

Salary sticks

Most discussions around pay equity involve raising women's wages to the equivalent of men's. But there is an alternative. **BY SOPHIE MOULLIN**

Thank you for inviting me to prepare this brief analysis of the proposed Pay Equity Second Amendment (Swings and Roundabouts) Bill.

I was astounded to hear of the government's bold proposal to save approximately \$0.6 billion per annum in public spending by securing pay equity between men and women. Levelling wages in male-dominated occupations down to those in female-dominated fields of equivalent skill and responsibility is, by any measure, an ambitious move that, to my knowledge, has never been attempted by any government anywhere.

Undoubtedly, the proposal is well-intentioned and, I am told, popular with the ladies across all party affiliations. In this submission, I acknowledge the potential merits of downward pay equity. However, as an apolitical economic expert, I feel compelled to alert Parliament to the risks this naive policy poses to macroeconomic stability and national competitiveness.

I can see the political appeal of pay equity. Although many men still shirk frontline public service roles, implementing immediate pay equity among direct government employees – levelling every corrections officer's pay down to that of a nurse, for instance – could free up a whole 1% of public spending to do a lobbyist a favour.

Private companies contracting with the government stand to pocket even more savings as pressure for downward pay equity spreads. Parity between construction supervisors (\$52/hr) and aged-care supervisors (\$32/hr), for example, could deliver an estimated 38% reduction in labour costs with only modest losses in retention, productivity and public confidence.

As moves toward downward pay equity filter through the private sector, Kiwi corporates would be able to build on their budget brand reputations, consistently

delivering cheaper mid-range employees than global competitors. If, for example, Fonterra cut its 300 logistics drivers to supply chain administrator wages, and its 550 plant operators to lab technician rates, it could free up a whole 0.05% of annual revenue for executives and shareholders, with only a marginal increase in the exodus of skilled labour to Australia.

THE ARGUMENT AGAINST

Sooner or later, though, our political aspirations must face economic realities. Treasury's \$0.6 billion saving would be quickly swallowed by lost income-tax revenue and new benefit spending.

The fiscal constraint is that whether we like it or not, men do supplement family incomes, with about 69% of New Zealand children having a working father. Only a randomised controlled trial could prove fathers don't simply spend their pay premiums on beer, and that without them they would work more and watch less sport.

Still, if cuts of about 20% to male wages spread across the labour market, around 60,000 families would become newly eligible for the maximum Working for Families tax credits as their incomes dropped below \$43,000.

Many would also now qualify for the in-work tax credit, and about half would receive the accommodation supplement – costing the government about \$400 million a year in these programmes alone. (A fun

Freakonomics fact is that downward pay equity would also take New Zealand's child poverty rate from 17% to about 25% – a level that could even surpass the United States!)

Ministers must be advised that when enough people lose 15-30% of their personal income, the loss can register in GDP growth figures.

Modelling shows that as downward pay equity settlements in the region of 20% ripple across male-dominated fields, households stand to lose about \$16 billion a year. That is only 27 times the government's likely saving, but it does amount to 3 or 4% of New Zealand's household income. Some experimental economists claim this might matter for people's actual welfare. But crucially, when enough consumers lose \$15,000 a year, demand drops, growth stalls – and the bond markets notice.

THE ARGUMENT FOR

In theory, there are upsides to pushing down wages in traditionally male jobs. A narrower pay gap could remove the perverse incentives that keep men from moving to more socially productive and sustainable forms of activity. Assuming a pay premium, many men have not even invested in developing the complex relational skills that might distinguish them from AI agents.

A labour market flexible enough to shift towards today's female-dominated occupations may become relevant in the future (say, after OpenAI's next major release). Until then, we must steadfastly keep trying to resuscitate an industrial economic order. The demand for human services like elder nursing care, mental healthcare and child-care may seem vast. However, calculus tells us that even as we approach infinity, we approach limits.

In summary, the downward pay equity agenda runs against the international economic consensus.

Of course, inflation is cooled by mass



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wage cuts, and wages in many male-dominated sectors have had more than 100 years of institutional, regulatory and professional protection from the market.

Nonetheless, cutting real wages that are already low by both historical and international standards risks a negative inflationary adjustment, or what in International Monetary Fund jargon is termed “a catastrophe for growth”.

Mass wage deflation would likely

precipitate a true crisis in the cost of living that most economists would consider nearly as destabilising as inflation itself.

The Pay Equity Second Amendment (Swings and Roundabouts) Bill does not only devalue men’s work; it risks devaluing the nation itself. Certainly, by 2030, our finance minister will have been removed from several guest lists at Davos.

Regrettably, my analysis confirms my suspicion that the proponents of this bill are

insane. Indeed, as a serious policy analyst, I can only laugh. ■

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