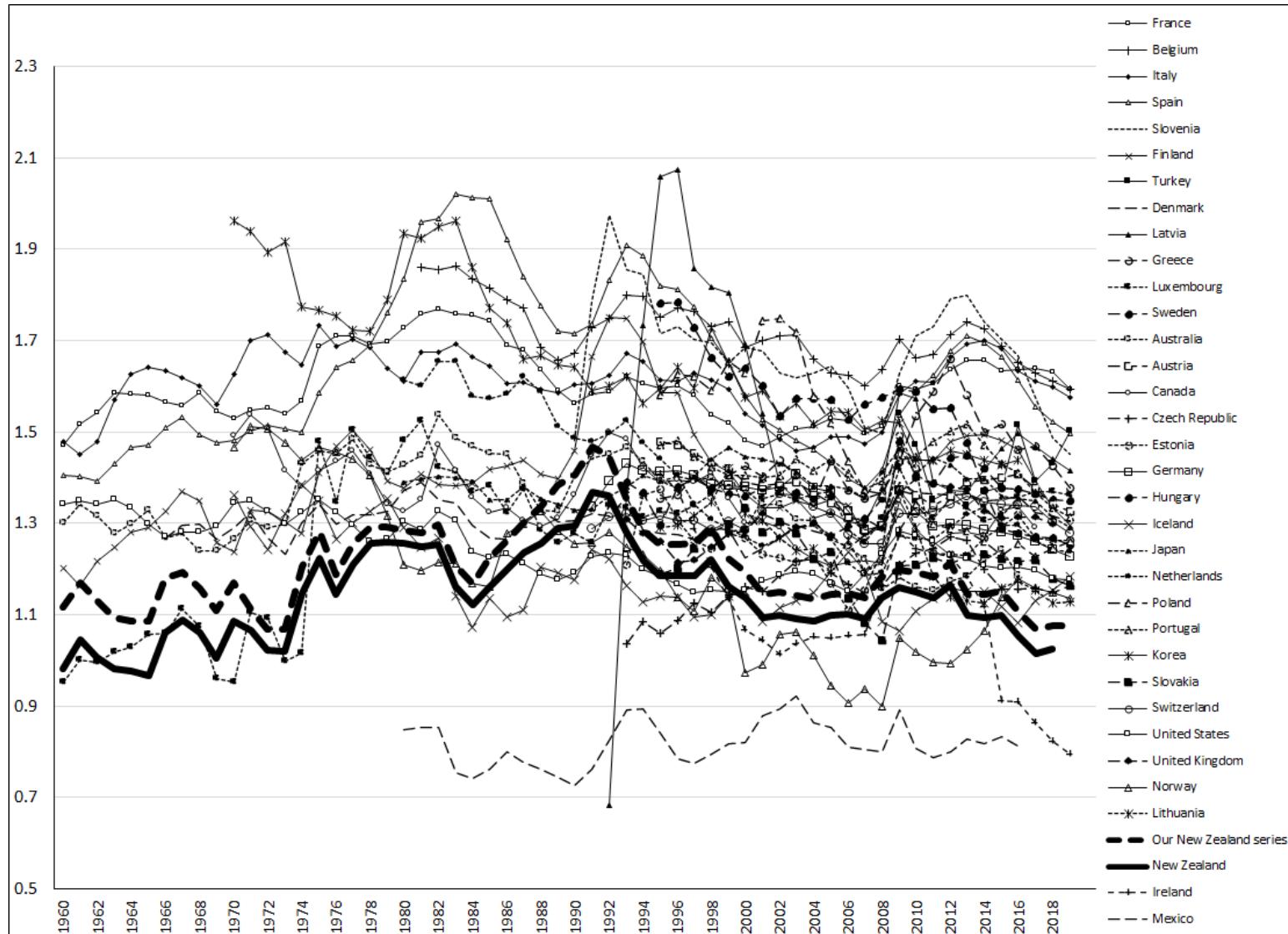
Components of the aggregate labour share with imputed self-employed labour income added to compensation of employees



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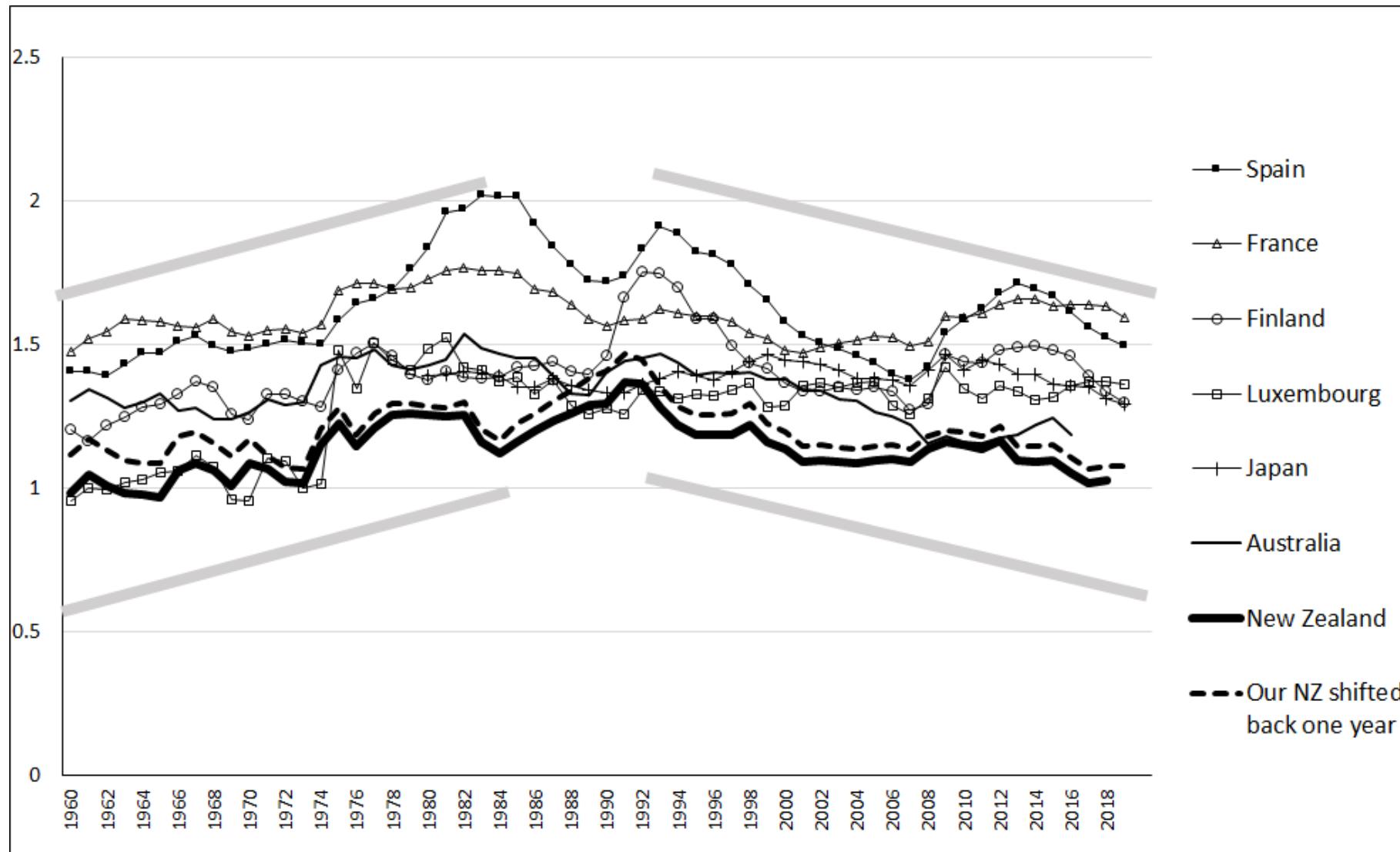
International comparisons

Wage Ratio for 33 OECD economies

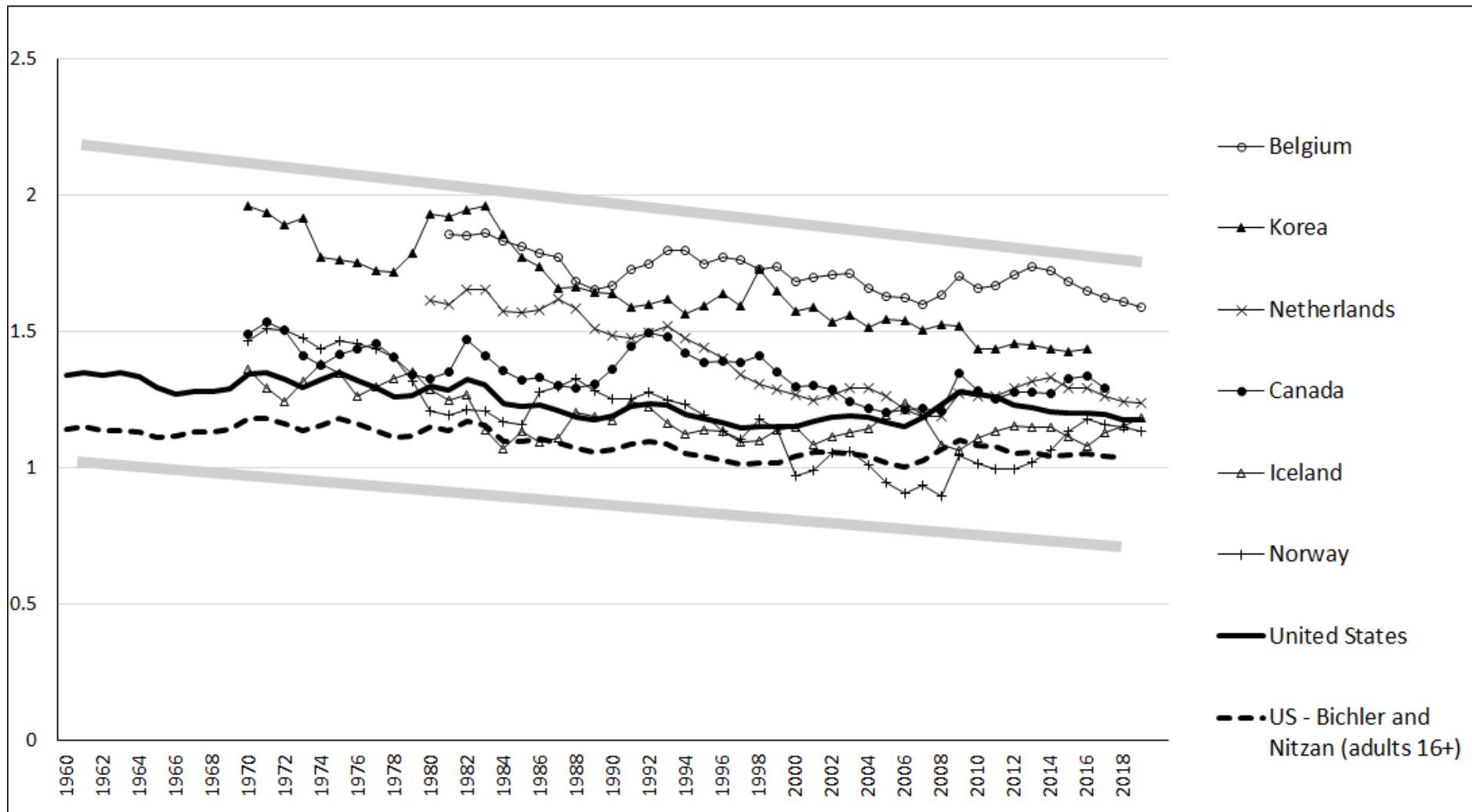


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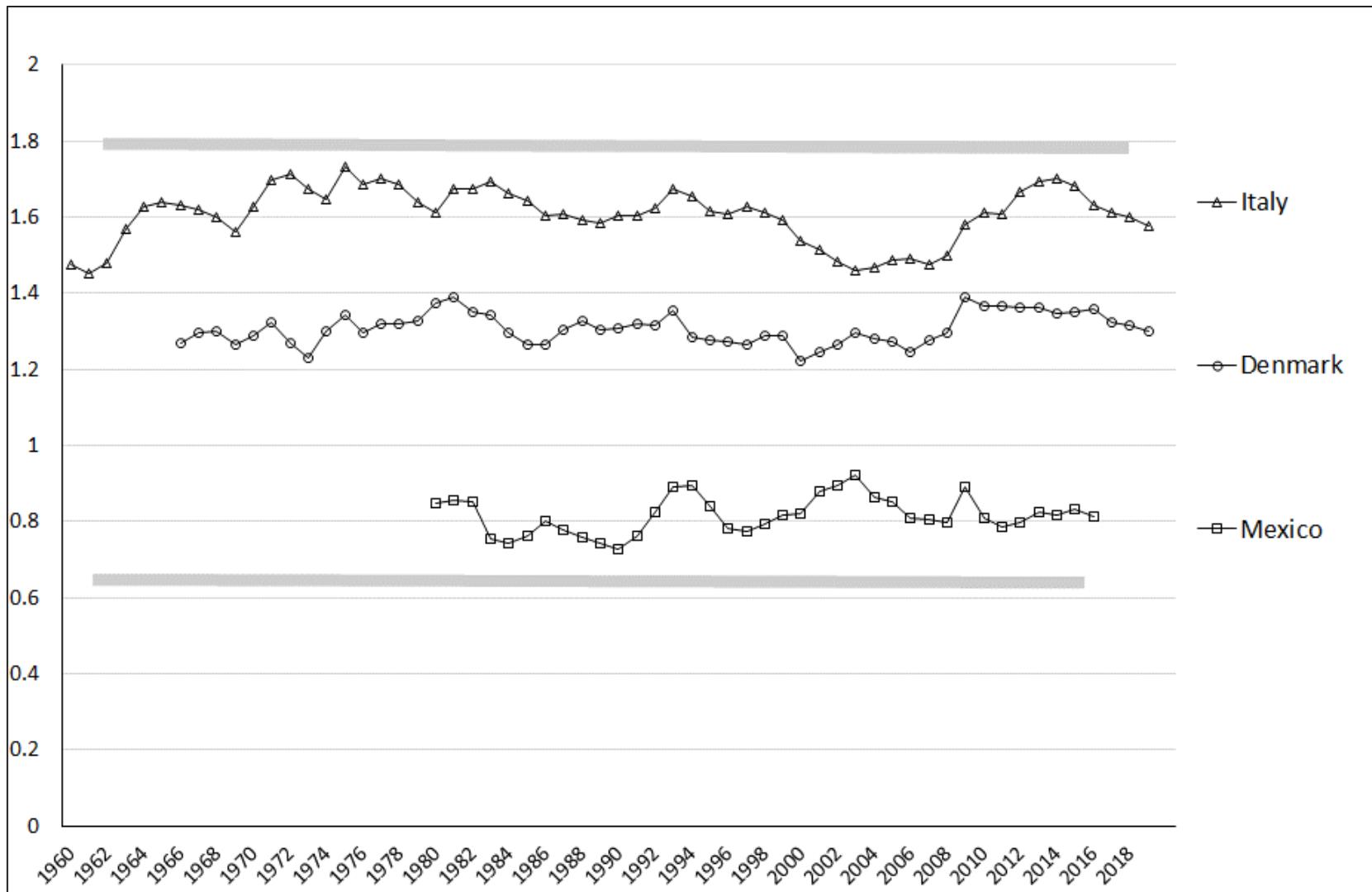
Seven 'hump' countries



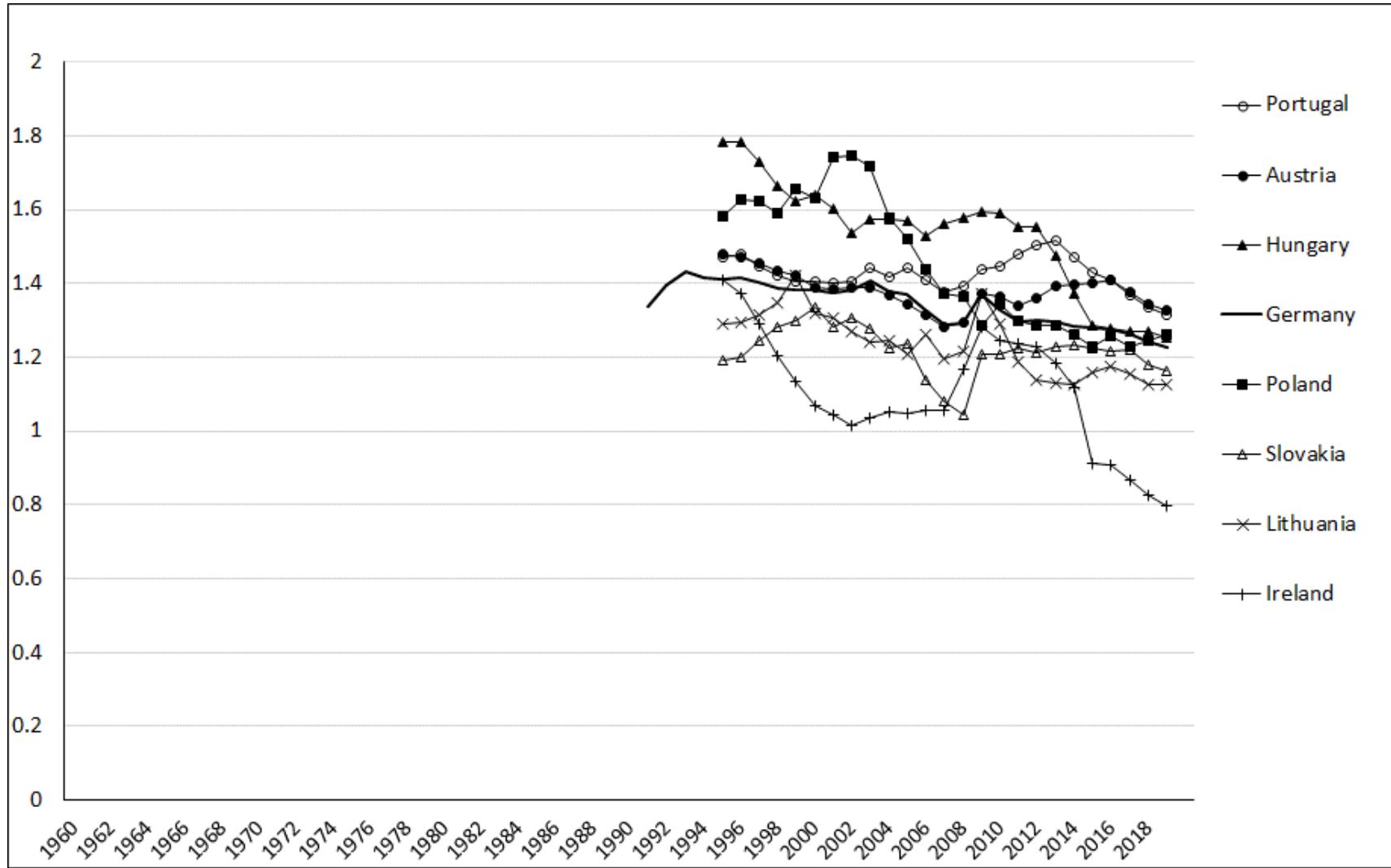
Seven downward-sloped countries



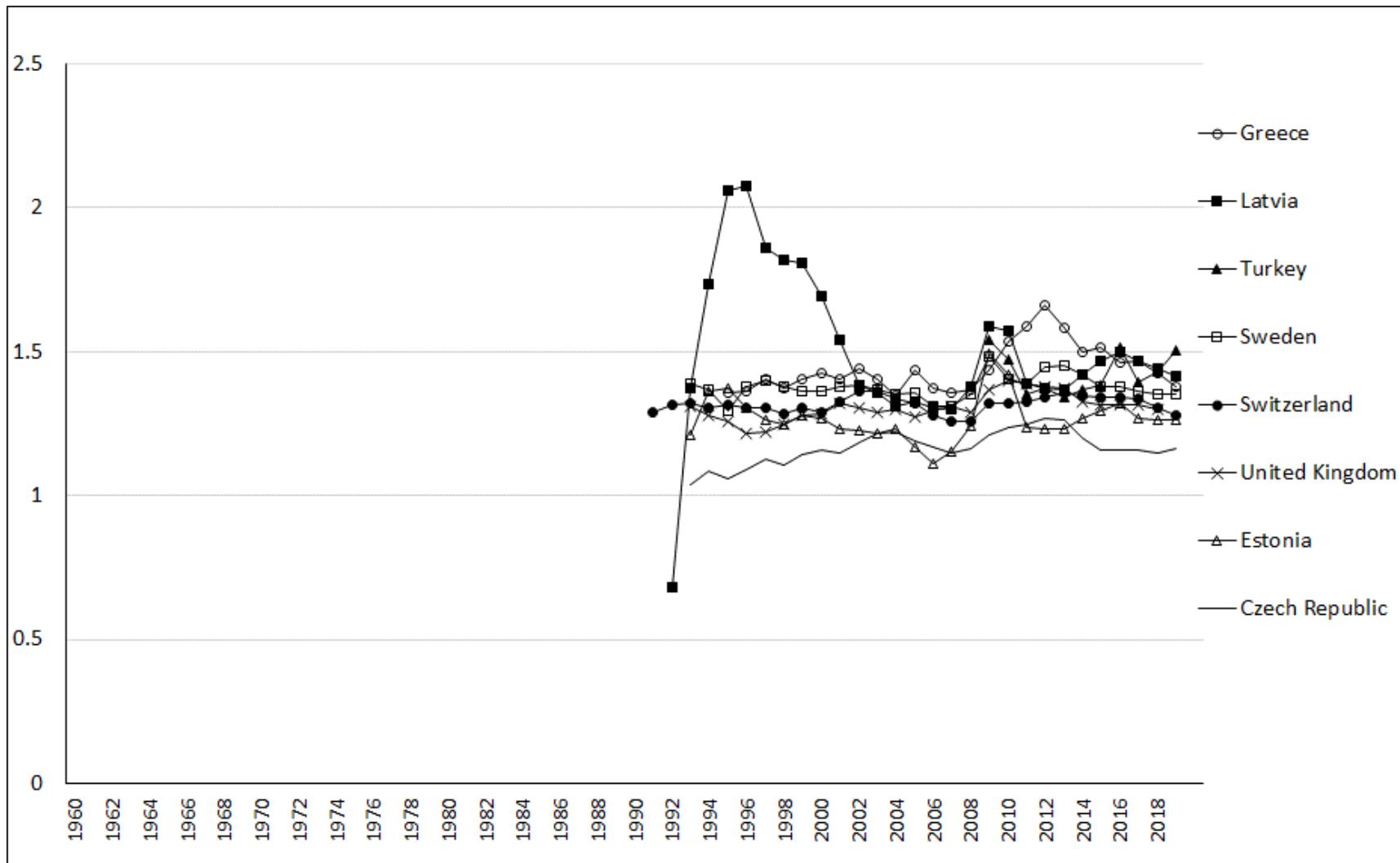
Three countries with no trend



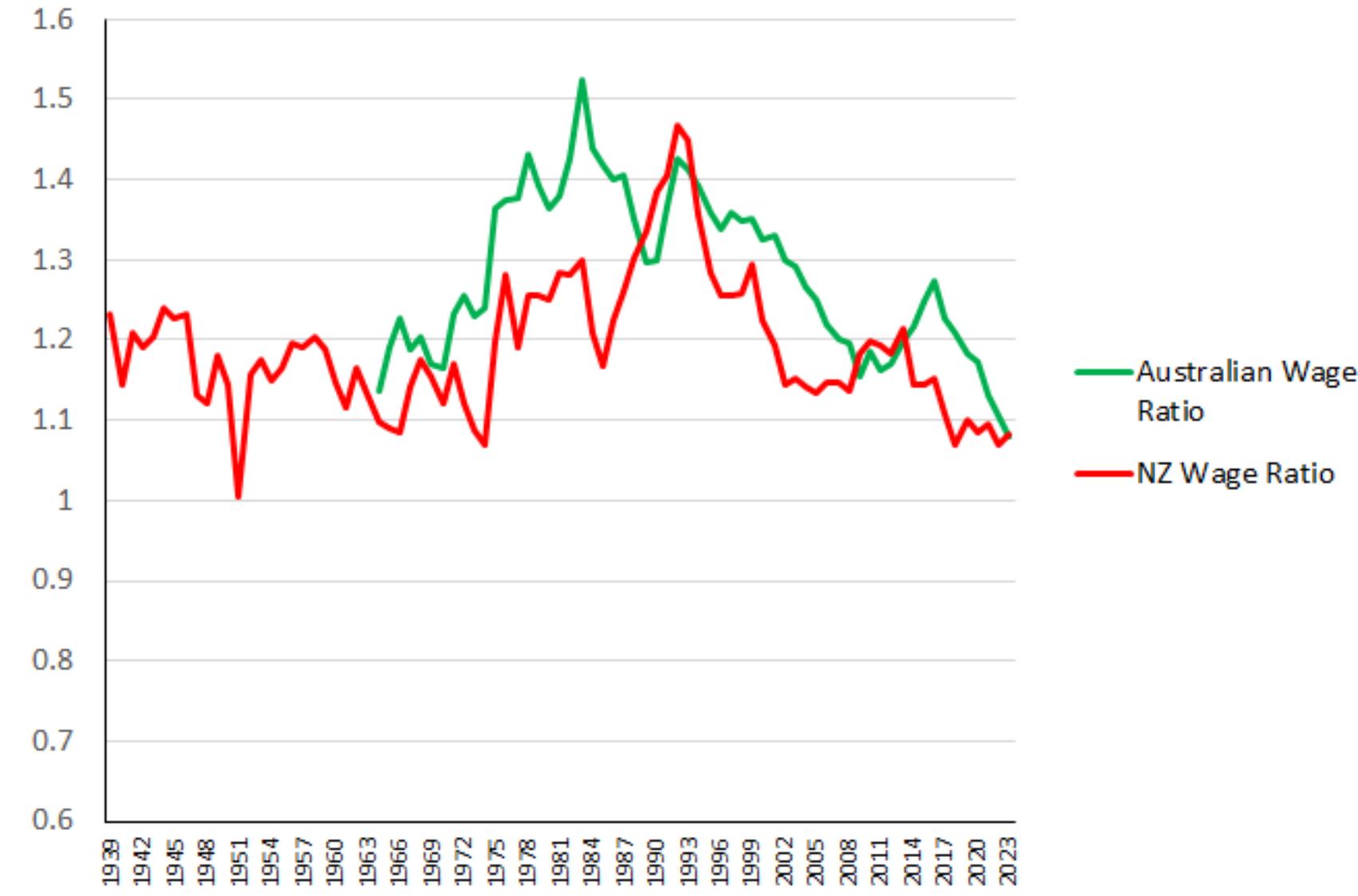
Eight downward-trend countries 1990-2019



Eight countries 1990-2019 horizontal or upward sloping



Wage Ratios compared



Thanks

Any questions?

The paper, statistical appendix and slides for this presentation are online at:

- <https://geoffbertram.files.wordpress.com/2024/01/bertram-rosenberg-iraanz-2024-3.pdf>
- <https://geoffbertram.files.wordpress.com/2024/01/eca-and-labour-share-statistical-appendix-1.xlsx>
- <https://geoffbertram.files.wordpress.com/2024/01/perth-slides-3.pdf>

LIS, EMP and Wage Ratio for Employed and for Employed + Unemployed

