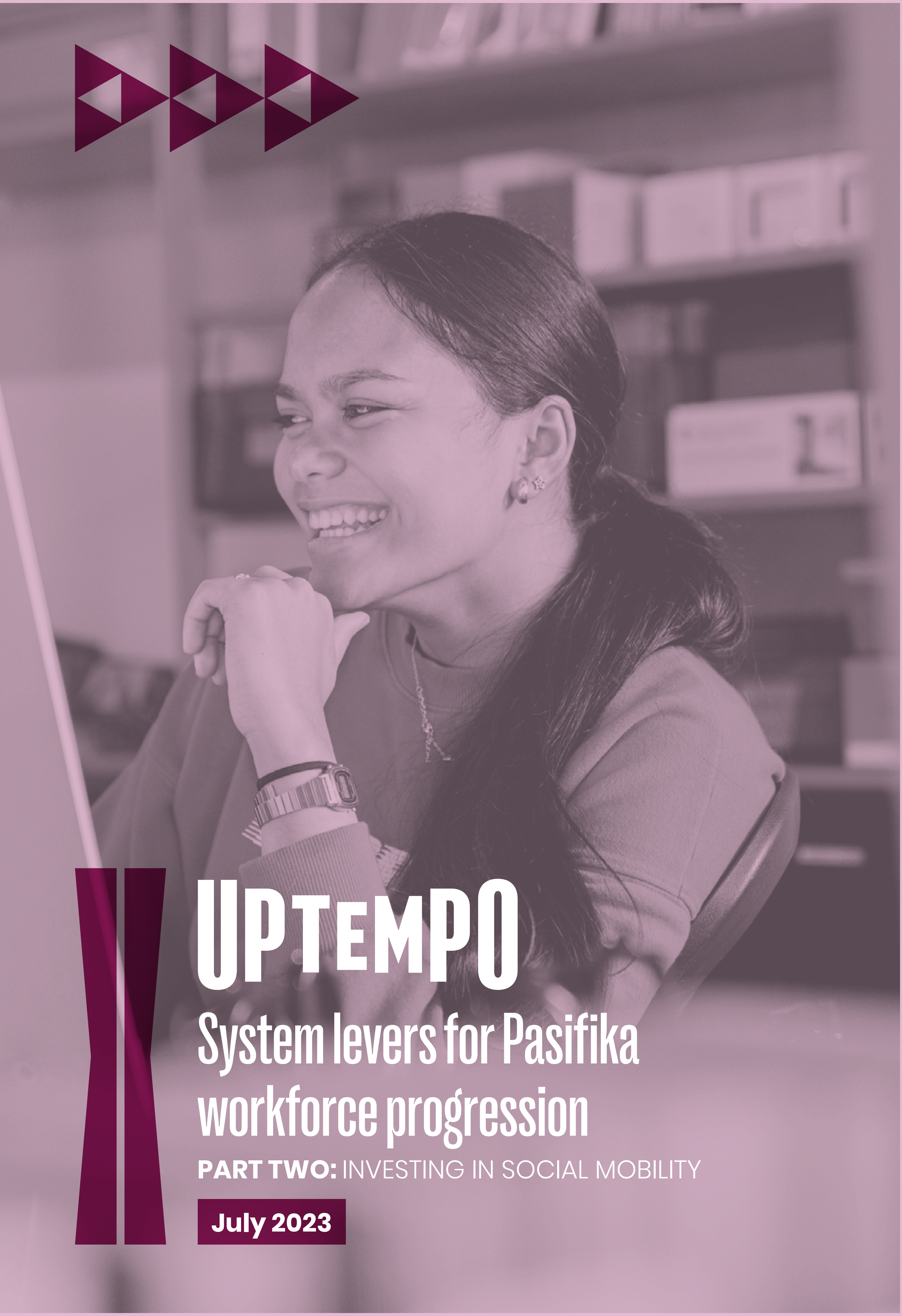

UPTEMPO

System levers for Pasifika workforce progression

PART TWO: INVESTING IN SOCIAL MOBILITY

July 2023

Summary

This report proposes that Aotearoa New Zealand reintroduces social mobility[1] as a government investment priority, to accelerate a high wage, upskilled, high productivity and socially equitable economy. Following high level system recommendations in the Uptempo report System Levers Part One, Part Two identifies the following specific and immediate system levers to boost social mobility and in-work progression for Pasifika communities, plus medium and long-term system changes:

01

Immediate levers:

Start filling gaps in in-work progression support

- Pilot expanded eligibility for employer subsidies such as Flexi-wage, to subsidise upskilling and progression for Pasifika workers who have not progressed past the minimum wage for long periods.[2]
- Expand eligibility for the training incentive allowance to adults in Pasifika households experiencing in-work poverty.

02

Medium term:

Policy and legislative shifts to make existing system supports work for Pasifika ‘aiga and increase universal support for social mobility

- Scale eligibility and abatement thresholds across the system to the number of dependents in a household.
- Recommendations from System Levers Part One report: Invest in the industry coordination of training-to-work pipelines, targeted social support for in-work progression, and implement improvements in existing welfare support recommended by the Welfare Expert Advisory Group.

03

Long term:

Rebuild foundations for system equity

- Recommendations from System Levers Part One report: Introduce pay transparency and pay equity legislation.
- A high-trust welfare system that restores dignity (see Whakamana Tāngata, WEAG 2019).

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1 Social mobility refers to change in a person’s socio-economic situation, either in relation to their parents (inter-generational mobility) or throughout their lifetime (intra-generational mobility) (OECD).

2 Uptempo only places ‘aiga with Living Wage employers, but in general recommends that progression off minimum wage for experienced workers should be within six months, and that one year to 18 months for an experienced worker on minimum wage is a clear indicator of ‘too long’ on low wages and of disadvantage in the labour market. Uptempo families include wage earners who have been attached to the labour market for at least 10 years but are still on minimum wage or below Living Wage. Plum et al 2021 found in New Zealand that common approaches to wage progression analysis provide a rosy view of the ‘stepping stone’ potential of minimum wage jobs and are biased, due to not taking consistency of prior pay into account. If all bundled together, New Zealand men on low wages at only one point in time 12 months prior had 74.7% chance of higher pay a year later – but the study found that men who were persistently low-paid for those 12 months had only a 28.1% chance of higher pay later, and those who had had spells of both low pay and unemployment over the past 12 months had only a 14.5% chance of higher pay later. Meanwhile, those who had had spells of both higher and lower pay in the past 12 months had a 72.8% chance of higher pay later (Plum et al., 2021). **Unsurprisingly, this suggests that the real ‘stepping stone’ to higher pay is not low pay, but getting a chance at higher pay.**

Introduction:

Paths to Pasifika prosperity out of poverty

Uptempo tests ways to accelerate Pasifika intergenerational wealth and wellbeing by boosting incomes through in-work progression. We focus on the many Pasifika ‘aiga working long hours in low paid jobs without enough money – and particularly ‘aiga with small children, for whom in-work poverty is especially pronounced (Plum & Pacheco, 2019).

Uptempo’s wraparound support creates bandwidth for struggling ‘aiga to lift their gaze beyond basic survival, identify collective dreams to plan and take steps towards intergenerational wealth. In the same way, Uptempo seeks to lift the gaze of the government beyond the ’now’ of (often inadequate) income supplements, towards reorienting government to make social mobility for intergenerational equity the collective goal of social and economic agencies.

Why act on social mobility for Pasifika?

Pasifika communities experience the largest income and wealth gaps among the country's key ethnic populations, and the worst in-work poverty[3]

- Despite this, and although Pasifika communities have comparatively low labour force participation and higher unemployment, they are far from 'jobless'. The average Pasifika household not only has more people, but more jobs than non-Pasifika households, with 2.2 income earners compared with 1.6 earners per household (The Treasury, 2018b).
- Higher in-work poverty for Pasifika is connected to a greater number of one-income households with more children and young people not yet of 'prime working age' (Plum & Pacheco, 2019). Childcare costs restrict the ability of a parent to work, with many income-earners stuck in low wage and 'low skill' jobs, often for many years (The Southern Initiative & Ministry of Business Innovation and Employment, 2018; Uptempo, 2022, 2023).
- As the Working For Families review has noted, in-work poverty is worsening and one income is increasingly inadequate to support a family's basic needs in Aotearoa (Coughlan, 2023).

Pathways to social mobility and wage progression have been restricted for Pasifika

- Systematic barriers to in-work progression and upskilling create a low pay trap[4] for Pasifika (Came et al., 2019; New Zealand Human Rights Commission, 2022; The Southern Initiative & Ministry of Business Innovation and Employment, 2018; Uptempo, 2022a).
- New Zealand's post-war colonial migration policies imported Pacific labour into the working class, and nascent social mobility was increasingly cut off by welfare, education, housing and labour market reforms from the late 1980s onwards.
- Recent research has **challenged the myth of social mobility** in Aotearoa by revealing the poor chances of those persistently in low wage jobs progressing up the wage ladder (Plum et al., 2021).
- Ongoing discrimination and institutional racism play a part in current substantial Pasifika pay gaps, regardless of education, occupation, family and other background factors (Cochrane & Pacheco, 2022; New Zealand Human Rights Commission, 2022; The Treasury, 2018a).

3 Pasifika have the lowest incomes and net worth of the four main ethnic categories (Statistics NZ), and the Pasifika-Pakeha pay-gap is the largest and most 'unexplained' by background factors (Cochrane & Pacheco, 2022; New Zealand Human Rights Commission, 2022; The Treasury, 2018a). Pasifika are also the most over-represented in in-work poverty (Plum & Pacheco, 2019). See Uptempo: System Levers for In-Work Progression Part One for more details.

4 Low pay trap refers to getting stuck in low paid roles over time.

The problem: Where is the support for transitions out of low-paid work?

Uptempo was initiated and funded in 2020 because **there is a gap in government support for transitions out of low-paid work**, especially for Pasifika. It is one of the only government-funded Active Labour Market Programmes focused on how to lift incomes for people in low-paid work.

Government employment support through training and employer subsidies generally targets people who are **not in work**, to move them into (any) employment. Meanwhile, investment in alleviating **in-work poverty** has focused on lifting household incomes above the poverty line through a combination of tax credits and welfare supplements, rather than supporting working people into higher-paid work through upskilling or training subsidies.

*These two approaches are increasingly **inadequate** for:*

- in-work poverty alleviation, particularly for large Pasifika households (Coughlan, 2023; St John & O'Brien, 2023)
- promoting social mobility, particularly for Pasifika in the lowest-paid jobs

There are currently no systematic mechanisms to directly support low-waged employed people to transition into higher paid work, to lift their households out of financial struggle. Crucially, there is no 'joined up' approach to skills or work transition between (WINZ) support for the unemployed, and IRD support (Working for Families) for the employed.

Ideally, **both unemployed and low-wage workers should be supported in similar ways to upskill into better jobs as a solution to poverty, given they are often the same people at different points throughout the year.** However, being unable to progress past minimum wage is not explicitly included in the 'labour market disadvantage' definition that governs key employment transition supports such as Flexi-wage, Mana in Mahi, and Skills for Industry. Uptempo argues that it should be, because **there is a porous border between precarious low-wage employment and unemployment:**

- Low-wage work is much more likely to be insecure or precarious, with greater risks of unemployment (Pacheco et al., 2016).
- Low-paid household income fluctuates constantly, as evidenced by the 50% of Family Tax Credit recipients being underpaid and 50% overpaid due to changes in income from week to week, due to changing hours or being in and out of work (Coughlan, 2023).
- Government is starting to acknowledge this blurred boundary between low-wage insecure jobs and unemployment. The Covid response allowed MSD to start including jobs at risk – expanding Flexi-wage support to businesses having trouble staying afloat without shedding staff, in anticipation of Covid-related economic downturn. This means **Flexi-wage is currently being extended to people already in work.**

Immediate levers:

A big system shift can start with small changes

01

Fill the gap in in-work progression support by expanding eligibility for existing employer subsidies and direct training incentives to working people on minimum wage

Minimum-wage and low-wage workers are at greater risk of unemployment and have greater job fluctuation. They are substantively disadvantaged in the labour market but are not specifically defined as such in law and policy that governs MSD programmes. Working poor Pasifika households and others suffering from in-work poverty thus miss out on these programmes.

The government has effective policies to incentivise employers to hire unemployed people, as well as train and retain those workers (RNZ, 2022). Crucially, it has also started doing the same for employed workers at risk of unemployment or restructuring in specific businesses through MSD's Early Response Team. Defining at-risk jobs more broadly, due to specific industries being generally more vulnerable to current and future downturns, would widen the criteria to include more Pasifika workers.

Although people in low-wage employment are not specified as part of eligibility criteria, under existing legislation[5] 'disadvantaged in the labour market' could be interpreted flexibly enough to include people in this group, particularly:

- Minimum-wage 'low skill' workers in industries vulnerable to automation and recession, who could be included under the legislative category of those "expected to experience extended displacement due to economic disruption to their occupation, industry or region".
- Those working less than full-time minimum wage hours or otherwise on minimum wage and disincentivised to seek in-work progression and wage rises, out of fear of losing Working for Family entitlements – who could be included in the "underemployed" definition in the legislation.
- The many households relying on the Accommodation Supplement long term due to low wages, i.e. whose job is thus "subsidised by MSD" under the legislation.

An 'upskill and wage progression' style approach to Flexi-wage should be applicable both in-house and to new hires, incentivising training and progression for retention of workers, and to allow for shifting people up the wage and career ladder by changing workplaces.

5 In the legislation governing Flexi-wage all interpretation of the definition of 'disadvantaged in the labour market' is prefaced with "**unless the context otherwise requires**", giving an indication of the discretionary flexibility that accompanies the application of Work and Income support. This specific interpretation then follows: "**disadvantaged in the labour market** means a person who has, **or is expected to have** [all bold is Uptempo emphasis], difficulty in obtaining or retaining employment that is **not subsidised by MSD**, including a person who: a) is experiencing significant barriers to obtaining or retaining employment; or b) is experiencing **low job security or is underemployed**; or c) has or **is expected to experience extended displacement due to an economic disruption to their occupation, industry or region**".

What are the policy advantages of extending employer subsidy schemes to people in work?

Employer advantages

An attractive element of programmes like Flexi-wage and Mana in Mahi for businesses is that it de-risks employing beneficiaries, creating a flexible labour pool for employers. Employers can 'take a punt', while defraying their transaction costs if they are unable to develop and retain the worker. Other than legal minimum wage, ordinarily there is no starting wage or wage progression requirement for Flexi-wage. An unintended consequence of the policy, and employer demand-led labour market inventions generally, is that it may subsidise high-turnover low wage employers and increase precarity of employment for employees (Fletcher, 2004) drawing upon findings emerging from the evaluation of the New Deal Innovation Fund (round three).

However, a Flexi-wage extended to employed people under the condition they have access to in-work progression, which can be attached to a prospective employer not just the worker's existing employer, **would directly subsidise social mobility and in-work progression** rather than low wages. Attaching Flexi-wage to experienced workers already de-risks the hire for employers and subsidises their investment in improving the productivity of their business through training.

Employee advantages

This would provide low-paid workers with more bargaining power and job mobility which is key to wage progression, especially at the lower end of the wage distribution, as international and New Zealand evidence confirms (Ball et al., 2020).

It should not result in minimum-wage workers with labour-market attachment 'competing' with unemployed workers as a 'working' Flexi-wage would be pegged to pay rates above entry-level jobs being targeted by current Flexi-wage and Mana in Mahi employers. It could also be used as an extension of original Flexi-wage or Mana in Mahi subsidies in order to support wage progression for workers moving from unemployment, after their original Flexi-wage period finishes.

Cross government advantages

It would support the primary goals and outcomes of the cross-agency Pacific Employment Action Plan (PEAP) as an arm of the All-of-Government Pacific Wellbeing Strategy: namely, improving access to work-based training and adult education, and providing practical support for employers to develop their Pacific workers. Key agencies supporting the PEAP include MSD, MBIE and MPP (Ministry for Pacific Peoples, 2021, 2022). It is also aligned with MSD's Pacific Strategy and Action Plan, Pacific Prosperity.

How could it be introduced and tested?

Using the precedent set by the Early Response Team, WINZ could use its discretionary criteria of 'labour market disadvantage' to extend wage and training employer subsidies to those who are broadly vulnerable to unemployment within an industry, rather than only immediately at risk of unemployment in particular workplaces, targeting those who have not moved off minimum wage for extended periods and with limited progression options as an indicator of higher risk. This would benefit all low-wage workers, particularly Pasifika, and could start by:

- Piloting extensions of Flexi-wage combined with training-requirement elements and existing employer subsidies like Skills for Industry, to incentivise employers to move longstanding Pasifika minimum-wage workers onto higher wages and better jobs through training, in partnership with community-based pastoral care and training providers.
- This could be initially applied to workers in jobs that are the most vulnerable to recession and automation, such as construction, manufacturing, hospitality, retail and call-centres, and include ways to move them into less vulnerable occupations in or out of those industries.
- Extend eligibility to MSD new job grants for people moving off minimum wage jobs and into new workplaces, as part of in-work progression incentives.

02

Direct payments: Expand training incentive allowances

As noted above, a primary cause of Pasifika in-work poverty is the barrier of childcare costs for parents in larger households, or sole parents, entering or re-entering the workforce. Uptempo has already highlighted the importance of covering childcare costs and opportunity costs when supporting Pasifika primary caregivers into work and training (Uptempo, 2022a, 2022b). The 2023 expansions of eligibility and abatement thresholds for childcare subsidies have been steps in the right direction.

Additionally, the Training Incentive Allowance (TIA) model by WINZ supports with fees and other study course such as tuition fees, books, childcare, equipment, transport and additional caring costs during one's course of study.

This is recognised as being effective for sole parents, providing direct control to parents over where the money goes. It has a more simple and direct approach of incentivising upskilling for social mobility by covering basic costs as determined by the recipient, and could be extended to Pasifika stay-at-home parents not on benefits but in low wage single-earner large households. Although there is less legislative basis for expanding eligibility of the TIA programme to working households, agencies could pilot discretionary direct payments equivalent to the Training Incentive Allowance, in the way that Uptempo has piloted its discretionary fund to support childcare and training or basic needs, ensuring it is protected from income abatement thresholds.

Medium term: Policy and legislative shifts to empower Pasifika and enable social mobility:

Eligibility and abatement thresholds scaled to household size, removing work disincentives and levelling the playing field for Pasifika households:

- Understand how non-household equivalised supports, from Family Tax Credit abatement thresholds to student allowance capped-dependent supplements, penalise larger Pasifika households from the starting line, disincentivise increases in household income and deepen Pasifika in-work poverty.[6]
- Standardise eligibility and abatement thresholds to be household equivalised, i.e., pegged to number of dependents, across the social support landscape (from MSD to IRD) to make support fair for Pasifika communities in particular, and larger households generally.
- Legislative and policy redefinition of labour market disadvantage to widen MSD mandate.
- Better direct coordination and collaboration between MSD and IRD around supports for all struggling families.

6 The abatement threshold for Family Tax Credit and IWTC ($42,700) was 24% above the fulltime minimum wage in 2018, but is now nearly 10% below the fulltime minimum wage (St John & O'Brien, 2023).

Recommendations from System Levers Part One report, and essential improvements:

- Invest in the system infrastructure of industry coordination training-to-work pipelines – assigning a lead agency to better coordinate disparate Workforce Development Councils and ensure that they are strongly connected to industry stakeholders and can rapidly surface and act on priorities.
- Invest in scaling support for career coaching, training and job brokering attached to existing wraparound community-based social services with a whole-of-aiga best practice approach.
- Incentivise employers to implement recruitment and progression equity policies for Pasifika via tools like the Great Employer Matrix (initial targets available on request, full toolkit forthcoming end 2023).
- Implement Welfare Expert Advisory Group recommendations, especially Recommendation 21 - properly adjusting all support, as well as eligibility and abatement thresholds, for wage or price inflation; and Recommendation 23 on increasing Working for Family supports and thresholds. As part of this, consider implementing CPAG recommendations to simplify support for children, including folding the In-Work Tax Credit into the Family Tax Credit to separate support of children from work incentives.

Long term: Rebuild foundations for system equity

- Implement the Pacific Pay Gap Inquiry recommendations via a legislative agenda for mandatory pay transparency and pay equity reporting (recommendation from System Levers Part One report).
- Eliminate huge transaction costs and social costs by developing a simplified and high trust welfare system that restores dignity. MSD and WINZ have made progress in moving towards a more trust-based and human-centred welfare system as a result of the first Covid lockdown period, but the level of good practice and investment needs to be deepened and entrenched in policy and legislation.
- Continue to implement outstanding Welfare Expert Advisory Group recommendations, and overhaul Working for Families to make work pay and eliminate debt traps. Alternatively, replace the entire system in favour of a simpler and more accessible approach such as a minimum guaranteed income with dependent-child top-ups.

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