LABOUR MARKETS AND EMPLOYMENT

NEW ZEALAND BUSINESS ROUNDTABLE

STATEMENTS ON LABOUR RELATIONS

APRIL 1988

FOREWORD

The approach of the New Zealand Business Roundtable to labour relations issues has been based on an initial study, New Zealand Labour Market Reform, which was prepared in response to the Government's Green Paper on industrial relations and released in May 1986. A critique of the Government's policy decisions in the form of a submission on the Labour Relations Bill was released in March 1987. Following the passage of the Labour Relations Act, a summary of our analysis and views intended for the general reader was published in the booklet Freedom in Employment in June 1987.

In the two years since the initial study was undertaken, the basic themes have been developed in a number of speeches and statements. The principal items have been drawn together in this volume to provide a convenient point of reference for readers interested in further background to our thinking on this important topic.

In addition to statements made on behalf of the Business Roundtable, the collection also includes a paper, The New Zealand Labour Market in a Changing World Economy, by John Burton, Head of the Department of Economics and Public Policy at Leeds Polytechnic. This was written during a visit to New Zealand as a consultant to the Business Roundtable in July 1987.

R L Kerr
EXECUTIVE DIRECTOR

CONTENTS

9. LABOUR MARKET REFORM AND THE LABOUR RELATIONS ACT

Speech by Michael Horton at the Northern Club, Auckland, 16 July 1987.

10. THE NEW ZEALAND LABOUR MARKET IN A CHANGING WORLD ECONOMY

Paper by John Burton, Head of Department of Economics and Public Policy, Leeds Polytechnic.

11. THE NEW ZEALAND LABOUR MARKET : BREAKING MOULDS

Speech by Douglas Myers to the Conference of Engineering Employers, Auckland, 18 September 1987.

12. INDUSTRIAL RELATIONS AFTER ROGERNOMICS - WHY THERE HAS TO BE A BETTER WAY

Article by Roger Kerr for the National Business Review, 11 November 1987.

13. POLITICAL AND ECONOMIC CHANGE IN BRITAIN AND NEW ZEALAND

Speech by Sir Ronald Trotter to the Annual General Meeting of the Canterbury Employers' Association, Christchurch, 20 October 1987.

14. FREEDOM IN EMPLOYMENT

Speech by Rex Loach to the Nelson Provincial Chamber of Commerce, Nelson, 5 November 1987.

15. STRONG PUBLIC SUPPORT FOR LABOUR RELATIONS CHANGES

Media Release by New Zealand Business Roundtable, 23 February 1988.

16. UNEMPLOYMENT IS A LABOUR MARKET PROBLEM

Article by Roger Kerr for the National Business Review, 11 March 1988.

17. PRODUCTIVITY

Speech by Sir Ronald Trotter to the NZ Institute of Management, Wellington, 29 March 1988.

NATIONAL PRESS CLUB

REFORMING THE LABOUR MARKET

IDLE DREAMS OR REAL PROSPECTS?

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

WELLINGTON

29 MAY 1986

REFORMING THE LABOUR MARKET - IDLE DREAMS OR REAL PROSPECTS?

Thank you for the opportunity to speak to you today on reforms to our labour market and industrial relations system.

This is a subject to which the 30 or so chief executives who comprise the New Zealand Business Roundtable have devoted an enormous amount of thought over the past twelve months. No single issue is more important to the prospects of realising the full benefits of the economic initiatives of recent years.

In response to the Government's invitation for submissions on its Green Paper, the Business Roundtable sought to present a careful, reasoned analysis of why our labour market was producing results that no one could be satisfied with and was contributing to our anaemic economic performance.

The deficiencies of our system are evident in:

- poor rates of growth in labour productivity;

- unemployment : perhaps the most obvious sign that something is wrong;

- a concentration of unemployment among disadvantaged groups such as the young and the unskilled, contributing to disturbing social trends;

- a degree of hyperegulation of employment contracts which excessively constrains voluntary choices and raises labour costs;

- a failure to deal adequately with equity and low income problems and to uphold normal democratic and individual rights; and

- a lack of flexibility which is incompatible with the needs of a rapidly adjusting and open economy in a competitive world environment.

On the basis of a set of criteria which we believe New Zealand's labour market institutions should meet, we put forward proposals for some quite fundamental changes which we believe would offer a better deal for all New Zealanders.

We have been encouraged by the range of positive and thoughtful reactions to our analysis. I believe there are good grounds for optimism that this area is not the "no go" territory it is popularly assumed to be.

At the same time, some legitimate questions have been asked about our arguments, and scepticism has been expressed in some quarters which have perhaps not been accustomed to examining too deeply some of the basic precepts on which New Zealand's labour market laws and regulations have been constructed. Rather than restate our conclusions in detail, I would like to take this opportunity to answer some of those questions and criticisms.

When agreeing to this engagement, I was advised that the topic of industrial relations was thoroughly boring to the media and the general public. It is the first depressing commentary on the nature of our industrial relations system that this should be so. Most of us spend most of our time in employment relationships. Whether these relationships provide work satisfaction, a positive sense of involvement with our organisations, incentives to improve our lot, the prospects of jobs for our kids, opportunities for the disadvantaged and so forth should be of intense interest to us all as individuals. Whether the system produces outcomes in respect of labour costs and productivity which can sustain enterprises, generate jobs and put us back on our competitive feet is vital to the future of the country.

But it is not hard to see why discussions of our present system risk sending most audiences into a state of terminal boredom. The rules and procedures are often practically incomprehensible, even to the initiated. An employment relationship should be a relatively straightforward deal. An employee is essentially offering his or her labour services to a willing buyer, on terms and conditions which are periodically renegotiated. We noted in our submission the likely puzzlement of a visitor from another planet on discovering the bizarre New Zealand procedure for renewing this simple employment contract. Technically a "dispute" must be created, normally by the employer "rejecting" the claims of the union, and a "conciliation" process then follows, the function of which is to commit the parties to a negotiation!

Why should this subject be taken far more seriously - by chief executives, union leaders and indeed all New Zealanders? Some have queried whether, as the Business Roundtable argued, the operation of the labour market is really crucial to general economic performance. For example, in a column which I did not take to be resolutely negative in its general thrust, Rob Campbell observed that:

"...economic development is not the result of wishful thinking or belief. Rather it is the product of careful assessment and determined allocation of resources. There has been no persuasive evidence produced that either of these processes have been hindered by labour market structure."

The question is a serious one and deserves a serious answer.

It is, of course, never easy for economic research to precisely evaluate the mix of contributing factors in a country's economic performance. We cannot know, for example, precisely how much damage is done by artificial financial sector controls, an inward-looking industrial strategy, a distorted tax system or a lax monetary policy - either as individual ingredients in the total mix or, more importantly, through their interaction with other parts of the economic system.

One attempt to explore the aggregate consequences of unsatisfactory labour market regulation was made in a recent study by the World Bank on price distortions and growth in developing countries. The study found that:

"...the cost of labour was distorted primarily because of the misplaced interventions of government and pressures from trade unions . Most developing country governments in the 1950s favored the Fabian Socialist principles of encouraging trade union activities and promoting minimum wage legislation on the basis of "adequate" income for workers..."

It went on to report that:

"In many developing countries ... real wages increased very rapidly in the 1960s as a result of trade union activity and government pressures and went much beyond the rate of increases in productivity. In many other countries, the spread effects of high incomes in protected industrial sectors, privileged mining, or foreign enclaves, pushed wages up faster than productivity. By the late 1960s... evidence showed that capital-labour ratios were in fact sensitive to the relative cost of labor and capital. Distortions in labor markets tended to hurt both growth and its labor intensity and thus impeded the growth of employment and in particular contributed to urban unemployment."

The study attempted some quantitative evaluation of the aggregate effects of labour cost distortions and intervention in labour markets by governments in a range of countries. It found that during the 1970s there was a difference in the respective growth rates of high distortion countries and low distortion countries of 1.4 percentage points per annum. The adverse effects of labor market distortions were also most marked in the growth rates of exports, in the savings rate and in the efficiency of investment.

Over a working career (say 40 years) a differential growth rate of 1.4 percentage points per annum would add up to a 74 percent difference in attainable standards of living. In addition, the interactions of the labour market with other policy areas could well represent the difference between the success or failure of a programme aimed at stabilising and liberalising the economy and escaping from economic stagnation. My reading of the evidence suggests it is difficult to overestimate the importance of the topic.

Another theme that seems to have been adopted by some commentators is that this area is inevitably one of irreconcilable perspectives, or worse, a battlefield for class warfare. Our submission dwelt on the fallacies inherent in such perspectives. The goal of a better system should be higher incomes, including wage incomes, and better and more secure jobs for all. A better system should also promote more positive employer-employee relationships, and more democratic and equitable processes for expressing individual preferences for employment terms and methods of representation.

We stated that the key requirements as we saw them were to:

- allow greater flexibility in the labour market to encourage the effective deployment of resources, reward performance, and create greater incentives for innovative efforts to enhance productivity;

- provide for necessary decentralisation of primary bargaining at levels such as the enterprise or industry which often suit the interests of workers and employers far better;

- provide greater freedom for the parties to develop their own approach to bargaining;

- ensure commitment to and respect for contracts; and

- develop better approaches to handling equity and low income issues.

Close observers of the industrial relations scene would recognise in those principles a lot of common ground with other parties. For example, the union perspectives on reform set out in the paper to the Economic Summit in September 1984 in the following terms are just as relevant now:

"The union movement has become increasingly concerned about the inability of the old system, and particularly the way the old system operated, to take account of the desirability of changing relativities between occupations. In the 1981 wage round, for example, 91 percent of awards were settled within 1 percent of the movement in the core rate in the metal trades award. To cope with this problem, the unions would like to see the old system modified so that more consideration could be given to factors that were specific to an industry or occupation, and a good deal less to entrenched relativities."

In the same context, there was joint employer and union agreement to the following conclusion:

"All parties agree that more encouragement should be given to industry or enterprise based bargaining, since this form of bargaining by its very nature is better able to take account of specific industrial factors than the formal national award system can."

The essence of our proposals is an industrial relations system based on voluntary contracting, at whatever levels parties find it most convenient to do business. In many cases, we would expect this to be at an establishment, company or industry level, but regional levels or even a national level would not be excluded. The important point is that whatever level is chosen should be the primary focus of bargaining, and not some subsequent stage. Similarly the important point as far as bargaining arrangements are concerned is that employers should not be required to deal with more than a single bargaining group, but this would not preclude associations or federations of unions forming at national or sub-national levels.

There seems to be no reason whatsoever to conclude that New Zealand is best served by our 1894 industrial relations system nor that the interests of one or more parties would be detrimentally affected by a departure from it, and that they would therefore rationally oppose it. In most countries, craft or occupationally-based forms of union organisation have now largely disappeared as the prime form of unionisation, the main exceptions being New Zealand and Australia (respectively, I might note, the OECD's worst and third worst economic performers over the last 25 years). Uniform national agreements are virtually unknown outside the same two countries. Unions and workers in most other countries have seen their interests best served by arrangements offering a closer identification with the interests of their employers. Why should New Zealand unions and workers, considering their interests rationally and intelligently, reach a different conclusion?

The Business Roundtable's approach has been derived primarily from a basic examination of the principles on which a sound industrial relations system for New Zealand should be based. It is not a carbon copy of any overseas model. It has some features in common with industrial arrangements in the United States, an economy which has demonstrated considerable structural flexibility and employment growth in the face of the economic shocks of the 1970s and 80s. But there are a number of aspects of the United States system which we would not judge to be well-conceived or suitable for New Zealand, and it has not been a prime influence in our thinking.

There are also features in common with the Japanese model of industrial relations, which is of special interest because Japan switched, with obvious beneficial results, from a primarily craft-based union structure to one in which more than 90 percent of all unions are enterprise or company ones.

Some would argue that cultural differences would make Japan a dubious model for New Zealand to study. Personally I am not a great believer in cultural explanations of economic performance or individual productivity. It is interesting in this regard to read the accounts of observers of 19th century Japan.

One wrote:

"Wealthy we do not think it (Japan) will ever be ...[T]he love of indolence and pleasure of the people themselves forbid it. The Japanese are a happy race; and being content with little are not likely to achieve much."

Another commented:

"In this part of the world, principles, established and recognised in the West, appear to lose whatever virtue and vitality they originally possessed and to tend totally towards weediness and corruption."

Tell that to today's worker or manager in Toyota - or General Motors! Japan, the "low wage" economy of the 1950s - the perceived competitive threat in labour intensive products such as textiles and clothing - has enjoyed far faster rates of productivity and real wage growth than New Zealand. Quite obviously what is basically relevant is not culture but rather the methods of economic organisation we choose to adopt, which have such pervasive effects on individual enterprise, effort, innovation and risk-taking.

In Japan, while unionisation is low (only 30 percent of employees are now unionised) there are some 70,000 unions averaging 170 in size. While the Japanese experience suggests that, in a voluntaristic framework of industrial law , enterprise or company unions will generally be preferred, there remain some 720 craft unions and 1775 industrial or trades unions which suggests they may be efficient methods of representation in a minority of situations. The large number of quite small unions also seems to call into question the New Zealand predisposition towards amalgamations or forced marriages of small unions, although some of these may well take place of their own accord in a freer environment.

Labour market behaviour is similarly affected by the legal and institutional framework. According to a recent article in the Far Eastern Economic Review, in Japan:

"Labour/management disputes mostly are settled by private consultation between the parties involved... Strikes and lockouts are rare. When railway unions do strike, they do so in such a way as to register their grievance without unduly inconveniencing the public. A railway strike would usually be announced at least two days in advance, conducted outside rush hours and last for no more than a day or two."

There seems to be a discernable difference between such behaviour and the attitude that "the public can go to hell".

One of the characteristics of the Japanese labour market most frequently commented upon is its flexibility, which has helped it adjust to massive falls in Japan's terms of trade during the 1970s while maintaining one of the OECD's lowest rates of unemployment. Labour incomes have been flexible through extensive use of bonus systems and other profit-sharing arrangements. A curious theme of some New Zealand commentators has been that labour market "flexibility" is some sort of codeword for downward adjustment of wages. A recent European Communities' study of the poor performance of many European labour markets identified some of the main dimensions of flexibility that are needed for healthy economic and employment growth:

- an evolution of real wages per head which on average should grow more slowly than the expected growth in productivity until equilibrium in the labour market is restored;

- wage structures that are responsive to the development of new technology, new patterns of demand and new working methods;

- greater flexibility in wage differentials so as to adequately reflect in each region and industry the relative scarcities of different kinds of labour; and

- the appropriate contractual framework for determining wage structures and the organisation of work, both at the level of industrial sectors and individual firms.

To this list could be added the flexibility to devise employment contracts with incentive structures which promote cooperation and high productivity - packages which the existing system of centralised bargaining biased towards wage contracts is ill-equipped to develop.

The New Zealand system is deficient in all these dimensions of flexibility. In a healthy, growing economy, wages should grow along with other incomes and there is no reason why it should ever be necessary for the general level of wages to fall. What is necessary to achieve higher employment amd growth are continuous changes in relative wages as prospects become less attractive in particular industries or occupations and the demand for labour expands in others, And at a time of economic adjustment with some incomes (such as farm incomes) falling while others rise, we should not have institutional barriers to some falls in wages (or more particularly labour costs) in hard pressed-industries such as meat processing to preserve businesses and jobs.

Within our present system, these relative adjustments are extremely difficult to achieve. In many cases upward flexibility is as difficult as the reverse, because the consequences of wage increases in areas where they are warranted spill over or feed back into areas where they are not.

There is also a great deal of confusion in the New Zealand discussion of approaches to equity and low income issues. I recall that Rob Campbell suggested in one of his columns last year that the Treasury thought low pay was a brand of yoghurt. More seriously, there appears to be abroad a labour market version of the China syndrome, namely the idea that that if the so-called protections of blanket awards were removed, wages would melt down to Taiwanese levels.

A first response might be to note that at our present relative rates of progress, New Zealand workers might be very happy to receive Taiwanese wages within a couple of decades. A second would be that as a piece of economic analysis, the proposition is as much science fiction as its nuclear counterpart. Employers pay market wage rates not out of charity or because of statutory regulations but because they need to attract the labour they require. This is demonstrated, for example, by the fact that a large proportion of New Zealand workers in the private sector are paid more than the statutory minima. The labour market is a complex one, but it is a market just the same.

Clearly, in a healthy economy the basic sanctions or form of bargaining power available to workers (or shareholders or bondholders) dissatisfied with their returns is the ability to transfer their services (or funds) to alternative employment. Forms of compulsion which may force higher returns for a few will invariably disadvantage a great many more - and especially those in less fortunate situations. If the current barriers to employment were broken down, few workers would be unable to find alternative employment beyond the short term, so that any interventions to address their problems should be specifically targeted in order not to penalise their fellow workers.

The Business Roundtable made reference to the vast number of economic studies which have established that wage regulation typically has perverse effects on the very groups it is supposedly intended to help. It is not difficult to see that up to a certain wage level, an employer will find it profitable to employ an extra worker, but if he or she is forced to pay some additional amount that worker will not be hired. Those that are hurt most in the process are the unemployed, the young and the unskilled.

Many professional economists have examined the reasons why minimum wage rates are often supported. Discussing the United States evidence, one such analysis inquires:

"Are minimum wage laws intended to hurt low productivity workers? Probably not. Many supporters of minimum wages are merely trying to protect their own economic interests. It is no accident that labour unions are among the strongest backers of higher minimum wages (and the most vigorous opponents of a teenage exemption from the minimum wage)".

In New Zealand I would suggest that there is genuine altruistic concern among many groups, including many unionists, about equity and low income problems, but there are others whose motives reflect a narrower self-interest. We need to distinguish between the two groups, and to reconsider past ways of dealing with the problems in this area. We advocate in our submission an approach to low income and equity issues based on policies to improve economic performance, reduce barriers to participation in the work force, provide a sound body of employment standards, and redistribute income to those genuinely in need in a targeted way, rather than an approach based on interventions through blanket awards or wage minima.

Finally, I would like to respond to some criticisms that, whatever the merits of our arguments (and these have sometimes been acknowledged), there is little chance of reform in this area being accepted. It is argued that what we have described as a return to common law and common sense in employment contracts, more competitive and hence more effective unions which would benefit workers as consumers of union services, a more decentralised system of bargaining and the abolition of several tribunals or quangos, coupled with better approaches to worker protection, would be too radical a package to contemplate.

Perhaps the first point to note is that such criticisms have been refreshingly few. There seems to be a greater disposition both in the community and in political life to reassess established views and attitudes and to set higher goals than the mediocre second best to which we have been accustomed.

Secondly, in issuing the Green Paper, the Government placed upon itself the requirement to undertake a total review of the industrial relations system. I suggest that any careful reader of the Prime Minister's address to the recent FOL conference would form the opinion that the Government appears to mean what it says about a total review. I believe it was most important that Mr Lange gave a lead by declaring himself in the camp that would argue for radical reform. This is because whatever the logical merits of a business viewpoint, it is bound to be suspected or misinterpreted by those who choose to see ogres or demons in such quarters. Now that most businesses outside the state sector are facing competitive conditions in their markets, the scope for business interests to diverge from those of the general community has become much narrower, but some people will no doubt continue to see ogres long after they have turned into ghosts.

Thirdly, there can be no escaping the conclusion that an effective approach to improving our ossified labour market has to be a fundamental one. To escape the consequences of smoking it is unfortunately necessary to give up smoking. Our analysis concluded that a "tinkering" approach of partial reform was likely to be ineffective and come unstuck. As with previous such attempts over the past decade, it would be likely to give rise to complex, unintended and undesired side effects and thus the restoration of the previous state of affairs. The proponents of interventionism will, of course, argue that a comprehensive approach is politically impossible and administratively impractical. I would argue that other regulatory reform initiatives such as those implemented in the New Zealand financial sector have proceeded successfully and smoothly precisely because they were comprehensive and well-conceived.

Lastly I would suggest that there is a real prospect of change because many elements in the community want it to happen. The Government ought to be able to expect bipartisan support for worthwhile initiatives. The business community is supportive of substantial changes to the existing labour market institutions, even though they would pose major challenges to many businesses. I also believe that a number of trade union leaders and many more workers are receptive to such changes, since few can be satisfied with the outcomes that our present system is delivering.

However, there is a need for a greater measure of support for, or at least acquiescence in, reform than exists at present. Major changes could be pushed through in the face of a resistant trade union movement, and a Government which has staked its reputation in governing in the interests of the wider New Zealand community may have to contemplate such an option, but it would obviously not be a preferred one. For this reason, the Business Roundtable is seeking to play its part by stepping up its contacts with union representatives in the interests of developing a greater measure of common understanding.

To demonstrate why I am convinced that such understanding is possible, I want to end by quoting some passages from a recent address on the subject of industrial relations.

"We are in competition," the speaker said, "with societies in manufacturing which do not understand a them-and-us situation, in particular the Japanese, where by tradition there is complete and absolute unity of purpose between the capital and the labour in big manufacturing plants...

"If one believes that industrial relations, unemployment and well-being can hide behind protection barriers in those circumstances, then one has to believe in other fallacies such as Father Christmas...

"It is necessary to develop the concept of positive incentives and a positive sharing of responsibility at an enterprise and/or industry level, or in common with like societies become increasingly irrelevant as not only capital but expertise shift to a different world...

"The fact that the workers working for an enterprise or the executive staff of an enterprise are doing slightly better or even much better in financial or other return than the general norm does not mean that it is not working to the general advantage of the community. It is in this field that a rigid concept of comparative wage justice can do harm..."

Some captain of industry delivering a lecture to a stop-work meeting? A maverick leader of some fringe trade union? No, the speaker was Charlie Fitzgibbon, former senior ACTU vice-president and a member of the Hawke Government's inquiry into the Australian industrial relations system.

Quite frankly, I do not believe that the thinking of a number of respected New Zealand trade union leaders is poles apart from Mr Fitzgibbon's. I would put money on a real chance of reform in these directions. In that event, and despite all the evidence of the last generation, New Zealand might really have a future.

YOUNG NATIONALS POLICY CONFERENCE

OUT OF PARADISE - INTO A REAL FUTURE?

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

PALMERSTON NORTH

1 JUNE 1986

YOUNG NATIONALS POLICY CONFERENCE

OUT OF PARADISE - INTO A REAL FUTURE?

Thank you for inviting me to address your conference.

Your Chairman mentioned two points in his letter of invitation. First, he asked me to address the topic of this particular forum: "The Finance Sector - How Much Freedom?" Secondly, he noted that you were a young and well-informed audience and that I should feel free to challenge your ideas and attitudes.

I shall try to do something of the former, though I am not a financial market specialist. I hope to do rather more of the latter.

I want to start by telling you about a survey that appeared in the financial magazine Euromoney a few years ago. Euromoney is probably best known in this country for according New Zealand, in successive years, the distinction of receiving the wooden spoon for economic management and then the Finance Minister of the Year award.

But the survey I refer to, of May 1980, was not about New Zealand but about a rather comparable small country, namely Finland.

As some of you will know, at the end of the last war Finland was a country debilitated by conflict, both internal and external, burdened by reparation obligations and in many respects facing a bleak future. Its economy was one of the poorest in Europe, predominantly agricultural and, apart from huge forests, lacking in natural resources.

On the freezing northern edge of Europe, the Finnish people had to fall back on a quality they call sisu, which Euromoney translates as guts. They needed a lot of it, and their progress was not steady. Industrial unrest was epidemic and for a long time the country seemed trapped in a devaluation cycle.

Many of the adjustments were painful. A full quarter of the country's working population left the countryside. Pressures were imposed by the decision to open Finland's frontier in the late 1950s, with an immediate freeing of nearly four-fifths of the country's imports from any restrictions. Subsequently Finnish industries had to adjust to free trade with the EFTA countries and the EEC. The manufacturing sector did not shrink in size as a result; contrary to trends in almost all other OECD countries it grew as a proportion of GDP. The share of exports in industrial production now stands at around 50 percent.

Through the 1960s, the Finnish economy moved to rates of growth in line with the OECD average. Then the combination of a collapse in the terms of trade, a wages explosion and a current account deficit that reached 8 percent of GDP "brought the

Finnish economy to a screaming halt in 1975, as its industrial competitiveness plunged for the first time in a decade".

"As before in Finnish history," Euromoney wrote, "a national consensus was found." Wage restraint was accepted, money was kept tight for a couple of years and expectations were thoroughly doused. "For three years the economy barely grew at all. Then, as monetary restrictions were eased, as the world economy picked up, as the Finns regained their old competitiveness, they found themselves in far better shape to withstand the shocks of 1979 than almost any other country in the world."

In 1979, real output growth soared by 7.6 percent and in 1980 by 6.0 percent. "Suddenly," as Euromoney put it, "the problem was success... The Finns were so used to thinking of themselves as Europe's poor relations that their present prosperity slightly stunned them."

Although growth slowed with the recession in the early 1980s, Finland has continued to do better than the OECD average. Its per capita income, which was well below New Zealand's after the war, is now some 40 percent higher.

The secrets of Finland's success are not hard to discover. It has maintained an open economy, with support from all sections of the community. After a visit a couple of years ago, the Chairman of the New Zealand Planning Council observed that "Trade liberalisation was undoubtedly the major factor in enabling

Finland to close the gap in living standards between it and its western neighbours and trading partners." It has maintained strict housekeeping in its public budgets. For four years through to 1981 the size of the public sector as measured by the ratio of general government outlays to GDP declined, and the tax burden was reduced by a full 3 percentage points of GDP. Last year, a budget surplus of 0.5 percent of GDP was projected. Inflation has been a problem, but is now down to the 5 percent mark and falling.

I would not wish to imply that the Finns have got everything right - far from it. They have maintained a grossly subsidised agricultural sector. They have been slow in some respects to fully internationalise their financial markets. Perhaps most seriously, as the OECD has pointed out, they have allowed rigidities in their labour market to persist, including a centralised wage fixing system which has generated periodic wage pressures and contributed to maintaining unemployment stubbornly high at 6 percent or more. Finland has not been in the same performance league as Japan, always the first model to study in respect of inflation, productivity and especially its labour market flexibility and employment record. But as a small country with which New Zealanders can readily identify, I believe it offers valuable lessons.

The starting point for consideration of New Zealand's future is some clear thinking about where we have been. I believe some New Zealanders still do not recognise the abysmal nature of our past economic performance and the precarious situation we are still in. They continue to view the past through rose-tinted spectacles. Images persist of the island paradise, God's own country, the economic and social laboratory, the big farm, the land of milk and subsidies and she'll be right, hard done by through no fault of its own by the rest of the world.

In the thirty years to 1982, our position in the per capita GDP league table fell from the 3rd to the 32nd slot. In the decade to that year, our per capita GDP <u>declined</u> on average by -0.3 percent per annum. Singapore, one of Asia's poorest countries at the time of its independence 25 years ago, now has a per capita income higher than ours. In the same decade to 1982, World Bank statistics show that for the 156 countries for which data were available, 125 achieved higher rates of growth than New Zealand while only 30 - mostly in Africa - performed more poorly.

Some of those who have grasped the enormity of these statistics still fail to understand the causes. Rather than acknowledge their origins in internal mismanagement, they prefer to put them down to the vicissitudes of the outside world - for example British entry into the EEC, or the fall in our terms of trade in the 1970s. Yet the evidence of deteriorating performance was apparent years before either of those events. The 1962 report of the Monetary and Economic Council, which dealt precisely with this topic, stated that during the period 1949-61 "the New Zealand economy has earned the unfortunate distinction of having one of the slowest annual rates of growth of productivity among all the advanced countries of the world". Many countries suffered terms of trade losses as severe as those which we faced in the 1970s, but adjusted far more successfully to them. Singapore, with no oil or natural resources at all, was just one case in point.

Despite the lamentable returns from throwing the hard-earned savings of New Zealanders - and increasingly those of foreigners - into misguided investments, defenders of former policies are still to be found. New Zealand has now run up total overseas debt - public and private - equivalent to around 60 percent of GDP. The equivalent figure for Finland is around 15 percent. New Zealand's public debt amounts to around 70 percent of GDP. The equivalent figure for Finland is again around 15 percent. The New Zealand Government's debt problem is the same as that of many of our farmers. The problem of fiscal management has become horrendous and the drop in our credit rating reflected lenders' judgement that we had become a poorer risk.

The recent Expenditure Statement documented some of the paltry returns on this borrowing and investment. The performance of many of our state owned enterprises is similar to that of their lame duck counterparts in Britain. This is not the place to talk about the Think Big projects. I am mindful of the fate of a former speaker on that subject at this meeting a few years ago. One of my Chief Executives was quoted a few weeks ago as saying the steel expansion was the greatest commercial disaster in New

Zealand's history. I have to tell you that I did question his diplomacy more than his judgement.

The adjustment process we are going through is in many ways a painful one, just like Finland's. Nowhere is this more acute at the present time than in some parts of the farming sector. I have been associated with the pastoral industries all my life and the dilemma I see some farmers in is tragic. Fletcher Challenge is heavily involved in rural servicing. Our rural trading group is taking a hammering and facing massive reorganisation to keep costs down and stay in business.

But, as Bert Kelly, the Modest Australian Farmer and Member of Parliament once remarked, "Most people who try to look at the problems that beset farmers are so soft-hearted that it seems to affect their heads also, or their eyes get so misty that they cannot see clearly." Sentiment and hysteria are no substitute for careful analysis. I shall merely point to a few of the relevant aspects of a complex issue which warrants your careful attention.

One thing we have to recognise is that international commodity prices have not risen with the world recovery in recent years, and that farmers everywhere are in trouble. Land prices have plummeted in the United States and Australia and many farmers have been forced out of business. Short of creating a New Zealand version of a Common Agricultural Policy, there is no way we could escape the same consequences.

Secondly, as is well known, past policies drove some farm land prices far beyond values justified by the earnings stream which they were capable of generating. The poor income prospects were partly accepted because of the prospect of capital gains in an environment of high inflation and artificially suppressed interest rates.

Much has been said about an excessively rapid reduction of assistance to farming, and indeed about an excessively rapid adjustment programme generally. The facts are, however, that of the billion dollars of assistance being provided to farming a couple years ago, about three quarters continued to be paid out in the 1985/86 year.

What we unfortunately have to recognise is that where the effects of reduced agricultural assistance have been sharpest, we were looking previously at what had become some of New Zealand's most highly protected activities. Effective rates of subsidy to sheepmeat appear to have peaked at several hundred percent, several times higher than the manufacturing sector average. Indeed some figures suggest that in 1983/84 subsidies were being paid for production that actually <u>decreased</u> New Zealand's value added - the outputs were worth less than the inputs going into them.

It has been suggested that recent policy changes have created overload for businesses and individuals trying to adapt to them. While the difficulties are undeniable, I think this proposition needs rather careful scrutiny. The issue is whether they would be more or less acute with a slower pace of change.

There are several dangers in unnecessary delays in any programme for reform:

- delays produce doubts as to whether the promised reforms will be implemented. Uncertainty about future government policies is bad for all decision-makers;

- delays in increasing the ability of businesses to avoid high cost sources of supply increase the risks that excessive retrenchment of those businesses may occur, and sheltered activities may even expand;

- delays in reforming the public sector add to the costs of businesses in the form of higher government charges and/or taxation in order to recoup the costs of overmanning, inefficient practices and unwise capital expenditure;

- delays in increasing the responsiveness of the labour market to the underlying realities of the imbalances in the supply and demand for labour inhibit the ability of businesses to get the labour they require at a price which individual workers would find acceptable. The upshot is fewer jobs, greater unemployment and lower productivity.

My reading of the evidence, both in New Zealand and overseas, suggests there is a good case for faster rather than slower adjustment. Moreover, it seems crucial that a liberalisation programme should be as comprehensive and even as possible so that undue burdens are not thrown on any one sector. I think an argument can be made at the present time that the farm sector <u>is</u> taking more than its share of the burden. To my mind the best response to that problem is for more vigorous efforts to be made in other areas. Chief among these in my view are the public sector, the more highly protected parts of the manufacturing sector and the labour market. In all of these I believe such action would benefit the businesses and individuals involved, even though some may well find that difficult to accept at this juncture.

Let me illustrate this theme by referring briefly to developments in the New Zealand financial sector. This sector has undoubtedly faced the most rapid and comprehensive changes of any part of the economy. Such action was, I believe, imperative to halt the flight of funds overseas, regain monetary control, stabilise the economy and encourage efficient intermediation and allocation of capital. The process was not without difficulties. Institutions were forced to adapt to the removal of an artificially distorted interest rate structure and quite new competitive conditions. My own firm was again a case in point. After much soul-searching we decided that we did not have sufficient competitive advantages in financial services in the new environment. There will undoubtedly be further changes and problems ahead. But I believe that, in general, adjustment in the financial market was enormously facilitated by the fact that it was rapid, coherent and not impeded by interventions which would have hindered the process or even put some institutions in jeopardy.

As for the answer to the question "How much freedom?" I can do no better than quote the following passage by Peter Churchouse in the latest issue of the Accountants' Journal:

"Some people will say that to open a minute economy like New Zealand to world influences is naive, and that nowhere in the world is there a true free market. I contend, however, that the smaller the economy, the harder (and even more naive) it is to try and insulate it from the impact of world trends. While there may not be a truly free market anywhere in the world, this does not mean that one should not be moving more towards ensuring that government intervention does not unduly distort market signals. As usual, it is really a question of whether the alternatives are not obviously and clearly (and certainly in New Zealand's experience) worse than what is being offered now."

Right now I would put a bounty on the head of any leading banker or financier you could track down who would not speak positively about the changes occurring in the finance industry. Two years ago, I suspect you would have had a very different response.

As an Opposition party and particularly with an election looming in the not-too-distant future, you have a duty to take a thoughtful and responsible approach to financial policy and indeed to economic management more generally. The latest Business Outlook survey from the National Bank had some very pertinent observations on this point. It noted that, some limited deficiencies aside,

"... financial markets around the world function extremely efficiently, continually adjusting a vast array of interest and exchange rates on the basis of a perpetual stream of economic and political information... Whatever indicators are in pre-eminence at any time in the future, it is apparent that those which reflect directly the quality of economic management in New Zealand will be among them... Economic policy-making in New Zealand over the years ahead will have to pay considerable attention to what is considered internationally good practice and could pay a heavy price for departing from it."

At present, interest rates in New Zealand remain high because our inflation rate is high and because international lenders are building in a risk element on investment in New Zealand. Even if we cannot match the performance of Japan and Germany which look as though they will practically <u>eliminate</u> inflation this year, we should be firmly aiming to get into the sub-5 percent range within the next two years. The risk premium will only fall if and when domestic and foreign lenders gain confidence that New Zealand has turned the corner and is set on a path of stable and consistent policy. In this, the political element is critical. For example, if perceptions take hold that a soft monetary policy is in prospect either in the run-up to the election or after it, interest rates will stay up and the adjustment process will be delayed or reversed. Any party that encouraged such perceptions would rightly be blamed for the consequences.

The present period calls for far-sighted leadership from all political groups in New Zealand. Initiatives such as transport deregulation, CER, initial moves to liberalise import licensing, a start on financial sector deregulation and voluntary unionism recognised the imperative for change. More recent initiatives have reflected the need for a more vigorous and consistent approach. Many policy weaknesses and threats to an improved performance still remain. Amongst the most important are the labour market, the public sector and the existence of a number of economic activities that are still sheltered from competitive pressures. On another level are the problems of a welfare state and a set of social policies which were designed for a different type of society, and are providing many services in an inefficient and unresponsive manner. They are often not helping those most genuinely in need while money is being wasted on some of us who can afford to pay and should be self-reliant.

The weaknesses in economic management over the past generation or so have not been a party political matter. Both the major political parties and many business, trade union and other interest groups - including much of the government bureaucracy - were in accord in supporting policies which protected individual sectors from the realities of the international market place.

Most New Zealanders were guilty of so enjoying the apparently prosperous life of God's own country that they preferred pragmatic solutions to try to keep it as it was rather than to accept the excitement, the challenge and sometimes the discomfort of changing and growing through exposure to the real world.

Changes are occurring now because our lack of growth, our high inflation and our heavy overseas indebtedness leave no other realistic option. There is no reason why both political parties cannot again be in accord on the broad economic policy framework. There is plenty of room right now for the Opposition to take the high ground over the timing, management and consistency of application of present policies without criticising the broad framework and thrust. The real tragedy would be to suggest that we can return to the policies and style of the past.

What I would expect from any New Zealand political party that seeks to present itself credibly to the electorate would be a clear recognition of the things that have gone wrong, support for intelligent and courageous actions to get the economy back on its feet and a well-conceived approach to current policy weaknesses and outstanding business.

In more specific terms, I would hope New Zealand voters would demand of any party competing for office a clear intellectual framework and a set of principles on which policies would be based. In the economic field, I would see some of the key ingredients as being:

- a medium term orientation to policy, recognising the counterproductive nature of quick fixes and the time needed for beneficial adjustments to occur;

- a stable and predictable macroeconomic environment, requiring persistence with monetary and fiscal restraint to eliminate inflation and reduce the burden of debt;

- an extension of market liberalisation, to increase the flexibility of the economy, improve resource allocation and reduce interest rate and exchange rate pressures;

- a recognition that faster rather than slower adjustment, and a comprehensive programme of reforms, appear on the evidence more likely to produce positive results more quickly and ease adjustment difficulties overall;

- a careful articulation of the appropriate role of the Government in all areas and, by contrast, a view on the appropriate scope for individual choice, entrepreneurship and innovation; and

- a clear and coherent sense of direction to help private sector decision-making, and a consensus-building approach to reduce doubts about the durability of policy reforms.

Whether the quality of political leadership in New Zealand satisfies such standards will, quite bluntly, determine whether or not New Zealand has a future. There is no reason why we cannot match the achievements of a country like Finland. It is not basically a question of discovering the set of technically correct economic policies - in general terms they are known. It is much more a question of whether we can display the guts and the intelligent political attitudes that people like the Finns have shown. The answer to that question may lie largely with the emerging generation in New Zealand politics and other walks of life. Your responsibility to address it - fully, seriously and intelligently - is a heavy one.

WEDNESDAY CLUB

NEW ZEALAND LABOUR MARKET REFORM

CLASS STRUGGLE OR PRODUCTIVITY STRUGGLE?

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

WELLINGTON

9 JULY 1986

NEW ZEALAND LABOUR MARKET REFORM

CLASS STRUGGLE OR PRODUCTIVITY STRUGGLE?

I am pleased to have the opportunity to address this forum. I know that it has been a useful vehicle for an interchange of ideas on important policy issues.

The topic of the New Zealand labour market and industrial relations system is one to which the 30 or so chief executives who comprise the New Zealand Business Roundtable have devoted great attention over the past twelve months.

The issue of reform in this area is pivotal in realising the full benefits of recent economic initiatives. If we fail to change our labour market institutions and attitudes we will remain a low growth, low wage country. We will continue our abysmal record of the past decade of having 50 percent higher inflation and 50 percent lower productivity growth than the rest of the OECD, with one of the highest levels of industrial disputes. We can no longer afford the senseless waste of a mindless conflict society.

The perspective we endeavoured to adopt in thinking about the issue was the general interests of the New Zealand community. It was gratifying to read one acknowledgement that we appeared to have been genuine in this effort. In a recent review, the Director of the Australian Institute for Public Policy and former MP, John Hyde, noted the statement in our submission that "[The] proposals do not reflect merely the specific interests of employers, still less those of larger businesses". He went on to say:

"I detected nothing in the submission that would preserve any advantage for big businesses over little businesses. It explained carefully how the employees' interests were to be enhanced. And it advocated no prestige or perk-distributing councils for industry's captains. My cynicism about political lobbies seldom fails me but I believe this one might have New Zealand's interests in mind."

In its deliberations on the Green Paper issues, I hope it can be assumed that the Government will also operate on the principle of putting New Zealand's interests first. There are obviously some political risks involved in such a course. From a narrow and short term perspective, the interests of some employers and some unions might be adversely affected. But it is not valid to evaluate proposals for change in terms of their impact on, for example, the structure or role of some existing unions or the position of their officials. The relevant interests are those of all workers, all employers, the unemployed and other sections of the community who would stand to gain enormously from labour market reforms.

The business community has been generally supportive of the recent changes in economic direction in New Zealand. In some important respects, these have been evolving in New Zealand for several years but they have been pursued more vigorously and comprehensively since the change of government.

There has been widespread recognition of the dismal and socially distressing results of past policies. For more than a generation these policies were broadly supported by all New Zealand political parties and community groups. What I believe the business community is looking for now does not reflect any party political preferences. It seeks a broader constituency for intelligent and determined efforts to overcome the many obstacles that still stand in the way of recovery from our precarious economic position, and thus an assurance that the difficult adjustment efforts will not be in vain.

At present, sufficient confidence is still lacking in many parts of the private sector. The process of adjusting to live within our means requires a number of real income reductions until economic restructuring and productivity improvements restore the possibility of sustainable income growth. But some of the income reductions have been falling quite disproportionately. For example, many farmers are incurring income falls that are out of proportion to their medium term competitiveness, while the last wage round has seen some employees receive real wage increases quite unrelated to their productivity. Offsetting adjustments and greater productivity gains must be achieved in the next twelve months to reflect the inescapable economic relationships between wage levels, international competitiveness, profitability and employment.

New Zealand's economic history has been littered with attempts to break out of a debilitating pattern of stagnation. Typically these have faltered and policies have been reversed because of the reaction to short term discomfort or the resistance of powerful interest groups. I believe that the anxiety that we will repeat this experience is now uppermost in the minds of many farming leaders. As one recently wrote:

"It remains to be seen whether the present Government has the time, or the political strength and will power to carry through the reforms in the labour market and in import protection which are essential to reach the eventual goal of a free and rational economy. I'm dead scared we're going to get stuck half way."

Such perceptions inevitably affect confidence and hence a whole series of business decisions. The Government last year watered down its initial proposals for tariff reductions, with the result that the programme of assistance reductions is probably no longer evenhanded, and the timetable which extends only to 1988 is shorter than is desirable for sound business planning. The recent decisions on West Coast rail services and the town milk industry were interpreted as owing more to political calculations than sound economic principles. A number of features of the new Commerce Bill make no economic sense and will unnecessarily put at risk businesses and jobs.

Any such departures from a consistent policy framework affect investor perceptions. Domestic and foreign investors build a margin of risk into their expectations. This inevitably affects interest rates and the exchange rate, thereby making the adjustment process more difficult. At present, investors are expecting substantial progress on labour market reform this year. If there is not, we can expect interest rates to increase again and more exchange rate volatility.

In both Australia and New Zealand, the political obstacles to achieving a labour market environment that is compatible with a more open and competitive economy have to date been considerable. As Hyde noted:

"In both countries reform has run up against an inflexible, regulated labour market... Both Governments seem to accept that this will thwart their goals but both have tip-toed among party sensibilities."

In Australia, the accumulating pressures generated by the Accord are now placing enormous strains on economic management. The Accord embodies all the rigidities of our previous wage and price freeze - and in some ways more, since its commitment to wage indexation has denied Australia the real wage reductions that occurred in New Zealand in 1982-84 and that contributed, as the effects worked through, to an employment spurt which exceeded anything achieved in the past decade.

Australia should be an object lesson to us not only in respect of the weaknesses of Accord-type arrangements but of the risks of financial and exchange market instability and general loss of confidence if a country's labour markets are not responsive to changes in other economic policy settings.

There can be absolutely no doubt about the importance of the labour market both to long run economic performance and to an adjustment programme aimed at restoring economic balance. World Bank research has estimated that the differential in growth rates of a group of countries with highly distorted labour markets in the 1970s was of the order of 1.4 percentage points per annum compared with a group of countries with less regulated labour markets. That difference represents the potential for a 74 percent higher standard of living in one working lifetime. Studies have also pointed to the crucial importance to firms of being able to reallocate labour resources, change wage contracts and adopt new production methods and work practices in response to changing economic incentives.

Two particularly interesting cases in this context are Yugoslavia and Korea. Despite large reductions in real wages and its real exchange rate in recent years, Yugoslavia is still experiencing adjustment problems because its labour arrangements impede changes in work practices and the movement of workers from factory to factory. In Korea on the other hand, as in Japan in earlier periods, temporary real wage reductions were combined with substantial industry restructuring when the economy got out of balance in the early 1980s, following which real wages and other incomes resumed a high growth path.

Around the world, the functioning of labour markets has become a prime focus of policy attention following the deterioration in economic performance and surges in unemployment in many countries in the 1970s. There is no reason for electorates to tolerate the waste involved in high rates of unemployment and the associated social tensions. It should be perfectly feasible to return to unemployment rates of, say, 3 percent or less which were typical in the 1950s and 60s. Countries like Japan and Switzerland have maintained such a track record. It is unconscionable that we now have a double digit rate of youth unemployment and that a mentality accepting the inevitability of long term unemployment for some is in danger of developing.

There are, of course, many factors that have contributed to these outcomes. Education and training policies have played a part, as have tax, social security and housing arrangements which have reduced work incentives and labour mobility. But unsatisfactory labour market institutions and rules have had the central role, not just in the field covered by the Green Paper but in the public sector, the professions, the self-employed sector and via other statutory or regulatory interventions.

In this central area, the analysis undertaken by the Business Roundtable concluded that our present industrial relations system was delivering outcomes that were neither conducive to employment growth and high productivity nor equitable towards the most disadvantaged groups in the work force.

Our current system is based on regulated representational arrangements and centralised award structures and bargaining procedures. It has little regard for the individual preferences of many workers, the profitability of enterprises or the varying employment conditions in industries or regions. It provides poor incentives for positive employee relations, demands excessive government involvement and all too frequently generates inconclusive bargaining and conflict.

The key elements of our present system are the rules governing union formation, the uniform national coverage of awards, the imposed conciliation procedures and the separate status that industrial law has acquired via the Arbitration Court. These elements cannot be viewed in isolation. A framework and set of criteria for judging good labour market institutions are necessary for identifying necessary reforms.

The approach which we see as in the interests of all parts of the employment community is based on decentralised, voluntary contracting within a framework of generally accepted legal principles. In essence it would involve changes to union registration rules to enable alternative groupings, responsive to member interests, to emerge on a competitive basis. Bargaining arrangements would be liberalised to enable deals to be struck at whatever levels parties find it most convenient to do business. In many cases we would expect this to be at an establishment, company or industry level, but regional levels or even a national level would not be excluded. The important point is that whatever level is chosen should be the primary focus of bargaining and not some subsequent stage. While employers should not be required to deal with more than a single bargaining group, this would not preclude associations or federations of unions at national or sub-national levels. Negotiated contracts would be interpreted and enforced in ways similar to other legal contracts.

There is nothing radical about such ideas. Our present institutions are now substantially unique to New Zealand. The organisation of labour markets elsewhere has evolved towards arrangements of the type we are proposing, most successfully in countries like Japan and Switzerland. There seems no reason why New Zealand workers and unions, considering their interests rationally and intelligently, should wish to mount the barricades in defence of our archaic system.

In no way can our proposals be construed as anti-union. Trade unions reflect the need to have associations in many circumstances, not least to minimise the costs of negotiating and enforcing agreements. They can also provide valued services to members. What is at issue is the form of many unions, which is often divorced from the common interests of a workplace, and the lack of effectiveness stemming from protected positions. Unionisation should not be forced on groups in the economy where such arrangements are not relevant. But in an environment where unions were free to adapt their structures and compete for the provision of services, their vitality, responsiveness and democratic accountability to members could only be enhanced.

It is no accident that, as the Prime Minister recently remarked, unions and union officials at present are often held in low esteem by union members, employers and the public in general. This is reflected in the poor resources that unions possess and in their consequent inability to be innovative and positive, rather than defensive and reactionary. Just as import licensing made many manufacturers "fat, dumb and lazy", as one leading industrialist has put it, so has New Zealand's industrial relations system severely hampered the development of efficient, responsive and innovative unions. Thorough reform of the system, including breaking down barriers to competition, will transform unions in much the same way that the deregulation of product markets has transformed business in New Zealand and made it more productive and responsive to consumers.

Nor is our approach in any sense anti-worker. We have made it clear that our basic objective is growth in jobs and increases in all incomes, including wage incomes. For far too long, economic stagnation has meant that New Zealand has remained a low wage economy.

We should not set our face against short term reductions in wages (or more particularly, labour costs), especially in hard-pressed industries, in order to preserve jobs and firms and speed the process of restoring economic balance. But the most important aspects of flexibility which we lack at present are the capacity to readily change such things as production methods, working hours and bargaining procedures and the scope to devise employment contracts with better incentives to promote cooperation and high productivity.

Many firms in New Zealand could afford to pay higher wages now if such productivity improvements could be implemented. Nor would productivity improvements resulting from reduced over-manning be at the expense of jobs overall, because our inflated cost structures are simply impairing our competitiveness and reducing the purchasing power of incomes that would otherwise be spent and bring forth jobs in other parts of the economy.

The ideas we have put forward are based on the best insights we could gain from experience and contemporary thinking about the operation of labour markets. We sought to analyse all relevant issues, including approaches to equity and low income problems. Our analysis should be subject to critical scrutiny and it should be modified if it can be shown to be deficient.

I believe the same degree of scrutiny should be applied to other contributions to the policymaking process. I have yet to read a commentary examining whether the FOL's submission, to mention just one, is based on a set of principles which reflects broad community interests. It might be thought striking, for example, that in a lengthy document the interests of the unemployed barely receive a mention.

I have some apprehension as to whether the discussion of this topic in government circles is proceeding on the basis of a clear set of principles and objectives. As many commentators have observed, such a framework was lacking in the Green Paper. In order to gain support for major initiatives and to enable all parties to adapt in the intended manner, valid and coherent changes are needed. The many initiatives in this area in the past 10 or 15 years have basically involved ad hoc tinkering, and have not materially improved the bargaining environment.

By way of illustration, there have been news reports suggesting that one idea being promoted is a minimum size for unions, in order to force union amalgamation. I believe the currency of this idea in New Zealand over the years derives in part from former favourable impressions of the labour market in Germany, where one feature is the existence of a number of large industrial unions. The deterioration of Germany's productivity performance in the 1970s and a rate of unemployment approaching 10 percent should call into question the validity of such a simplistic model.

I am not aware of any economic analysis which would support a prescriptive approach to union size, any more than there is good reason to prefer large businesses to small ones. The relevant policy objective is surely to frame rules which will allow effective unions to develop, whether by membership growth, amalgamation, separation or changes in form or purpose. Some of the smaller unions in New Zealand are amongst the most effective, democratic and responsive to their members' needs. The imposition of minimum size requirements would greatly obstruct the process of moving towards enterprise or establishment unions. The presence of some 70,000 unions (averaging 140 in size) in Japan suggests that in a competitive market for union services bigger is not obviously best.

It is essential for the credibility and success of the general programme of economic reform and liberalisation that the Government adopts a principled approach to reviewing the industrial relations system, not one characterised by political expediency. No enterprise is without risk, as chief executives are only too keenly aware. The successful ones are those that take risks that are justified by the rewards. We have suffered too long from a failure of political risk-taking in New Zealand, with economic and social consequences that are now obvious to all.

In fact, the risks of initiatives in this area are now far less than they are commonly supposed. Many aspects of economic management are no longer a matter of political ideology. From

Deng to David Lange and Roger Douglas, political and economic helmsmen have questioned many of the nostrums that became embedded in national folklore and found them wanting.

In respect of the labour market, the logic of the arguments in support of change is compelling. The Prime Minister has declared himself in the camp of those favouring radical reform. Support from the Opposition for valid initiatives should be forthcoming.

The attitude of the employer community is interesting. Sounding very much like the recent report of a Planning Council group, the Employers Federation expressed the view only a few years ago that:

"... any proposition which calls for radical change to industrial relations and wage fixing is probably doomed to failure. The inherent resistance to change in New Zealand makes this option unrealistic."

It is a measure of the shift in opinion in New Zealand since 1979 and the pressures and incentives of a new economic regime that there is now broad employer support for fundamental changes, even though they would pose major challenges to many businesses.

In union circles, I believe attitudes are shifting also, perhaps more rapidly than official pronouncements suggest. One submission from a union source on the Green Paper stated:

"...there is widespread support for radical change although this support is rarely articulated publicly."

It went on to say:

"...the most knowledgeable and intelligent union leaders of corporations and unions in such basic industries as pulp and paper / meat freezing / transport ... dairy products / housing etc are aware of the fact that the nation's economy is in deep trouble, it is rapidly being restructured and increasingly will be restructured radically for better or worse in the years ahead. The decisions being made now will determine the future - and the future is somewhat bleak."

Similarly the Coalition of Non-Aligned Associations and Unions, which covers some 60,000 workers, stated in its submission that:

"... there is widespread support for positive changes in New Zealand industrial relations. Unfortunately public discussion so far has centred on narrowly perceived equity issues (i.e. "attacks" on the national award structure etc) rather than taking a broad look at the nature of the economic changes occurring within New Zealand now."

The tide of ideas which has long since changed attitudes on this subject in the dynamic societies overseas is now reaching this part of the world. Let me conclude by quoting from a recent address by Charlie Fitzgibbon, former senior ACTU vice-president and member of the Hawke Government's inquiry into the industrial relations system:

"Australia is not the only country struggling to come to terms with the need to improve its competitiveness and productivity performance in the face of strong international competition. The debate is certainly occurring across the Tasman. I was struck with the commonsense approach espoused by the New Zealand Business Roundtable ...[in] their recent submission to the New Zealand Labour Government on industrial relations matters. They say that:

"The notion of the economy as a fixed pie, and of union - business negotiations as about the division of the pie, is demonstrably false, yet it underlies a good deal of our current labour market negotiations..." "

In the same part of the submission we argued that:

"Henceforth employers and unions will increasingly be striving to devise the sets of labour market arrangements which will create the maximum benefits. Instead of the class struggle, we will have the productivity struggle and the challenge to survive and prosper in a competitive world."

That, I hope, is the idea that will guide the Government's approach to industrial relations reform.

AUCKLAND CHAMBER OF COMMERCE

LUNCHEON SEMINAR

INDUSTRIAL RELATIONS : A BETTER WAY

DOUGLAS MYERS
VICE-CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

AUCKLAND

10 JULY 1986

AUCKLAND CHAMBER OF COMMERCE

LUNCHEON SEMINAR

INDUSTRIAL RELATIONS: A BETTER WAY

I want to address the topic of industrial relations in the context of the labour market and its role in the economy. I believe it is most important to relate discussion of this subject, which in the arcane world of industrial relations practice can take on a life of its own, to the major changes in economic direction which this seminar is reviewing.

In doing so, I will base my remarks on the approach to reform of the New Zealand labour market and industrial relations system which the New Zealand Business Roundtable has put forward in its submission on the Government's Green Paper. In that submission, the perspective we adopted was the interests of the New Zealand community as a whole, not merely those of employers and certainly not just those of large employers. I would like to make some specific remarks later about the interests of smaller businesses in a better industrial relations system.

The change in economic direction which, in some important respects, has been evolving in New Zealand for several years, has been pursued more vigorously and comprehensively since the change of government. The strategy is aimed at a decisive break with New Zealand's abysmal economic performance record.

Few, if any, New Zealanders can be happy with the slide in living standards compared with all other OECD countries; a productivity growth rate 50 percent lower and an inflation rate 50 percent higher than our trading partners over the last decade; a large rise in unemployment; massive outward migration; and a dollar which is worth about one third of what it would buy in United States currency in the early 1970s.

There have been two main pillars of the new economic strategy that is now taking hold. The first has been to fight inflation and live within our income by pursuing a firm monetary policy and supportive action to reduce government spending and the fiscal deficit. The second has been to promote more competition and flexibility in the various markets of the economy, in order to encourage our capital and labour resources to be employed in the right industries and used more productively.

It is slightly disconcerting to see an evaluation of this policy framework couched in your programme in terms of the question: "Is a totally free market force economy appropriate?" This suggests some radical or extreme programme is being implemented or envisaged. I believe the limited steps towards liberalisation that have been taken in recent years can only be viewed as extreme by those who have been living, as one leading financier put it last year, in a gumboot at the bottom of the ocean.

For example, the share of national income used or directed by the Government remains 30 percent higher than at the beginning of the 1970s. On some measures about 40 percent of our finance industry, an area where there is minimal state involvement in many countries, is in the hands of government financial institutions. In major markets such as telecommunications, broadcasting and energy, where there has been extensive policy liberalisation overseas, statutory barriers to competition in New Zealand are formidable.

In the manufacturing sector, our average tariff levels remain extremely high by world standards, and more particularly there are large and unjustifiable disparities in assistance between highly sheltered activities and industries like my own which are now largely unprotected from import competition. Moreover, the bias in favour of protected domestic industries and against both traditional and non-traditional exporting activities looks set to worsen unless the Government accelerates its reform programme.

More importantly, the present Government has described its approach to reviewing interventions not as a process of "deregulation" but as a matter of reforming laws and regulations which do not serve the community's interests. Indeed there is no such thing as a "free" market - market transactions can only take place in a legal framework which defines ownership rights and establishes rules which allow voluntary exchanges to occur. Moreover, as a community we support appropriate constraints for social or equity reasons. Few people, for example, would favour the sale of liquor to minors.

These perspectives are highly relevant to an examination of the regulations governing the New Zealand labour market. Those arguing for preserving the status quo are in effect defending the propensity for chaos and laissez-faire which has come to characterise too much of our industrial relations. The present situation in which agreements are often breached with impunity is a far cry from the order envisaged by the framers of the system. The reformers are for the re-introduction of stable legal rules and contracting procedures into this area - for appropriate forms of re-regulation. All parties are aware that legally unacceptable behaviour should not be tolerated, and that through a lack of moral fortitude we have encouraged the industrial habits of the jungle.

Reform of the labour market now needs to be addressed seriously because its effective operation is crucial to almost all features of the current policy framework. Wage and productivity developments are directly related to our real exchange rate and our problems of competitiveness. A continuation of the fall in inflation and interest rates will be dependent in the short term on compatible wage movements.

The necessary adjustment process in the economy has been made more difficult by the large wage increases in the last wage round. Over the next year these will be contributing to a decline in business profits especially in the internationally competing industries, an expected rise in unemployment and the difficulties in the farming sector. It is imperative now that unit labour costs are reduced and that productivity improvements accompany wage adjustments.

In the former cost-plus era, businesses were very largely protected from soft wage settlements and from turning a blind eye to inefficient work practices. Monetary policy accomodated price increases and import licensing and other forms of industry protection automatically offset any loss of competitiveness. While economic performance suffered, firms could survive. In the present tighter monetary environment and with increasing international competition, firms are caught between a rock and a hard place. They have to address their labour costs and productivity directly.

My reading of the evidence suggests it is impossible to over-estimate the importance of the labour market to economic performance. Directly or indirectly, around 60 percent of national income flows to labour as a factor of production. If our labour resources are not employed in the right industries, with the right incentives to maximise their productivity, the implications for economic growth will be severe. Through effective management, they need to be combined with capital and other resources to increase productivity and joint returns - class war notions of a struggle between labour and capital are irrelevant.

The working of the labour market is also primarily responsible for whether or not we achieve high levels of employment, and for many important social goals such as the opportunity to earn an income, participate in the community and acquire self-esteem.

A recent World Bank study attempted to explore the aggregate consequences of inappropriate labour market regulation - in the form of minimum wage legislation, unsatisfactory trade union law and other interventions - on economic growth and employment in a number of developing countries. It found that during the 1970s there was a difference in the respective growth rates of countries with highly distorted labour markets of 1.4 percentage points per annum compared with countries whose labour markets were less affected by such interventions.

Over a working career (say 40 years) a differential growth rate of 1.4 percentage points per annum would add up to a 74 percent difference in attainable standards of living. In addition, the interaction of the labour market with other policy areas could well represent the difference between the success or failure of a programme aimed at stabilising and liberalising the economy and escaping from economic stagnation.

The organisation of labour markets has changed dramatically in many countries over the last century. As a recent report by the Economic Monitoring Group of the Planning Council noted, our arrangements are now "substantially unique to New Zealand". This ought to have prompted a fundamental examination of whether our labour market institutions are not another item in a long list of unique and unorthodox policy interventions which have made New Zealand the worst performer of the OECD countries over the last generation or two.

It is not surprising that the Planning Council group advocate reforms to labour market arrangements which go very much in the direction advocated by employers, and it is encouraging that leading unionists made positive comments about the report.

For example, the report places particular emphasis on the need for contestable unionism, noting that current registration rules put obstacles in the way of people from outside unions, such as the unemployed, offering to provide work at a lower price. It also points out that discontented members of an existing union cannot readily move to a different union or form a new one.

The Planning Council group advocate more emphasis on negotiated agreements, and they suggest a need for reconsideration of the basic blanket coverage rule. They favour the emergence of specialist private institutions in providing mediation and conciliation services and argue correctly that matters of income distribution should primarily be handled by taxes and benefits rather than through the wage system.

In other respects, however, the report's conclusions seem to be based on political judgements more appropriate to the recent past, rather than rigorous analysis. For example, the group sees attractions in regarding contracts of employment like any other form of contract and relying on standard means of enforcement, but does not consider that such a change "would win acceptance for some time yet".

Similarly they point out that:

"Perhaps the strongest argument for a more radical approach is the strength of the links between the key elements of the framework of the labour market: the registration system, blanket coverage, compulsory conciliation, and arbitration. This makes it difficult to effect change in any one while leaving others unchanged".

They consider there would be advantages for New Zealand in a fundamental and comprehensive approach covering all these elements, but think that the necessary agreement is unlikely. Mediocrity rules!

Perhaps the most revealing indication of political sensitivity rather than a duty to analyse and inform is that the question of voluntary or compulsory unionism is not even addressed.

However, in some ways the more serious weaknesses in the report are not the conclusions but rather the errors of fact and analysis which it contains. For example, citing a 1976 study, the group says that "the best available evidence suggests that the real aggregate costs of strikes in New Zealand are not high".

The official facts are, however, that New Zealand has slipped from being the least strike prone of the OECD countries in the early 1970s to the third most strike prone in 1984. Moreover, anyone familiar with the quality of these data should be far more careful in using them to draw such conclusions.

Similarly, the report makes much of the fact that on some, rather limited, measures the degree of wage flexibility in the New Zealand labour market may be around average OECD levels. I would have thought it was cold comfort to unemployed workers in New Zealand to be told that our labour market was working as well as, say, those in Australia, France or Belgium. Finance Minister of the Year awards are not handed out for average performance, and I would hope that in this area too the present Government's sights have been raised well above our customary level of mediocrity.

Apart from this limited relevance of an average standard rather than a standard of excellence, the narrow focus on debateable measures of wage flexibility misses out much of what matters for labour market flexibility. Key dimensions of flexibility include such things as work practices, production methods and organisation, working hours, bargaining procedures and, in particular, the flexibility to devise employment contracts with incentive structures which promote cooperation and high productivity. The trouble with general awards, Accords and the wage fixing systems of the centrally planned economies is that they eliminate or suppress the scope for designing the incentive systems at the level of the firm which are at the very heart of the income creating process.

Any discussion with people with practical expertise would have revealed that these aspects of flexibility are of prime concern to employers and are greatly hampered by the narrow channelling of awards. The Business Roundtable submission made it clear that the relevant question was not: "How flexible should the labour market become?" but rather "Why should we suppress, by regulations, any opportunities for people to make their own arrangements in a decentralised and mutually beneficial way?"

The approach by the Planning Council group to the Green Paper issues contrasts not just with the analysis of employer groups but also with substantial elements of union opinion. For example, the Coalition of Non-Aligned Associations and Unions, which covers some 60,000 workers, stated in its submission that :

"... there is widespread support for positive changes in New Zealand industrial relations. Unfortunately public discussion so far has centred on narrowly perceived equity issues (i.e. "attacks" on the national award structure etc.) rather than taking a broad look at the nature of the economic changes occurring within New Zealand now."

The Coalition, representing as I mentioned some 60,000 workers, went on to say:

"There are welcome signs from the present Government that they are prepared to 'grasp the nettle' and push issues back to where they belong: within the workplace between employers and employees and their respective organisations."

A central thrust of their submission is the need to be able to conclude comprehensive workplace agreements covering all aspects of the employment relationship. This theme is in accord with the approach of the Business Roundtable which is based on the principle of decentralised voluntary contracting, at whatever level parties find it convenient to do business, through single tier negotiations by representative bargaining units. The closer interaction between employers and employees which this will involve will require new management and industrial relations skills on both sides. It is high time such responsibilities were removed from the remote machinery that has exercised them in the past.

This process will also be an evolutionary one: in the Coalition's view:

"... the issue is not the legislating away of National Awards but the development over time of orderly, efficient and mutually satisfactory collective bargaining arrangements which might be enterprise or industry based eventually but which, because of our traditional craft/occupation based bargaining will still retain links into this traditional structure."

One of the features of national awards which is often mentioned is the role of providing a "floor" to wages. The Business Roundtable made reference to the large numbers of economic studies which have established that wage regulation typically has perverse effects on the very groups it is supposedly intended to help. Far more frequently it acts as a "fence" preventing others from competing for jobs, acquiring skills and starting to climb the income ladder. Those that are hurt most in the process are the unemployed, the young, the unskilled, women and the Maori and Polynesian community - a surefire recipe for social tension and racial division.

Many researchers have examined the reasons why minimum wage rates are often supported. Discussing the United States evidence, one such analysis inquires:

"Are minimum wage laws intended to hurt low productivity workers? Probably not. Many supporters of minimum wages are merely trying to protect their own economic interests. It is no accident that labour unions are among the strongest backers of higher minimum wages (and the most vigorous opponents of a teenage exemption from the minimum wage)".

It is also no accident that South Africa is the country with the most widespread use of minimum wage laws - to discourage the employment of black workers - nor that the representatives of the most poorly paid workers in the United States have typically voted against such laws.

I was struck in reading the Federation of Labour's submission on the Green Paper by the fact that, in a lengthy document, the interests of the unemployed barely received a mention. I would not take it from that that there is not genuine concern amongst many unionists for the plight of unemployed workers. Rather, and understandably enough, their prime concerns are for their own employed members.

The Business Roundtable sought to take a broader perspective in its analysis and devoted considerable attention to improved approaches to equity and low income issues. Though it is probably too much to hope for in the present state of community perceptions in New Zealand, the union of unemployed workers should be among the strongest supporters of our approach. In any event, I see it as the responsibility of a Government which has staked its reputation on governing in the interests of the wider New Zealand community to distinguish those wider interests from ones put forward by narrower groups.

I said earlier that the Business Roundtable's approach was not developed with the specific interests of large companies in mind. It had regard to the interests of all participants in the labour market.

In particular, we specifically rejected any interest in deals between big businesses, big unions or government. This approach stands in contrast with the situation in Australia, where the business community, by and large, has been attracted to the perceived and strictly short term benefits of Accord-type arrangements. Our submission stated that we saw such arrangements as, in essence, a trade of some doubtful short term restraint on wages for acceptance of sustained rigidities. We went on to say that:

"Accords typically increase the power of some leaders of the union movement, bypassing the democratic system in the process and taking hostage other important aspects of economic policy. Being forms of centralised wage determination, they prevent the wage flexibility that is needed for structural adjustment... Corporatist relationships between governments and business are equally damaging to democratic processes and economic performance."

How anyone who has observed experience with the Hawke Government's Accord in Australia could advocate a similar arrangement in New Zealand is beyond comprehension. Like our last wage freeze, it bottled up pressures for a couple of years, only to have them emerge in the form of fiscal problems, contrived remuneration arrangements such as superannuation, mis-matches of skills and finally rising inflation and a plummeting exchange rate.

The Accord now appears to be coming apart at the seams as one patched-up version follows another and pessimism about Australia's economic prospects continues to grow. No one in Australia seriously believes that any version of the Accord offers a way of making inroads into an 8 percent unemployment rate or a scandalous 20 percent rate of youth unemployment. Australia is losing time and losing ground by delaying the inevitable need to face the challenge of freeing this key market from stultifying centralised controls.

Far from being the long run beneficiaries of centralised arrangements, larger businesses are in many ways the most handicapped under the systems that have operated in Australia and New Zealand. This is one reason why they have sometimes lagged behind smaller firms in respect of innovation and the creation of new jobs. Smaller enterprises are more easily able to develop positive employee relationships, flexible contracts and work practices which benefit both workers and the firm. I believe it is some large businesses, not smaller ones, which would have greater difficulties in the transition to the type of regime employers have advocated.

Under an industrial relations system based on voluntary contracting along the lines we envisage, smaller employers and their workers would cooperate in much the same way as they do in most other countries. Where it suited both parties, small-scale house agreements or individual contracts of service would be preferred. Where there were advantages in collective negotiations, for example to protect the interests of some workers or to reduce the costs of drawing up a multiplicity of contracts, bargaining could be organised on an industry or regional basis, or even at a national level. The key change would be to a freedom of choice which does not exist at present.

For those who are genuinely concerned about the viability of firms and jobs in small towns, such options offer a vast improvement on the sometimes crippling effects of imposed nation-wide wage settlements. Inevitably these reflect the dominant interests of the major employers in the metropolitan centres. As with the old system of national pricing, the natural advantages of regional employers are artificially removed. Regional interests would be far better served if there were greater scope to vary employment conditions so as to reflect locational preferences and living costs.

I have heard it suggested, I think seriously, that the cost of finance or foreign exchange hardly varies across the economy, and wages should not vary either. It hardly needs to be pointed out that the difference is that wage earners are people, and that people vary widely in their skills and productivity and the trade-offs they make between leisure, job satisfaction, location and remuneration. In the real world, even the Soviet Union exhibits substantial regional differentials in wages, despite the fact that orthodox Communist ideals would have everyone earning the same wage.

The Green Paper exercise is aimed at a total review of the industrial relations system. It was initiated by the Government, not by employers, in economic circumstances and a policy environment which are vastly different from those prevailing when the system was last modified two years ago.

Like it or not, and I for one welcome it, the world has changed from the cocoon we grew up in. As Charlie Fitzgibbon, former senior ACTU vice-president and a member of the Hawke Government's inquiry into the Australian industrial relations system, recently pointed out:

"We are in competition with societies in manufacturing which do not understand a them-and-us situation, in particular the Japanese, where by tradition there is complete and absolute unity between the capital and labour in big manufacturing plants...

"If one believes that industrial relations, unemployment and well-being can hide behind protection barriers in these circumstances, then one has to believe in other fallacies such as Father Christmas..."

I hope such ideas will guide the approach of all parties to the current review of our industrial relations system. The Prime Minister has declared himself in favour of radical reforms. There should be a broad constituency for constructive change. The proposals we have put forward are pro-worker and pro-effective unions. I believe the potential benefits to workers, employers, the unemployed and all sections of the New Zealand community from such reforms would be enormous.

The only real question for New Zealand is whether the gains will be realized quickly, comprehensively and cooperatively or whether they will occur through a more protracted, piecemeal and contested process.

The cost of not facing up to the need for a change now could be the failure or reversal of the current adjustment efforts, which carry the hope of a better future for all New Zealanders.

MEDIA RELEASE

NATIONAL PARTY INDUSTRIAL RELATIONS POLICY

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

26 SEPTEMBER 1986

26 September 1986

Sir Ronald Trotter
Chairman
New Zealand Business Roundtable

MEDIA RELEASE

NATIONAL PARTY INDUSTRIAL RELATIONS POLICY

"The policy document is a positive advance in thinking on labour market reform in New Zealand," the Chairman of the New Zealand Business Roundtable, Sir Ronald Trotter, said today. He was referring to the statement on industrial relations policy released this week by the Leader of the Opposition and the Opposition Spokesman on Labour and Employment.

Sir Ronald said that the starting point of the policy was the view that New Zealand's current industrial relations system was inconsistent with the needs of a more open and competitive economy and the objectives of higher productivity and job creation.

"The Business Roundtable fully endorses that view," he said. "It is encouraging that both the Government and the Opposition recognise the need for fundamental changes to trade union structures, methods of wage bargaining and the relationship between employer and employee."

Sir Ronald said that there could be no doubt that an insufficiently flexible labour market and outdated industrial relations law had been a major reason for the under-performance of the New Zealand economy and its adjustment difficulties. A recent OECD high level group of experts, which included union membership, had put the issue succinctly when it said that labour market flexibility:

"... serves not only processes of adjustment, but also innovation, equity, and a higher quality of life... In this sense labour market flexibility is a key to both economic efficiency and social progress."

"The thrust of National's policy appears to be away from uniform, centralised arrangements, and extensive involvement by the Government and its agencies, and towards a system which places responsibility with the parties directly involved," said Sir Ronald. "The ability of workers or employers to establish employment conditions at a plant or enterprise level is absolutely critical to a more productive and harmonious workplace relationship."

It was also encouraging that the document recognised the need for an active role by the Government in the transition to an enterprise-based system. Sir Ronald said that the two central requirements of such a system were the freedom of workers to exercise choice in union representation and the ability to engage in collective enterprise bargaining. While some features of

National's proposals met these requirements, others did not appear to do so on a preliminary examination and would need more discussion and refinement.

The proposal to allow workers to decide whether they wanted to be represented by a union was a valid starting point which was widely upheld in other jurisdictions. So too was the provision to allow those who wished to join a union a choice of union representation through a balloting procedure.

It was pleasing that this provision was not undermined by artificial restrictions on the minimum size of new unions, which would seriously impede moves to enterprise-related structures. Such constraints had no logical basis, and were advocated only by those concerned to enhance the power of centralist institutions.

"The opposition to allowing workers the right to choose between unions appears to be coming from some union officials who remain one of New Zealand's last protected groups," said Sir Ronald. "It is nonsense to suggest that active competition between unions to provide services to workers, as occurs for example in Japan, leads to disruptive industrial relations. Nor can it be seriously proposed that workers are unable to determine their own best interests in deciding on union services, just as they freely choose to engage other professional services. I have more faith in the good sense of New Zealanders than that attitude implies.

Rather, there is considerable evidence that too many union officials do not genuinely represent the interests of significant parts of their membership, and their motives for resisting moves to enable workers to exercise freedom of union choice are very clear. On a recent issue in the United Kingdom 96 percent of union delegates voted one way, while in a subsequent representative ballot 90 percent of their members took the contrary view. No proper forms of accountability can be assured unless workers have the ability to vote with their feet. This is only to give them the same right in choosing their representatives as the latter usually insist they should have, finally, in any debate with their employers."

In respect of national awards, Sir Ronald said that the proposal to allow enterprise bargaining as an alternative to the award system reflected the wrong basic approach.

"No successful, high employment economy operates a system of uniform, nation-wide labour contracts along the lines of New Zealand's award system. The focus should be on a system which envisages company or house agreements as the primary form of collective bargaining, while allowing agreements to be struck at broader levels where this is appropriate. The provisions which would allow workers to opt out of the award system are too narrowly conceived and unlikely to be much more successful than existing provisions for composite agreements. Employers must be able to take similar initiatives and have the same ability as unions to deal with only one bargaining entity."

Sir Ronald said that the concept of industrial agreements as binding legal contracts between the parties, with remedies through the civil courts, was in line with the thinking of the Business Roundtable. However, the maintenance of a government mediation service, the concept of registration of private mediators and the possible retention of the Arbitration Court (especially for disputes of interest) seemed inconsistent with an approach which sought to promote direct employer - employee responsibility and minimise government involvement.

"An area of particular weakness is the apparent lack of any proposals for change in the state sector," said Sir Ronald. "This accounts for around 20 percent of the total labour market and its operation is seriously deficient, as the last state pay round so clearly showed. While there are some desirable features of the current public sector rules, such as a large measure of voluntary unionism, the majority do not accord with contemporary needs for flexibility, incentives and performance in that part of the economy.

The Government should take a lead in its own jurisdiction in promoting enterprise-based industrial relations arrangements. The rules for pay-fixing should not be related to outmoded relativity concepts but to the needs of its agencies in competing for staff and requirements of skill and performance. There has been ample recent evidence that many state sector employees favour moves in this direction."

Sir Ronald concluded by saying that, with the bipartisan recognition of the need for fundamental change, New Zealand had a golden opportunity to shape a modern industrial relations environment which would promote the interests of all parties - workers, effective unions, businesses and the unemployed.

He commended the National Party for the efforts they had made to seek input into their policy thinking from union and employer representatives with specific industrial relations expertise. He said it was a matter of frustration to members of the Business Roundtable that, despite the attention they had devoted to the issues and the offers extended, the Government had not tested its thinking in a similar way with them.

"I hope that they will do so in the final stages of decision-making, in line with the consultative approaches followed in other areas," said Sir Ronald. "It would be a tragedy if the objectives they have expressed for radical changes in labour market arrangements and behaviour were frustrated by the adoption of inadequate or unworkable mechanisms."

MEDIA RELEASE

GOVERNMENT POLICY STATEMENT ON LABOUR RELATIONS

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

30 SEPTEMBER 1986

30 September 1986

Sir Ronald Trotter

Chairman

New Zealand Business Roundtable

MEDIA RELEASE

GOVERNMENT POLICY STATEMENT ON LABOUR RELATIONS

"On the face of it, the Government's proposals for reshaping industrial relations do not appear to reflect the same logic and consistency which the Government has applied to other areas of economic reform," the Chairman of the New Zealand Business Roundtable, Sir Ronald Trotter, said today.

"It seems highly doubtful whether the decisions taken will lead to any significant positive changes in the industrial relations environment and bargaining arrangements. Nor will they adequately enhance the adaptability and flexibility of the labour market in the face of a rapidly changing economy."

Employers and unions had formally agreed in September 1984 that more encouragement should be given to industry or enterprise-based bargaining, since this form of bargaining by its very nature is better able to take account of specific industrial factors than the formal national award system can. The key to such bargaining was changes in union structures and an ability to negotiate outside the blanket coverage straitjacket of national awards.

"Our preliminary analysis of the statement suggests the options envisaged will not go far towards meeting these requirements," said Sir Ronald.

"The ability to form enterprise-related unions will be severely constrained by the minimum size requirement of 1000 members. There seems no logical justification for such a constraint. Some of the smaller New Zealand unions are among the most efficient and democratic. Positive employer-employee relations in the contemporary environment, in both the private and the public sectors, demands appropriate units at the workplace level.

Similarly the provision enabling unions to determine whether they wish to pursue award negotiations or a single comprehensive agreement appears a minimal advance on present arrangements. There would be difficulties for the workers directly involved in an enterprise pursuing this option if they are unable to form a separate union. Moreover, employers must be able to take similar initiatives and have the same ability as unions to deal with only one bargaining entity."

Sir Ronald said that no fundamental questions appeared to have been asked about the need for a government conciliation and mediation service and its basis of operation, or the role of the Arbitration Court. In the case of the Court, the proposals simply turned the clock back to the type of arrangements that had operated from 1973 to 1977. The case for an Arbitration Commission seemed weak.

While union demands had been acceded to on a number of issues such as the removal of restrictions on union activities and the scope of negotiations, and the extension of coverage to non-unionised workers, the absence of counterpart changes to registration rules and the award system risked making bargaining even more inefficient and disruptive and pricing more workers out of jobs. The transfer of some of the existing single sector arrangements such as fishing into the unsatisfactory framework proposed would be a definite backward step.

Sir Ronald said the Business Roundtable would wish to discuss with the Government its interpretation and assessment of the policy statement. It would advocate modifications where the proposed arrangements did not appear to be in the best interests of the economy and the workforce.

"The crux of the explanation that we shall be seeking is why the Government appears to favour the retention of an industrial relations framework based essentially on the 1894 concepts of registered unions, national awards and conciliation and arbitration. The basic alternative to such a system is collective, decentralised bargaining on enterprise or industry lines," Sir Ronald said.

"This latter model has long since been adopted by the successful, high employment, advanced economies. Only New Zealand and Australia, respectively the OECD's worst and third worst performers in the past 25 years, have clung to a conciliation and arbitration system. We are at a loss to identify any contemporary body of economic or labour market analysis which would lend support to such a policy approach."

"The Minister's package does not appear to be consistent with the standards of other Government initiatives in putting New Zealand's interests first," Sir Ronald concluded. "No other measures have been justified on the basis that they represent some kind of political compromise that no parties find satisfactory. Unless adjustments can be made in the labour market in response to the new competitive environment, the integrity of the whole economic programme and the constituency supportive of it risks being undermined."

BUSINESS AND NEWS MEDIA BRIEFING

LABOUR MARKET REFORM : GETTING IT RIGHT

DOUGLAS MYERS
NEW ZEALAND BUSINESS ROUNDTABLE

WELLINGTON

23 JUNE 1987

LABOUR MARKET REFORM : GETTING IT RIGHT

Concerned New Zealanders should be thinking deeply about the outcome of the review of labour relations which culminated in the Act recently passed by Parliament.

A Listener editorial written last year turned out to be prophetic.

"It would be a most unhappy outcome," the Listener wrote, "if what is proposed as the most significant reshaping of industrial relations since 1894 when our first Industrial Conciliation and Arbitration Act was passed turns out to be no more than a tidy up of a system that has seen New Zealand descend from being the least strike-prone nation in the OECD into the third most strike-prone in 1985. Old answers do not suit today's really big questions."

Yet old answers are what we have received. The new Labour Relations Act is a Clayton's reform. The Prime Minister's bold vision of radical change was snuffed out in the trades halls and the party caucuses.

Almost alone among the OECD countries, we have retained all the main features of a nineteenth century industrial conciliation and arbitration system - compulsory unionism, registered unions, blanket coverage awards and arbitration tribunals.

Make no mistake about it : the policy is not even the timid compromise between opposing views that the Minister of Labour has sometimes claimed it to be. It is a defeat for those in the Government who understood the total incompatibility of a labour market suffering from rigor mortis with the new, competitive economy and the goals of better wages and jobs for all.

Contrary to their achievements in other areas, they failed to persuade their party to put aside partisan interests and "put New Zealand first". The interests of those that should matter in this area - workers, businesses and the unemployed - were put last.

The proponents of the Act have not even attempted to suggest it will do anything to promote productivity, real wage growth or employment opportunities.

The positive advantages for employees of labour market reform are enormous. Major benefits would arise from:

- growth in employment opportunities;
- the opportunity to make their own contractual arrangements with their employers;
- the opportunities for profit sharing;
- the opportunities for new unions and better worker representation;
- the opportunities for employee ownership;
- the safeguards against exploitation in a more competitive labour market.

The new Act makes some limited progress in the direction of greater choice and flexibility, but it falls far short of meeting the adjustment needs of the economy.

The review exercise has turned out to be a chapter of missed opportunities.

As the debate moved towards its unhappy conclusion, various apologia were offered.

One theme was that perhaps labour market institutions did not really matter after all : what counted, it was suggested, was attitudes amongst the parties.

Of course no one would deny the importance of constructive attitudes in labour relations. Many employers will continue to strive for changes, and hopefully many workers and unions will see the benefits of change and cooperate to achieve them, despite the handicaps of the system.

But it is naive to suggest that institutions simply do not matter. The Government has stressed many times that the problem with state-owned enterprises was not the people that worked in them but the disincentives of the system.

It is a fallacy, indeed almost an insult to New Zealand workers and managers, to suggest that New Zealanders suffer in their attitudes from some sort of genetic inferiority compared to high productivity workers in countries like Japan and Switzerland. The cooperative ethic in those countries is a product of harmonious systems, not a superior gene pool.

Another popular theme is that economic pressures arising from strong anti-inflation and deregulatory policies will fracture old bargaining structures and force changes, regardless of labour market regulations.

Again there is some truth in this suggestion, and it is imperative that new initiatives are taken in the coming wage round to accommodate the needs of both hard-pressed industries and those that are short of labour.

But the risk with what David Caygill once described as our "rickety" industrial relations system is that it will not accommodate pressures smoothly or sufficiently quickly but rather, as in the United Kingdom, grind out unnecessary conflict and socially divisive rates of unemployment as the restructuring process proceeds.

It is, for example, abundantly clear that the most damaging setback to the economic adjustment process of the past three years was the 15 percent plus wage round of 1985/86. Not only did this deliver a massive and unsustainable real wage shock to the economy; just as importantly the undifferentiated pattern of settlements paid scant regard to the diversity of industry circumstances in a rapidly adjusting economy. That wage round has been a major factor in the pressures faced in the rural sector and the regions, and in the rebound in unemployment over the last 18 months.

At the time, the settlements reached were hailed as a victory by some union leaders. I am reminded of the comment of the Australian Treasurer, Paul Keating, on the consequences of the wage push in the Australian metal industry in 1981. He said that the officials of the metalworkers unions carried 100,000 unemployed dead men around their necks.

No successful economy faces the uncertainty about wage outcomes associated with our rickety system. Only New Zealand and Australia, respectively the OECD's worst and third worst performers over the past 25 years, have maintained a similar legal framework.

Last year some union leaders were farsighted enough to recognise the priority of sustaining profitable businesses and jobs. But the last wage round still took little account of productivity growth or industry circumstances, nominal wage increases were still much higher than those of our trading partners, and unemployment is continuing to grow.

There is general hardship in the community when the livelihoods of workers are destroyed by a poorly functioning labour market. But even more disturbing is the fact that the consequences invariably fall on those least able to bear the burden.

For example, another Australian commentator has noted that: "... there is no single factor more disgraceful to the conduct of our national affairs in Australia today than the manner in which we have permitted - and are still permitting - more than 25 percent of 15-19 year olds in the workforce to be unemployed when it is clear that, without real difficulty, that proportion could in all probability be reduced to, or even below, the present average rate of unemployment."

It is equally a disgrace in New Zealand that youth rates of unemployment are now around twice our average unemployment rate and that Maori rates of unemployment in some regions are much higher again.

It must be an absolutely basic economic and social objective to allow such workers to price themselves into jobs by introducing more flexibility into the labour market and, where necessary, supplementing temporarily low incomes by tax or transfer assistance.

The idea that such assistance is a subsidy to employers defies both economic logic and the rationale for a social security system. Now that measures such as the Guaranteed Minimum Family Income are in place to support living standards, the barriers to employment imposed by legislated minimum wage arrangements should be reduced.

There is no mystery about what is needed to achieve low levels of unemployment. Switzerland's flexible and decentralised labour market has generated the highest levels of per capita income in the world and maintained both youth and general rates of unemployment at around 1 percent for many years.

Community groups and representatives of the unemployed genuinely concerned about such problems should be fully supportive of the approaches to labour market reform which the Business Roundtable and others have put forward.

It is clear from the recent debate that there is still an inadequate community understanding of the importance of labour relations reform in New Zealand and too narrow a constituency for fundamental changes. For that reason our organisation has released today a publication which sets out in a simple form our analysis of the problems of the New Zealand labour market and the necessary directions of change.

We see a need for an ongoing effort to deal with such shibboleths and sources of confusion as:

- the adversarial conflict view of industrial relations as a struggle between capital and labour;
- the proposition that minimum national awards benefit low income groups;
- the idea that productivity improvements mean fewer jobs;
- the belief that wages can be permanently raised at the

expense of capital income without reducing employment growth;

- the alleged bargaining disadvantage of workers in dealing with employers; and
- the myth that labour market flexibility means reducing workers' living standards.

Many of these ideas can be traced to Marxist notions of class conflict which still linger in the consciousness of Western societies.

For example, the proposition that flexibility is a code word for reducing workers' pay is a direct descendant of the Marxist view that capitalism involves the exploitation of workers by imposing ever-diminishing wages. The vast increase in the living standards of workers in free enterprise systems in the 20th century has discredited such beliefs among all but the few ideologues that still occupy some corners of the debate.

Around the world there is now a widespread recognition of what needs to be done to restore the performance of labour markets and reduce unacceptable rates of unemployment. The latest OECD Economic Outlook reports that:

"Countries have taken a number of measures to this end. Indexation has been scaled back and greater flexibility has been introduced into regulations affecting hiring, firing, part-time work, fixed term contracts and other contractual arrangements. The role and scope of minimum wage legislation have been curtailed. Unemployment benefits have been lowered in relation to wages and eligibility criteria tightened. And measures to enhance the skills and flexibility of the labour force have been implemented."

It should be a matter of interest and concern that official policy in New Zealand has in many respects been running in opposite directions to those in other OECD countries. Taken as a whole, developments over the past three years have been thoroughly muddled.

On the one hand, the Government has made several positive moves. It has for example:

- removed wage controls;
- introduced voluntary arbitration;
- stepped back from detailed interference in wage bargaining;
- initiated some far-reaching reforms to public sector pay-fixing; and
- taken some very limited steps towards removing monopoly coverage by unions and breaking down national awards in the new Labour Relations Act.

But at the same time the Government has:

- reintroduced compulsory unionism, undoubtedly a decision which swamps all other efforts to free up union representation and bargaining arrangements;
- substantially increased the statutory minimum wage;

- promoted a form of trade union education which seems calculated to reinforce ideas of class conflict and social engineering;
- intervened in higher salaries decisions in the public sector;
- made retrograde moves in the new Act in areas such as the increase in minimum union size to 1000 members, the extension of union coverage to outworkers, and the elimination of the satisfactory regime operating in the fishing industry.

Overall, it is hard to say whether either the full set of moves or the more specific provisions of the Act are a small step forward or a small step back. What is certain is that they are confused, inconsistent, and far short of the major leap forward in this area that the country badly needs.

It is now essential that the Government, and indeed all political parties, take a lead in explaining publicly in a more coherent way the critical importance of further reforms of labour market law and practice.

In this context, there needs to be a clarification in government circles of positions taken by the Minister of Labour in the policy debate.

His recent extraordinary attack on the Director General of the Employers Federation exposed his lack of comprehension of the kind of reform programme needed in this country.

Perhaps even more significantly, he was reported a few days earlier as seeing himself fighting Labour's rearguard action against the agenda of the Business Roundtable. His agenda was represented as personal and different from the employers, many private unionists and many of the Government's advisers.

He stated that the thrust of his legislative reforms was to bring big efficient units of trade unions into being, to give them a licence to strike and to centralise the trade union movement. The reporter noted the immensity of the implications : a Labour Minister embracing industrial conflict as part of the necessary currency of employer-worker relationships.

If these are indeed Mr Rodger's views, the implications for industrial relations in this country are frightening. They deserve the same kind of community scrutiny and criticism that has led the Hawke Government in Australia to withdraw the counterpart legislation arising from the report of the Hancock Committee on the Australian industrial relations system.

This legislation was inspired by a similar vision of centralised union structures and regulated bargaining arrangements, and contained similar features such as a minimum union size of 1000.

It is a great pity that the Minister of Labour has not been prepared to show the same capacity to reconsider the misguided approach he has adopted.

Employers in this country will continue to argue the case for a voluntary, decentralised system of labour relations, primarily along enterprise lines, because they believe that it offers the only prospect of achieving the economic and social goals that most New Zealanders aspire to.

There can be no doubting the fact that the labour market is crucial to economic performance if only because it is so important, allocating in economies such as New Zealand more than 60 percent of the total resources. Countries which have labour markets which are inflexible over the medium term are unlikely to be able to perform satisfactorily, no matter how good the rest of the economy may be.

A 1981 study conservatively estimated the social cost of labour sector regulation in the United States to be at least US$170 billion annually. That works out to about US$2000 for each civilian employee in the United States economy.

The recent OECD review of New Zealand paid special attention to the labour market, and endorsed the general arguments for liberalisation.

It pointed out that the national award system is not conducive to employment growth and detaches wage bargaining from economic conditions facing individual enterprises.

It criticised blanket coverage, the retention of compulsory unionism and the restrictive minimum union size of 1000 members. It said that the latter risked reducing the degree of contestability, while impeding formation of enterprise-based unions.

It emphasised the importance of maintaining the momentum of labour reforms for the goal of reducing unemployment.

Some commentators have suggested that, in advocating reform along the lines recommended by the OECD, the New Zealand business community has been proposing, in effect, a revolution in our labour relations arrangements.

At the same time other writers have been commenting on the quiet revolution that has been occurring in other wide areas of national life.

It is a natural human tendency to resist change. This is as true for managers as it is for unions and workers.

The conservative elements on all sides should not necessarily be blamed for opposing change. The blame lies with politicians who allow them to retain special privileges at the expense of the rest of the community, and often its less fortunate members.

In many areas of economic life, the present Government has forced people to face up to change. Businesses did not ask to be confronted with the challenge of foreign exchange management, for example - they had to learn, and fast. Neither inefficient management practices nor inefficient work practices are dealt with until competitive pressures force change.

In the new economy, few monopoly positions now remain in the private sector. The contestable market for management has removed many non-performers. It has been a case of being among the quick or the dead or being taken out by Ron Brierley.

In the labour market, we cannot afford to have the pace being set by the slow-adjusters. There are some in employer circles as well as those on the union side who would prefer to cling to blanket coverage arrangements and avoid the need to develop positive relationships with their employees. The new Act does not put enough pressure on these conservative elements. They are holding the progressive ones back.

It is certain that the mountain of labour market reform is another mountain that has to be scaled if we are to reach the sunlit uplands of a more productive and fully employed economy.

On several fronts we can now see the results of a number of intelligent and courageous initiatives that have been taken.

Inflation is set to fall decisively and interest rates should follow. Progress is being made in reducing the stock of public debt. Industry restructuring is leading to a better use of resources and greater international competitiveness.

There is every reason to believe that these initiatives should lead to average rates of output growth of perhaps 2-3 percent on average in the medium term, which is a major improvement on the minimal increases in living standards over the last 10-15 years.

But we should be capable of doing much better than that if we were able to use our human resources more effectively. And more importantly, as in the United Kingdom, we appear to be facing the prospect of "jobless growth". There are no indications that present policies will make inroads into the rates of unemployment in the workforce at large and in the vulnerable groups that I mentioned earlier.

Much greater "freedom in employment", the title of the publication we are releasing today, is the key to that additional quantum change in productivity and employment growth.

I am bemused by suggestions that a freeing-up of the labour market will benefit business at the expense of workers. Over the medium term, investors can only achieve competitive rates of return on their savings. Over time it is the earnings and working conditions of employees that improve.

Most people now understand that workers are not competing with owners of capital in dividing a fixed pie. Workers' interests lie in productivity improvements which will support both higher wages and the profits necessary to attract investment and create jobs.

If the New Zealand climate for job-creating investment is not favourable, investors and firms will simply move off-shore. New Zealand is now part of the international economy. Funds are not trapped within Fortress New Zealand.

We have the potential to become a high productivity, high wage society like Japan and other internationalised economies. But that will not happen unless the investment and labour relations climate is favourable. We need greater recognition of the mutual interests of investors and workers and we need labour market institutions like those in successful economies which reflect those mutual interests.

I believe it is inevitable that the changes we have been advocating - voluntary unionism, worker choice of representation, enterprise bargaining and legal contracts - will come to attract widespread community and political support in New Zealand - as they do in most parts of the rest of the world.

Moreover, many of the underlying ideas - such as competition among the providers of services and choice among consumers - are highly relevant to other areas of policy that are now on the national agenda.

I believe unions would be among the beneficiaries of moves to eliminate many present forms of regulation and compulsion. The standing of trade unions in the community would be enhanced if the monopoly privileges they enjoy were withdrawn, and the allegiance and loyalty of their members were attracted on a voluntary basis.

The tragedy for New Zealand, in the short term at least, is that the recent review has merely resulted in tinkering.

It has short-changed the hopes of those who counted on the principles of consistency, even-handedness and "putting New Zealand first" being applied to this area.

While some will benefit from the retention of special privileges, a great many more New Zealanders, and particularly less fortunate participants in the labour market, have been dealt a raw deal.

There are many in this audience who can contribute to improving public understanding on labour market issues and enlarge the constituency for change.

That is surely the prerequisite to promoting a further political commitment to labour market reform - and getting it right.

NEW ZEALAND BUSINESS ROUNDTABLE

LABOUR MARKET REFORM AND THE

LABOUR RELATIONS ACT

ATHOL R HUTTON

CHRISTCHURCH

8 JULY 1987

Thank you for accepting the invitation of the NZ Business Roundtable to meet and discuss this extremely important subject of labour relations. Your presence means that you, along with most employers in New Zealand, are looking for a new system and a better way than we have known in the past.

The Chief Executives of the Business Roundtable and some of our industrial experts have devoted a great deal of thought and time over the past two years to the New Zealand labour market and the industrial relations system. We are now presenting our case by way of speeches and publications to ensure all employers and employees are aware of the facts as we see them.

For many years New Zealand has been sliding down the economic slope. Our position on the per capita income table has dropped from 3rd to 30th in 30 years; our productivity growth rate has been 50% lower and inflation 50% higher than our trading partners over the last decade. Unemployment has risen to 6% of the workforce and our dollar is worth about one-third of what it would buy in US currency in the early 1970s. In the decade to 1982, of 156 countries surveyed by the World Bank, 125 achieved higher rates of growth than New Zealand, and only 30, mostly Third World countries, had a worse performance.

Why has this decline occurred? While other countries after the Second World War were opening up their economies New Zealand remained protected, increasingly inefficient and uncompetitive.

Part and parcel of this economic decline was the inadequate and deteriorating performance of the labour market. As a result our rates of productivity and income growth have been amongst the lowest in the world.

A new economic strategy is now taking hold and advancing on two fronts. The first is the fight against inflation and living within our income by pursuing a firm monetary policy, with action to reduce government spending and the fiscal deficit

The second is the promotion of more competition and flexibility in various markets of the economy so that our resources can be employed in the most productive way. These new standards must apply to the labour market and unfortunately the recent Labour Relations Act has not addressed this issue in a satisfactory way.

A healthy economy requires an efficient labour force. Reform of the labour market is therefore in the interests of all New Zealanders. Our industrial relations system is incompatible with the new economic circumstances. Because large scale changes are needed in industrial structure and production methods, maximum flexibility is required in labour relations. This has not been achieved in the new Act.

A new approach to employer-employee relations of co-operation and common interest, rather than conflict, is required. We must establish a more harmonious system effectively combining capital, labour and other resources to increase productivity.

The key issue is the need to shift away from a centralised craft or occupation based trade union structure, with its national award bargaining, to a decentralised system of voluntary contracting on a collective or individual basis.

New Zealand's present industrial relations system is a highly centralised one. Unions are registered mainly on a craft basis and awards are usually negotiated at a national level.

Most employers are involved with several unions (Waitaki has 14 unions) with a wealth of awards and agreements all based on relativity to another union's craft. The system is inefficient and disruptive. Take last year's meat industry strike for 8 weeks where we argued over a $56 per week increase when farmers were in dire financial circumstances. After nearly six months' argument we settled at $35 per week, but we lost millions of dollars in world markets and customers who immediately moved to more reliable alternative suppliers and who will take a lot of winning back.

The key to enterprise bargaining is a fundamental shift in union structures and ability to negotiate with our people outside of national awards. Our company employed 14,000 staff at the peak of the season and we represent about 40% of the production in the meat industry, but we are only one vote and one voice at the central negotiating table, along with 16 others. Waitaki would like to negotiate with representatives of our work force from our 14 plants. We would even like to go further and have negotiations at plant level so that local circumstances and environmental conditions can affect the terms and period of employment.

Only Britain, Australia and New Zealand appear to still have a national craft system of union organisation and bargaining. All these countries have an undistinguished economic record. But such practices are diminishing in importance in the United Kingdom in favour of the Japanese-style practices that have spread through Europe and North America.

Because negotiation of awards takes place away from the actual workplace this system ignores the productivity of individual workers and firms. There is no incentive for Waitaki to have good relations with our employees when they delegate the task of representing them to outside officials and we ask a person whom we don't employ to undertake our negotiations. I am irresponsible to allow this to continue to happen.

All our new technology, our shift work in boning and cutting rooms, has of necessity been negotiated with the central union. Our local plants would like to negotiate but are not allowed - just in case they let the team down and allow too great an increase in productivity.

This restriction of negotiation by the central union has caused an enormous over-investment of capital and labour and is now leading to a major retrenchment and divestment which is causing great pain and social disruption as plants are being closed.

The national award system fails to accommodate firms with different requirements and abilities to pay and workers with different job aspirations and locational preferences.

Flexible labour relations will allow employers to establish employment contracts with incentive structures which promote co-operation and high productivity.

Compulsory unionism should be a thing of the past - in fact NZ is now one of a very few OECD countries that now insists on this outdated practice.

Such a position is in no sense anti-union. Workers should be free to associate if they wish, and in many situations unions and collective bargaining will be valid arrangements. But I do not believe there is justification to force a worker to join.

The following remarks of the chief executive of a major Australian company apply equally to New Zealand:

"If trade unionism in Australia is ever to become, again, a respected and genuinely influential movement, if the trade unions are to gain real standing in the community, they will only be able to do so on a basis of free and voluntary association. When workers join trade unions because they want to, without coercion of any kind, when they are free to resign from trade unions without fear of intimidation or unemployment, then trade unions will command respect and influence. I hope that day is not far off."

There is an equally strong argument that <u>all</u> people involved in a company's or enterprise's operation should be able to belong to some collective arrangement. The majority of our management and supervisors have come up through the ranks and were members of the union. I happen to be one of them. Is there any reason why they shouldn't still be allowed to join?

The obstacles which the new Act places in the way of a worker wishing to join a union of his or her own choice is a major impediment to the formation of enterprise unions and agreements.

The Act does not allow existing unions to compete for coverage, nor can a member belonging to a union vote to form a new union. Members join to participate and receive union services, so competition between unions for membership should be allowed.

Such competition could only improve the benefits and services provided to members.

There should be no minimum union size - under the Act unions must have at least 1000 members. It is a mistake to assume size is needed for effective representation. In Japan the average union size is 170 and Japan is the most successful example of enterprise bargaining.

Contracts between New Zealand unions and employers have not been effective. Common law should be allowed to govern industrial contracts. When you make a new award it should become a contract. If an employer takes action to reduce what is in the award then the union sues for breach of contract - and vice versa.

There would be advantages in establishing a code of practice for employers and employees to cover organisational behaviour, consultation and communication, samples of grievance handling procedures and disciplinary procedures, dispute resolution and the role of union and management representatives.

The code would be developed through consultation between employer and employee representative organisations.

Waitaki have operations and investments in many parts of the Western world. The only countries where we have industrial problems are the United Kingdom, Australia and of course at home. I have recently returned from the opening of a factory in Japan that will further process NZ chilled meat. We chose the site - 1.5 hours from the centre of Tokyo - because the local township had labour available at about half the price of Tokyo. There was no national award that imposed Tokyo-level wages on these workers and prevented them obtaining gainful employment in their own preferred locality. We met all the new staff, had our photos taken with them and they are now part of a new NZ Guigan family and will stay with us until they leave or are no longer required there. A true example of enterprise or family bargaining. Bonuses based on productivity and profitability will be paid and all will be keenly interested in and strive to improve the company's profitability. This is a far cry from our Longburn plant which hasn't made a profit for 14 years and has not operated now for 12 months because the union will not accept new terms of employment (with no redundancies) which will ensure profitability.

If New Zealand is to really take its place in the Western World and turn the path upwards instead of continuing the rapid slide of recent years, the most important factor is a complete change in our total industrial climate.

I believe the subject is not just a matter of concern to major employers, such as those represented on the Business Roundtable. There is a very widespread view across the employer community that the current system, which has only been tinkered with in the new Act, does not fit with the new economic climate.

Not all employers will want to move to single enterprise agreements, or do so immediately. Some will prefer wider agreements, conceivably even at a national level. But that is a far cry from endorsing all the trappings of our archaic system - compulsory unionism, registered unions, compulsory conciliation and blanket coverage. I hear few voices in support of this relic from the past.

I ask you as employers in Canterbury and New Zealand to take a greater interest in this most important area and assist in this change. You will be greatly assisting the future of New Zealand and the standard of living for all New Zealanders.

NORTHERN CLUB

LABOUR MARKET REFORM AND THE LABOUR RELATIONS ACT

MICHAEL HORTON

AUCKLAND

16 JULY 1987

Mr Chairman, Ladies and Gentlemen

I am pleased to make some remarks on the implications of the new Labour Relations Act 1987 which comes into force on August 1st. It deserves study, all 212 pages of it, and the commentaries of the Business Roundtable and Employers Federation are helpful in gaining further insight into it.

The Act is the culmination of two years' discussion and debate on New Zealand's industrial relations system. The Business Roundtable presented comprehensive submissions to Government during this period. Unfortunately most of our proposals for reforming the labour market were not incorporated into the Act.

We have therefore decided to widen the debate beyond the confines of Parliament. We have started with a series of speeches around the country - in Wellington three weeks ago, Christchurch last week and now in Auckland. Later we will gradually spread out to the smaller cities and towns. Initially our audiences will be employers like yourselves - but our ideas will also be aimed at the nation's employees. I am sure that many of them are in sympathy with the thrust of our proposals.

We have produced a booklet called "Freedom in Employment - Why New Zealand Needs a Flexible Decentralised Labour

Market". It presents our ideas in a clear and straightforward way. We have run off thousands of copies and they will be given wide distribution. You too will each receive a copy at the end of this function.

It should be obvious then that we are taking the issue of labour market reform very seriously. It is a vital issue for New Zealand. Our productivity growth rate has been 50% lower and inflation 50% higher than our trading partners over the last decade. Yet we know that there is no genetic inferiority in New Zealanders which compels this. Changes have to be made to get a better deal both for the employer and worker. Without those changes, standards of living will continue to decline, migration of skilled workers will be a perpetual and depressing feature of our businesses, and unemployment will continue to increase.

Following the election of the Labour Government in 1984, the face of New Zealand was changed and largely for the better. We discovered new freedoms, such as the abolition of wage, price and exchange controls and reductions in import licensing. But although we have seen successful new ventures in the services sector, the manufacture of goods has declined. Evidence is around us too that our major corporations increasingly weigh up their priorities for investment and seek overseas and fresher pastures. The inflexibility in our labour market is one of the reasons for this.

It would be an exaggeration to claim either that the Labour Relations Act is going to set the country back by years, or that it will radically alter the practices and prejudices of decades. It is in essence a Clayton's reform. But it is up to employers to state clearly and unequivocally our objections to the provisions of the Act given the Prime Minister's pledge in 1984 to "consensus" government.

Perceptions are just as important as realities when it comes to investor confidence, and investors will note with concern the potential for further industrial disharmony under the new Act.

Consider for a moment the individual New Zealand manufacturer employing people making and doing things. He is now facing up to a very competitive environment. The old protections and tax breaks have gone. But he still has to deal with an inflexible labour market and a trade union movement wedded to an outmoded and restrictive system of national awards.

Of course he and his investors have other options nowdays. They can disinvest, pay off the staff, close the factory, sell the plant. They can then invest their money overseas in larger economies with lower interest rates, higher growth and flexible labour markets. They can thus avoid local industrial hassles and benefit from the spread of investment into overseas assets which hedges the New Zealand investor from the threat of future controls.

What is the result? Clearly fewer New Zealand workers will be engaged in those productive activities where we could do well.

Yet we live in a country with enormous resources - the land, forestry, electricity, coal, minerals, tourism, not to exclude the whole raft of conventional goods and services that support any economy. If employers and employees can work together to harness these resources we can once again create a successful and wealthy economy. Co-operation rather than conflict must become the hallmark of our industrial relations.

The printing and publishing industry of which Wilson and Horton is a leading member is not exempt from the problems most industries have experienced dealing with unions, and I note a few of them.

Printing plants are now set up in a specific way to eliminate the needs to concede coverage to certain troublesome unions.

The newspaper industry is now lagging behind the world in the use of direct editorial input devices, i.e. terminals as opposed to typewriters, because of failure to reach agreement with the printing and journalists unions. Companies such as Wilson and Horton need to hold enormous newsprint stocks because of the bad record of the Pulp and Paper Workers Union in closing down the Tasman Company at Kawerau for weeks at a time. Japanese newspaper companies typically hold 2 days stock, we hold 3 months.

The result of these and other restrictions is as follows:

- higher costs for the reader and advertiser;
- fewer job opportunities in the industry;
- lower wages for the worker reflecting the lower levels of productivity in the industry compared to our electronic competitors.

The Labour Relations Act does not alleviate these problems. In fact in some ways it exacerbates them.

The Employers Federation has stated succinctly what it thinks is defective with the Act and I summarise their objections as follows:

- It entrenches monopoly powers of large unions and gives them unfair protection, with privileges for existing unions over new unions and big unions over small ones;

- It preserves the automatic linkage between union registration and exclusive bargaining rights;

- It entrenches compulsory unionism by making a union ticket a key to workers' rights under the Act;

- It maintains a multiplicity of awards per workplace and denies employers any prospect of rationalising labour conditions;

- A theme of pro-union and anti-employer bias runs throughout the Act.

I would like to look at some of these matters in more detail.

Under the Act unions with less than 1,000 members are eliminated by forced amalgamation. Yet there is no evidence that large unions provide more effective representation than small ones. We should note that in the world's most successful economy, Japan, the average union size is only 170 members. And some members who have never been unionised in the past are going to be forced to establish unions even if there is no desire to change. The fishing industry is a case in point.

The Act retains compulsory unionism which should be a thing of the past. New Zealand is now one of a very small group of OECD countries that still insist on this out-of-date practice.

Opposition to compulsory unionism is not anti-union. Workers should be free to associate if they wish, and in many situations unions and collective bargaining will be valid arrangements. But I do not believe there is justification to force a worker to join a union.

The following remarks of the chief executive of a major Australian company apply equally to New Zealand:

> "If trade unionism in Australia is ever to become, again, a respected and genuinely influential movement, if the trade unions are to gain real standing in the community, they will only be able to do so on a basis of free and voluntary association. When workers join trade unions because they want to, without coercion of any kind, when they are free to resign from trade unions without fear of intimidation or unemployment, then trade unions will command respect and influence. I hope that day is not far off."

The Act basically maintains the national award system. It does provide for separate agreements outside of the awards but the incentives for seeking such agreements are weak and the procedures are open to manipulation and instability. It is clear that the trade union movement is going to resist any attempt to break with the national award system.

Yet an employer should be able to bargain directly with the workers in his business. Agreements should be negotiated at the actual workplace where the productivity of individual workers and firms can be taken into account.

Only Britain, Australia and New Zealand appear to still have national craft-based systems of union organisation and bargaining. All three countries have had undistinguished economic records in the last decades. But such systems are diminishing in importance in the United Kingdom in favour of the Japanese-style practices that have spread through Europe and North America.

The British Minister of Employment summarised these changing attitudes in a speech last February. He said:

> "How can we increase the responsiveness of our labour market? What principles should guide wage bargainers? Principles which restore the link between wages and reality. The need is for

employees to see that the wage they get depends on the demand for their products and for employers to reflect the different conditions of demand and supply in the wages they offer. I believe that pay should be related to profitability, performance, merit, and the demand and supply of skills in the local labour market."

Taken together employers must realise only too well that the Labour Relations Act tightens the screws on them. Union officials and unions generally receive many new powers and privileges. And the Act continues the tradition of an industrial conciliation and arbitration system based on the premise of an inherent on-going conflict of interest between employers and workers.

The ultimate cost will be continued poor productivity and rising unemployment. Only last week the Labour Department published figures which highlighted a dramatic job decline in the northern region. More than 10,000 jobs have been lost in the past year in Northland, Wanganui and Hawkes Bay. School-leavers particularly are finding it hard to obtain work.

The education system will continue to turn out ordinary kids with average secondary schooling and limited numerical abilities. If they are to be found productive employment in environments which suit them throughout all parts of New Zealand, they need a better deal than the Labour Relations Act.

If employment opportunities are to increase we must move towards a flexible and decentralised labour market. This is the only way to encourage investors and manufacturers to maintain and re-establish an industrial base in provincial New Zealand.

The social problems that have plagued this country in recent years are closely linked to unemployment. The Government should realise that as long as the labour market continues to function badly it will not achieve its social policy objectives. Labour market reform is needed to increase productivity and employment.

The Business Roundtable has produced clear recommendations for such reform. They are, in summary:

- Wages and conditions should be negotiated at the level of the workplace;

- Better opportunities for incentive schemes should be encouraged;

- Employment contracts should be recognised by common law;

- Compulsory union membership should cease;

- Enterprise based unions should replace the proliferation of awards that most companies have to contend with;

- Workers should have the right to join unions which serve their interests best;

- Unions should compete for members;

- Private mediation and arbitration services should be permitted;

- Our rights to bring actions in civil courts before High Court judges on matters of industrial law should be restored.

Good labour relations calls for a community of interest, workplace negotiations and equal status between the parties with mutual responsibility and accountability for agreements.

The Labour Relations Act does not provide this. Substantive changes are needed.

THE NEW ZEALAND LABOUR MARKET

IN A CHANGING WORLD ECONOMY

JOHN BURTON*

* Head of Department of Economics and Public Policy, Leeds Polytechnic.

I suspect that some of my remarks and analysis here may be taken as controversial. The remarks emanate from a visiting Pom, and relate to central issues in the general election soon to take place in New Zealand. Is this another example of British arrogance? I openly admit, in addition, that I am an "expert" of only two weeks standing on the NZ labour market!

In my own defence I will therefore preface my observations by the following points. First, it is the job of the economist to critically evaluate policy stances and proposals, with a cautious eye towards their feasibility, costs, and likely (if sometimes unforeseen) outcome. Second, as I think will become apparent from my discourse, I am not taking sides in any party-political sense on the issues with which I here deal with. Third, it is a role to which I am not unaccustomed in the UK, as special advisor to the (all-party) Treasury and Civil Service Select Committee of the House of Commons.

<u>The Changing World Economy</u>

It will not come as news to any resident of New Zealand that we are living through an era in which the world economy is changing at a great pace. Both in New Zealand agriculture and UK manufacturing (especially) the problems of adjustment have been rather traumatic over recent years; sometimes involving the livelihoods of entire local communities.

Some of the main trends and factors in the fast-changing landscape of the world economy are as follows:

(1) The globalisation of many industries, eg car production; the financial services industry.

(2) The rapid emergence and growth of new sources of competition for the products and markets of mature industries in the older industrialised countries, emanating from the "NICs" and often located in the "PacRim" region.

(3) A Second Industrial Revolution, involving multiple facets (as with the First) such as improved materials (synthetic fibres, composites, ceramics, lighter materials, new alloys and biotechnology products), and the gradual ceding of the fossil fuel era to renewable sources of energy. But the heart of the current Revolution lies in the production, transmission, and processing of information using so-called "intelligent devices" or "intelligent systems", interconnected via a high-capacity interactive information infrastructure.[1] It is this Information Revolution, for example, that has transformed, together with widespread deregulation, the financial services industry into a "global financial village".

(4) A general lowering of inflation rates across the Western world since the mid-1970's. In the wake of the first oil price hike, the index of OECD inflation rates peaked in 1973-74 in the range of 10-15% pa; but by 1986 was down to well below 5% pa.

(5) The emergence of world surpluses for many foodstuffs, particularly temperate climate foodstuffs; and escalating costs of agricultural support, particularly in America and the EEC.

Consequences and Policy Reactions

Obviously these trends have impacted differentially upon separate national economies, according to their pre-existing economic structure; position-rating in the league-table of inflation rates; capacity for technological and entrepreneurial dynamism; complex of social attitudes towards change; and the ability of their political-bureaucratic systems to respond to the emerging consequences and tensions.

Taking a broad view, however, two major types of "policy packages" were to be witnessed in different countries responding to the new "scheme" of the emerging world economic order:

(1) The Neo-Mercantilist Policy Package.[2] Some governments throughout the OECD were to respond to the decline of domestic industry, and/or difficulties in their agricultural sectors, or a lack of international competitiveness (due to relatively high wage and price inflation, and/or technological and productivity sloth) by neo-mercantilist policies of protection and subsidy of declining sectors, industries and firms; rampant but simpliste Keynesianism; combined with attempts to control inflation by government direction, or "guidelines", or corporatist deals with unions and industry. The UK from 1972 until 1976 (when the general approach had to be jettisoned due to a combination of massive government deficits and IMF conditions for further loans) is but one illustration of a neo-mercantilist policy package approach. There are many others. France initially lurched this way after 1981 under the Presidency of Mr Mitterand, at least until two devaluations of the Franc within the European Currency System had been experienced. But perhaps it is New Zealand until the "end of the Ice Age" of controls, protectionism, subsidy, and deficit, in July 1984 which provides the most glaring example amongst OECD nations of a wholesale neo-mercantilist policy package.

(2) The Neo-Liberal Policy Package.[3] A general experience, at least for small-to-medium economies (as with NZ, France, and the UK) is that neo-

mercantilism does not work in a globalising and rapidly changing world economy. Or, rather, the attempt to insulate the national economy from world trends and developments entails a severe cost: relative, and perhaps absolute, economic decline. It is perhaps for this reason above all else that some OECD governments have inclined towards a neo-liberal policy package of financial discipline, market deregulation (the dismantling of state-enforced barriers to competition, both domestic and international), and privatisation. Examples include the UK - most clearly after 1979, although monetary control was initiated after the crisis of 1976; France under the cohabitation regime of (President) Mitterand and (Premier) Chirac; and New Zealand under "Rogernomics" since mid-1984.

The dichotomy of policy packages presented above is of course an over-simplification. For example, the Lange Government in NZ retains high (even if lowering) tariff barriers; and they are only just about to "update" SOEs to the position of British nationalised industries in the 1950s - corporatisation is hardly privatisation; nor is the financial "discipline" of targetting an aggregate related to the government's cash flow (ie primary liquidity) in any but the most nebulous way related to the task of controlling the stock of Kiwi dollars in circulation in the economy or externally.

The same perplexities occur in Britain, although in a different form. For example, the Thatcher Government talks endlessly about deregulation - but has yet to deregulate the telecommunications and natural gas industries, or even Sunday shopping (for which there is 80% unwavering public support, according to all opinion polls). Again, the Thatcher Government initially targetted a monetary aggregate known as sterling M3 in its Medium Term Financial Strategy; but in 1985 dropped this in favour of "a variety of monetary indicators", with the possibility of switching between (thus re-opening the avenue for discretion and political expediency in the conduct of monetary policy to a much wider extent).

Yet, despite the faltering nature of the adoption of the neo-liberal package in both countries, I think it is clear that they are (currently) moving in that direction.

The trajectory of the United States is less clear - and developments there may of course affect the course of development of the world economy. The rhetoric, and I think the heart, of Reagan is heavily neo-liberal. The practice of the Administration is less clear. A combination of massive Federal deficits and the mounting cries for protectionism looks ominously like a lurch towards neo-mercantilism.

The EEC, taken as a whole, is in a similar confusion. The Treaty of Rome, to which the 12 member states are signatory, is entirely neo-liberal in conception. Yet over three-quarters of the Community budget goes towards the most grotesque instrument of neo-mercantilism of our times - the Common Agricultural Policy. Nor does EC movement towards neo-mercantilism stop there. The European steel industry has been cartelised by Community "action" (read: direction) under "emergency" provisions in the European Coal and Steel Act (the Treaty of Paris). Ever-present pressures exist to apply similar "solutions" to other sectors in difficulty - such as shipbuilding, textiles, synthetic fibres, and etc.

The Crunch Issue - Unemployment

The governing structures of such major economic blocs as the US and the EC are led in the neo-mercantilist direction by political pressure from declining economic sectors and by fears of unemployment. The latter matter is of especial concern in the EC, where unemployment rates have mounted to historically high levels: currently 8% in West Germany, 8.3% in France, 12.5% in the UK, 13.7% in the Netherlands, 13.9% in Belgium, and just under 20% in Spain.[4] The number of jobs in the EC is in fact much lower - by about the order of 1 million - than it was a decade ago. This is "Eurosclerosis".

Judged against the EC experience with unemployment, the NZ unemployment rate of around 6% may seem rather tame - even a laudable achievement in relative terms. There are three main reasons for rejecting, I would suggest, any such smugness. First, I wonder just how much unemployment has been "drained off" by NZ emigration to Australia, the US, UK, and elsewhere?

Second, NZ no less than the UK, is subject to the forces and sources of fast change in the world economy itemised above. Third, whilst it may be possible for major economic blocs such as the EC to "buy" via neo-mercantilist policies some temporary respite for certain sectors against the forces of international competition (although clearly at immense cost to their domestic taxpayers and consumers), this is not really a viable option for a small economy. Adjustment to external economic reality, however harsh, is the only economic strategy that makes any sense for such an economy, if the goal is that of avoiding unemployment and other fundamental sources of poverty.

The NZ Labour Market and Institutions

It is in the light of the foregoing that policies in NZ towards the labour market and associated institutions, and policy proposals, need to be evaluated. I shall deal with two aspects of contemporary concern: policy towards labour relations and the legal framework thereof; and the

(National Party's) "no work, no dole" proposal regarding employment policy.

Policy Towards Labour Relations in NZ

The Labour Relations Act (LRA) that will come into force on 1 August 1987 has been described, by the Minister sponsoring it, Mr Stan Rodger, as "... the most significant reshaping of industrial relations since 1894".[5]

It does indeed involve a significant change in the legal environment of NZ labour relations - which, to an outside observer presented the picture of an intensely ossified structure riddled with government intervention and involvement. Specifically, the "blanket coverage" feature of the system - whereby awards are automatically extended nationally to all employees and employers in an industry, whether or not they had negotiated - would appear to have been a source of severe relative wage rigidity: and thus of unemployment. Certainly, the last OECD survey of the NZ economy confirms that:

"The belief that the rise in unemployment observed since 1978 is closely linked to the practice of award setting is widely held and supported by empirical research".[6]

Does the LRA go far enough, if the intention is that of freeing up the labour market and of allowing greater flexibility of response to evolving patterns of demand and supply?

I think that we may safely say, and categorically, that this is not the case. The LRA introduces some new degrees of freedom into the system, as with the enhancement of the possibility of inter-union rivalry for members. But, overall, the LRA will not significantly free up the NZ labour market; ossification of wage structures will continue, with consequential and predictable effects on the equilibrium level of unemployment (which will remain higher than it would in the absence of such government-induced rigidities).

The basic reason is that the blanket coverage feature of the award system is retained, subject to the qualification that unions must opt irrevocably for either retention of the award system, or for the adoption of voluntary bargaining methods of determining wages and other elements of the net benefit package.

Note that this choice is at the union initiative only. Employers have no such choice under the LRA; the union decision is imposed on them. So, the question becomes, how will the unions choose?

The incentive for unions to opt for voluntary bargaining has been described as "likely to be weak".[7] That statement is likely to be wrong. The incentive for unions to opt for the award system will be overwhelmingly strong. The reason is supplied by orthodox, and well-tested, labour economics. To achieve monopoly rents (ie supra-competitive wages), any cartel - including labour cartels - must prevent "chiseling" resulting from inter-firm price competition. The enforcement of a minimum standard rate within the cartelised area is thus the central task involved in holding the cartel together. Failure to do so means the collapse of the cartel.

Usually cartels amongst firms do break down precisely because they are unable to enforce such minimum selling prices - as the incentives to chisel are high (and are higher, the higher the minimum cartel price). This, for example, has been the reason why OPEC has had such troubles, especially in the 1980's.

One possibility is that the cartel gets government to enforce the cartel price. In the EC, for example, this task is undertaken for the steel cartel by the European Coal and Steel Commission and the Brussels Commission (under powers deriving from the Treaty of Paris). Unions in NZ are being offered the chance of throwing away this option: state enforcement of stipulated wages under the Award System. It is a "gift horse" that will predictably be refused.

Proponents of the LRA do admit that it does not go anywhere near far enough in terms of fully freeing up the NZ labour market. But it is also argued that the LRA was <u>politically</u> as far as reform could be taken - that it may be a "second-best" (or even "fourth-best") solution, but nevertheless it represents the best attainable degree of reform.

It is of course necessary for politicians to evaluate the political costs of reform, in terms of votes and support. But it is also necessary for economists to evaluate the costs and consequences of political acts - including balancing acts.

The consequence of fudged reform in this case will be that unemployment will remain higher than is necessary, because the NZ wage structure will remain unresponsive to market pressures and rivalry.

Let it be remembered that the tradeable goods sector of the NZ economy is in competition with economies which involve no such award system as operates here: for example, the UK. With protection of traded goods being lowered in NZ, and a remaining strong element of sclerosis induced by laws in the NZ labour market, employment here may be squeezed between a rock and a hard place.

<u>"Workfare" in NZ?</u>

The other major labour market policy proposal of major interest in NZ, from an outsider's perspective, is the National Party's scheme for establishing a "no work, no dole" employment, if they were to come to office. Specifically, the objective of the scheme

"... is to offer every unemployed person either a job or employment-related training".

This objective is to be attained via vocational guidance, job search training, followed by training or community work, tertiary education[8] or access to private sector subsidised employment. The options would be made available 8-12 weeks after initial receipt of job search payments, and a choice amongst them "... must be made if continued income support is to be received".[9] (The plan does not specify the number of offers that may be refused by a beneficiary before suspension of income support is undertaken.)

Such welfare systems are now generally referred to as "workfare" systems, after the US stylisation: they involve "work for welfare" (for the able-bodied) not "welfare for nothing". Since the Omnibus Budget Reconciliation Act of 1981 (which encouraged state-level establishment of workfare systems), some 38 states of the Union have experimented with such systems. It is to be noted, however, that such US workfare systems are primarily aimed at dealing with a social welfare problem - the 10.7 million people on the Aid to Families with Dependent Children population (essentially, one-parent families and their offspring), and not unemployment as such (as with the National Party's proposed scheme).

Would workfare work in NZ, to help to, or entirely to, eradicate the unemployment that occurs in modern economies due to the economic stresses of our times (and other factors)?

There are some good arguments for workfare, not least of which is that benefit systems of indefinite duration, as in NZ and the UK, and which require no effective work availability test, may generate not only increased (voluntary) unemployment, but a "dole culture" amongst some recipients - which does not sound a wise course for refreshing the wellsprings of economic vitality. Workfare that adds to human capital may enhance subsequent employability; job search training may even do so very quickly.

There are, however, snags - which the National Party's proposed workfare scheme makes no mention of. First, all state-financed job creation schemes involve substitution (in the labour market) and displacement (in the product market) effects. For example, it is estimated that the quarter-million enrollment on the Community Programme in the UK causes a job loss of at least 5% of that number (and probably much more). Moreover, the more ambitious the coverage of the workfare scheme, the greater is the size of substitution and displacement effects.

Second, to the extent that such schemes add to net exchequer costs - and they very plausibly do[18] - then they will also create unemployment via crowding out (due to increased government taxation or borrowing). There ain't, in short, no such thing as a free lunch.

This is not to entirely rule out a workfare system. But the proposed scheme seems incredibly ambitious, aiming as it does to offer every unemployed Kiwi a workfare slot. This has never been contemplated in the US or the UK, for two very good reasons: the substitution, displacement, and crowding-out effects would be very large; and it is debatable whether it is in the capability of governments to dream up such a volume of socially and personally useful workfare slots. A less ambitious scheme, aimed at perhaps only the long-term unemployed and providing remedial work training for poorly-educated and inadequately-motivated youths, seems a more realistic approach.

Conclusion

The pace of change in the modern world economy involves considerable stresses of adjustment, particularly upon labour markets, and especially so when labour market institutions, and perhaps attitudes, have become ossified.

The way to minimise these problems is by deregulation of labour and other markets, perhaps backed up by a realistic workfare system to cope with the deeper problems of structural adjustment, such as the hysterisis effect.

The present stance of labour market policy, and proposals, in NZ will not, it seems to me, achieve that goal. The Labour Relations Act is under-ambitious in reformist qualities; whilst National's workfare proposal is over-ambitious. Of course, no country has yet managed to get the balance right - but that is no excuse for not trying.

Footnotes

1. J. Burton and I. Priban, "Making the Information Market", London: British Consortium for Innovation, April 1987, Discussion Paper.

2. Mercantilism was an economic philosophy which predominated in Europe during the 16th and 17th centuries. It emphasised the nation state, protection against foreign imports, the state promotion of exports to foreign markets, buoyancy of domestic demand by artificial stimulation of the domestic money supply, and promulgated the idea that inflation was due to "naughty" behaviour by certain key groups in the economy (eg the Jews). Modern neo-mercantilism is more sophisticated, but is a lineal descendant of this economic philosophy in a new era.

3. Liberalism, in the serious and classic sense of that term, was a response within economic and political philosophy in Europe in the 18th century to the follies of the preceding Mercantilist era and thought, emanating in particular from the Scottish philosophers David Hume and Adam Smith. Modern neo-liberalism is not necessarily much more sophisticated than its classical predecessor, and often has involved the re-discovery of important insights of Hume, Smith (et al), as in the work of Friedrich Hayek.

4. Standardised OECD basis for figures quoted.

5. Government Policy Statement on Labour Relations, September 1986, p.v.

6. New Zealand: OECD Economic Survey, May 1987, Paris : OECD

7. New Zealand Business Roundtable, Submission to the Labour Select Committee : The Labour Relations Bill, March 1987, p.4

8. National's Employment Policy, July 1987, Wellington, New Zealand National Party, p.2

9. For up to three years after secondary school, although entry to the scheme may be postponed until the student is ready to embark.

10. Ibid, p.3

11. See my cost estimates for a workfare system in the UK : John Burton, Would Workfare Work?, University of Buckingham : Employment Research Centre, Occasional Paper 9, 1987

CONFERENCE OF ENGINEERING EMPLOYERS

THE NEW ZEALAND LABOUR MARKET :

BREAKING MOULDS

DOUGLAS MYERS
VICE-CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

AUCKLAND

18 SEPTEMBER 1987

THE NEW ZEALAND LABOUR MARKET : BREAKING MOULDS

After the 1984 election, the British magazine The Economist wrote that New Zealanders had voted for hard times and a return to reality.

Five weeks ago the electorate delivered a substantial endorsement of the radical policy changes of the last three years. Despite the litany of complaints from affected interests, middle New Zealand signalled that, deep down, it understood that the changes were necessary and of long term benefit.

Provided the new directions are maintained and made more consistent, there now appears to be a good chance that, in the Prime Minister's words, the mould of New Zealand politics has been decisively broken. There is a growing consensus in the political system for sensible policies rather than the set that held the country back for so long. The voices of the past, the supporters of a return to an Albanian-type alternative, are dwindling in number.

I believe that the change in attitude has little to do with ideology or the influence of specific groups. It has something to do with political leadership that has, generally speaking, tried to put New Zealand's interests first. But it has even more to do with the experience and commonsense of individual New Zealanders and the influence of sound ideas, soundly communicated.

We have, however, only made a start in extricating ourselves from the cycle of stagnation in which we have been trapped. Many unpleasant adjustments still have to be undertaken.

We are still a long way from achieving international levels of competitiveness in most of our industries. Restructuring will continue to involve writing off capital and job losses in many firms.

Our external indebtedness, which is proportionately twice that of Australia where it has been accepted as an acute problem, remains an enormous burden. Further falls in our international credit rating are by no means out of the question if the momentum of policy changes and tangible responses to them are not maintained.

Rob Campbell made an acute observation recently when he expressed his anxiety about the impression in some quarters that we have had the pain of economic change and can now look forward to the gain of improved social facilities. He described this as a pipedream and went on to refer to the long haul ahead in achieving acceptable rates of inflation, unemployment and productivity.

I want to take his remarks further and assert that progress in respect of those three indicators is central to achieving the community's social goals. A sound economy is not an end in itself, and social policy is not something that is bolted on to a decently functioning economy. The whole purpose of sound economic management is improvements in a nation's wealth and welfare.

Consider inflation. Sustained inflation plays havoc with the economic system, resulting in wrong economic decisions and retarded growth. It also redistributes income in capricious ways which swamp most other attempts at income redistribution. Even interventions as massive as National Superannuation cannot offset the effects of years of double digit inflation on fixed retirement incomes.

So the first recommendation of the Royal Commission on Social Policy should be the elimination of inflation. By elimination I mean just that. The objective should be zero inflation on average, as we had for many years of our history. Even a 5 percent rate of inflation has the intolerable effect of halving the value of money every decade or so.

The second overriding social objective must be full employment. Most people most of the time derive most of their income from work. All the evidence points to the crucial impact of one major factor in determining poverty : whether people have access to work or not. Work experience is the dominant variable - not race, sex, class or education - in determining low income status, mainly through its effects on subsequent employability, individual morale and the dependency effect of income hand-outs.

Employment is basically about the operation of the labour market - its performance in balancing the demand and supply of those who want to work. In the Royal Commission's analysis, the role of the labour market must be at centre stage.

It is worth elaborating on this point because, as I and many other observers see it, the inadequacy of policies for job creation remains a crucial weakness of the Government's strategy.

Our average rate of unemployment is now 6 percent. Worse, it is around twice that level or more among teenagers, Maoris and in some provincial areas.

The shake-out in jobs is continuing as disinflation, deregulation and public sector reform proceeds. Without a doubt many hundreds more jobs will be displaced in industries like forestry, motor vehicles, footwear, apparel, the waterfront, railways and electricity, in agencies such as the Ministry of Works and Development and in the core public sector.

These changes are long overdue and a necessary part of freeing people from wasteful activities which yielded many neither decent incomes nor self-esteem. Many are finding other jobs as new opportunities are opening up in the economy, but too large a fraction is not. Our labour market remains too inflexible. It is not absorbing new entrants or displaced workers nearly fast enough.

In this it is showing many of the symptoms of the economy from which we inherited most of our labour market institutions and attitudes, namely the United Kingdom.

The United Kingdom experience should be a sobering lesson to whose who believe that an improved economic performance will automatically solve a country's employment problems. The cold shower policies of the Thatcher Government have boosted Britain's annual growth rate to around 3 percent over the last 5 years - above the OECD average - yet the unemployment rate has remained stuck at well above 10 percent.

The same phenomenon of "jobless growth" is highly likely in New Zealand with the Government's present labour market policies. The numbers of unemployed could easily rise to around 100,000 over the next 18 months.

The costs of unemployment are not just the economic costs of lost output. They are also the social costs of hardship and a loss of self-worth for thousands of decent New Zealanders. The economic and social aspects are inextricably intertwined.

The Government's failure to come sufficiently to grips with the challenges of labour market reform is one of the biggest disappointments of the last three years. It is imperative that real progress is made this time round to accompany such things as further trade liberalisation and social policy reform.

It is interesting to note that there are some very close parallels between the challenges to be confronted in many areas of social policy reform and those in the labour market.

Consider education. The Government will have to cope with many sources of opposition in promoting education reforms, including teacher unions. The chief purpose of teacher unions is to improve the welfare of their members. There is nothing reprehensible with that goal. It should not, however, be confused with improving the quality of education, as the new Minister of Education recently observed.

Similarly the primary concern of trade unions is the welfare of their employed members. Again there is nothing wrong with that objective, but it should not be confused with a concern for the unemployed. Union action to increase award or minimum wages may well serve the interests of the majority of their members, at the expense of marginalising workers that employers can no longer afford to hire and others who are priced out of a job. It is no accident that the FOL submission in response to the Green Paper on Industrial Relations paid little attention to the problems of the unemployed.

It is, however, the Government's responsibility to address the environment in which these things happen, be it for the education, health services, unionised employment or occupational licensing.

Why, for example, do we deny people the right to operate a taxi if they are honest and qualified and satisfied with the income they might earn?

Why can't a young unemployed kid in Gisborne go to an employer and say : "Give me a chance, take me on for six months at half the going rate, let me learn and see what I am worth at the end of that time?" Getting a start and acquiring skills is the key to climbing the income ladder. The alternative is not just unemployment but unemployability. At present an employer might be breaking the law to give that kid the vital break he or she needs.

Our century-old industrial relations system is still basically tailored to the needs of an adult, full-time male factory worker. It is manifestly failing to meet the needs of young people, minority groups, women, part-time workers and service industries.

The resistance to legalising full employment in New Zealand should not be underestimated. We saw a spectacular example of the difficulties recently at Nissan's motor vehicle assembly plant at Wiri.

Nissan were seeking to reduce job classifications, introduce the Japanese concept of teamwork and establish a consultative committee of worker and management representatives. If ever an industry were in need of worker-management cooperation to cope with increased import competition, it is surely the New Zealand motor vehicle industry. Yet the proposed agreement was thrown out at the instigation of some union leaders, one of whom described it as an attempt to set up a "dangerous" worker identification with the company.

It does not take a genius to figure out why Honda, against all apparent logic, plan to wind down their assembly plant at Wiri and expand their Nelson operation. Nor is it hard to understand that New Zealand labour relations problems are one of the negative reasons why some New Zealand companies are relocating operations off-shore, now that they are no longer trapped within Fortress New Zealand. Where they are often going, of course, is not into "low wage" economies where they can "exploit" workers but into high wage/high productivity economies like the United States and Canada.

What I believe some in the Government have failed to understand is that too many union leaders in New Zealand are motivated more by power, ideology and self-interest than by the interests of the workers thay claim to represent. As one observer of the debate between the Business Roundtable and the Minister of Labour put it:

"Mr Rodger perceives the Act as a compromise between vocal employer interests and union movement interests. Shouldn't the industrial relations regime centre on the interests of workers? Mr Rodger has shown blithe disregard for the thoughts of workers by bringing back compulsory unionism. Doesn't he see any obscenity in preoccupying himself in a vote-catching way with the union representative dinosaurs? Shouldn't he be more concerned with productivity, unemployment and the wishes of New Zealanders?"

However, the responsibility for improving labour relations in this country does not lie solely on the Government's plate. The Government has quite correctly stressed the responsibilities that lie with the parties themselves.

At this level, an interesting observation can be made. Although it is true that a large majority of employers favour change, the issue is not a simple one of enlightened employers versus obstructive unionists. Rather it has become clearer that the real issue is between those in both camps who are struggling to achieve change and the conservatives who are clinging to the status quo.

For example, it came as a shock to me to hear at a recent conference the argument being put forward by a handful of employers that they needed national awards because otherwise they would have no basis for employment contracts. As one participant responded, the alternative might be to start talking to their workers. Surely New Zealanders don't need reminding that workers should be treated as people with their own individual needs and aspirations, not commodities for sale at a fixed price established by some national award?

Within their businesses, employers must get themselves organised and front up to the challenges of dealing with our labour relations within the structures we have been advocating. Manana is not good enough.

On the employer side, it can at least be said that, with the new competitive environment, the Government has applied economic pressure for change, though perhaps still not enough. In the deregulated market for corporate control, sooner or later - and these days usually sooner - the dinosaurs are taken out by Ron Brierley.

Unfortunately the Government lacked the courage to make the market for union services equally contestable. Worker interests are no better served than shareholder interests when managers or union officials are given the status of a protected species. Internal mechanisms of accountability are feeble compared with the preferred opportunity for consumers of union services to vote with their feet.

Right now, it is certainly the responsibility of the parties to reach realistic wage settlements which reflect the economic interests of businesses, workers and the unemployed. Let me quote at random some figures on recent wage increases in the forestry industry in the United States.

- One company ratified a three year contract wth wage increases of 2, 2.5 and 3 percent.
- A second concluded a four year contract with a $1000 bonus in year one, $750 in year two and 2 percent in each of the final two years.
- A third struck a three year deal with wage increases of zero, 2 and 3 percent, and $2000 in year one.

- A fourth contract had wage increases of zero, 3, 3, and 3,5 percent over four years and 40 shares of company stock in year one.

Some of these contracts included other benefits coupled with agreements on more flexible work practices.

These figures demonstrate the benefits of a low inflation environment. Business planning becomes far more certain and predictable. Wage bargaining can start to focus on the scope for real wage increases backed by productivity gains. This is the real world competition our industries are now facing.

Until we join with the rest of the world in making wage contracts along these lines, we stand little chance of building a stronger economy. With our far more serious economic problems and the need for a forward-looking view of inflation, reality should dictate minimal increases in most award rates and higher adjustments only where they can be justified by profitability or productivity and reflected in separate agreements.

In its briefing to the Tripartite Wage Conference, the Government spoke of our inflation rate coming down to the 0-3 percent range over the next couple of years or so. That should be our objective. If employers concede wage increases out of line with that declining inflation path, they had better be sure their productivity can stand them. Employers should be clear by now that the Government won't bail them out. Unions should be clear that the effects can only fall on the headcount.

There is still a strong risk with current attitudes and habits that the strong will exploit the weak, not in the sense of business exploiting workers - since the scope for that is negligible in the more competitive economy - but by awarding wage increases that have us continuing to live beyond our means and hence borrowing from our children, and by pricing marginal workers out of the work force.

I am appalled, for example, to see claims still being made that the wage freeze of 1982-84 did nothing for jobs. For all the manifest faults of that period, the reduction in real unit labour costs saw an increase of 40-50,000 jobs in 1984-85 as its effects worked their way through. Conversely, the massive wage increases of the 1985/86 round are still taking their toll in the present rising rate of unemployment.

Only some form of kindergarten economics can ignore the links between the cost of labour - relative to productivity - and the quantity demanded, when proper allowance is made for the time taken for effects to be felt.

Nor is there a shred of truth in the proposition that wage increases are needed to support purchasing power and hence production, since the Government has made it clear that its monetary policy will assure an adequate level of nominal demand and that the issue for wage bargaining is how this is split between inflation and output.

Progressive employers, unionists and politicians all share a responsibility to explain clearly what is at stake in the operation of our labour market to the public at large.

Lasts week's agreement on the metal trades award represented progress towards reality. Rex Jones and the Engineers Union deserve credit for recognising that the days of wall-to-wall general wage orders, central agreements and broad occupational awards are gone. The commitment to restructure the award into separate industry and enterprise agreements is a positive step forward.

On the other hand, the uniform increase of 7 percent, hopefully the last of its kind, will mean that some firms will not survive to see the new structure in place. Both sides at the table last week knew that there would be redundancies in the engineering industry in the next 12 months. Both knew that a 7 percent settlement would add to them. The problem was that the interests of the firms and workers affected could not be accomodated at the negotiating table within the existing straitjackets.

No one should blame the unions for this result. They have done a responsible job for the bulk of their members. The problem is the system, and the slowness of all parties to modify it.

Last week's agreement shows that the ground has shifted and that in the face of general economic pressures <u>some</u> progress is possible. The new Act is also of <u>some</u> help in providing more flexible options. That is not a point of contention. Our argument with the Government is that they have not gone <u>far enough</u> to provide a helpful framework for labour relations.

The test for the Minister of Labour is not whether some agreements like the one to restructure the metal trades award can be reached. The test is whether the system is reducing New Zealand's level of unemployment or adding to it, and whether it is promoting the productivity improvements on which the whole strategy depends. Productivity did not enter into last week's discussions. My belief is that the system is still a form of Chinese water torture, that change will not happen fast enough and that unemployment will grow.

Before anyone becomes self-satisfied about recent progress, let us consider how far we have to go. The metal workers' union in Switzerland has not gone on strike for 50 years. Its members are amongst the best paid in Europe. Switzerland's unemployment rate is 1 percent. That is the real world, if we are interested in joining it.

I believe the election result demonstrates that people understand the need for change and support it when the case is presented to them fully, simply and intelligently. Although the Labour Relations Act has been described as a "logical compromise", the public has yet to be told the logic on which it was based. Certainly we did not hear equally controversial moves such as deregulating the exchange rate or GST being defended by the same "compromise" standards.

Both the Prime Minister and Roger Douglas have acknowledged the Act is not ideal and both must be fully aware that it risks fatally undermining the Government's social goals. The OECD pointed to this policy weakness in its recent report on New Zealand, and I have no doubt that the Government's economic advisers are saying the same thing. The Opposition has recognised the problem to some extent in its policy, but it has failed to give it the same kind of detailed, sustained analysis as it has with such success in education.

Politicians have a unique responsibility to lead public opinion. The news media also have a major role to play. Editorials and commentaries on labour relations issues in recent months have improved out of sight. If we are to break this particular mould, all progressive elements must assist in building the constituency for change and exposing to public scrutiny the sources of opposition and their motives.

The rigidities in our labour market law and practice limit the potential for creativity, entrepreneurship and dynamism which the new economic consensus is opening up.

The Business Roundtable has continued to argue for radical change not because we are politically naive but because we are convinced it will maximise the benefits and minimise the pain. New Zealand does not need to go through the trauma of the United Kingdom. The key lesson from the British experience is that failure to move rapidly and comprehensively drags out the economic and political problems and makes the agony last longer.

A few years ago, an Australian labour market specialist described the policy problem as being to analyse:

"... how societies behave in conditions of uncertainty, emphasising dynamic efficiency, flexibility, and the capacity to sail... on the shifting socio-economic winds rather than trudging relentlessly on with fixed structures to inevitable defeat in the snows of Moscow."

It is ironic to consider that, since those words were written, a far more daring revolution than has occurred in New Zealand may have started in that capital city.

A recent article in The Economist reports that Russia's factories are being given:

"... the freedom to make their own decisions, and (more shatteringly) the responsibility to pay their own way... Wages will vary according to a factory's profitability and each worker's effort... There will be anger from both the privilegentsia and workers in the factories - sometimes almost whole towns - that go bust."

Does that sound familiar? The political risks of such a strategy must surely be immense. We can only hope it may help inspire greater political courage to give some of our local dinosaurs the Gorbachop.

NATIONAL BUSINESS REVIEW ARTICLE

INDUSTRIAL RELATIONS AFTER ROGERNOMICS - WHY THERE HAS TO BE A BETTER WAY

ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE

11 NOVEMBER 1987

INDUSTRIAL RELATIONS AFTER ROGERNOMICS - WHY THERE HAS TO BE A BETTER WAY

By Roger Kerr

John Fisher's commentary (NBR 14 October) on the labour market debate is a thoughtful contribution, and deserves a reply in the same spirit.

The article shows a welcome awareness of the dramatic changes occurring in the New Zealand economic environment, and the need for management and union structures to adapt to them. It recognises the need for unions to be decentralised and close to their members, not forced into arbitrary groupings of at least 1000 members - a requirement that was opposed by the Electrical Workers Union.

But Mr Fisher considers the business sector goes too far in advocating the adoption of a more deregulated, enterprise-based labour relations system and a move away from national award bargaining.

He suggests such an approach is based on overseas models (specifically the United States) which may not suit the New Zealand environment, and that small enterprises in particular could not handle employment arrangements without the life support system of national awards.

Employers' efforts to maintain wage relativities in the wage round are also criticised as being inconsistent with their arguments for greater flexibility, a point also made recently by Rob Campbell.

Mr Fisher is quite correct in suggesting that the starting point for evaluating any area of policy should not be some overseas model. It should be an analysis of the criteria for policy design which are most likely to increase wealth and welfare in New Zealand.

Thus, for example, the Government did not base its decisions to deregulate the other key market for factors of production, the market for capital and financial services, on any specific overseas model. Policy was based on the logic and evidence that liberalisation and greater competition would improve national welfare through a much more efficient use of financial resources and greater choice and opportunities for lenders and borrowers.

In passing, it may be noted that there are some close analogies between the capital and labour markets in thinking about policy issues. Some of the main beneficiaries of financial market deregulation have been small savers and small or less secure borrowers. Like marginal workers, they typically get a raw deal under a regulated regime.

A competitive system is remarkably indifferent to status. Competition erodes privileged positions - which is why it is so often resisted. Far from engendering the 'dog-eat-dog' behaviour of class struggle dogma, it promotes cooperation and the survival of the helpful.

It is also no accident that there has been vigorous growth in jobs and output in the financial sector and other service industries where flexible and performance-related employment conditions rather than rigid pay-fixing arrangements and a difficult industrial relations climate are the norm.

Proposals for a more competitive labour market in New Zealand have been based in the first place on similar fundamental analysis. But can we learn anything as well from other countries' experience?

A first clue comes from the fact that New Zealand has been a wooden spoon performer due to a generation of unorthodox economic experiments, and that even the <u>general</u> policy norms in OECD countries should hold lessons for us.

Thus in the labour market area, we find that the overwhelming majority of the OECD countries have labour relations systems based on collective bargaining in the unionised sector coupled with voluntary unionism and individual contracting. Heavily regulated conciliation and arbitration regimes are now virtually unheard of outside New Zealand and Australia.

But we should focus even more strongly on the most successful models, not just average performers. It is true that the United States offers some lessons with its high job creation record relative to the European economies in the post-oil shock era, but the Business Roundtable has spoken more frequently of the high productivity, high wage and high employment economies of Switzerland and Japan as satisfying most of the criteria for sound labour market institutions.

Unemployment has averaged around 1 percent of the labour force in Switzerland in the past decade and 2-3 percent in Japan. Both countries have shown a phenomenal ability to absorb external shocks smoothly and cope with pressures such as a strong exchange rate.

The wages of their workers are the highest in the world. Both are characterised by an unusually even distribution of income.

The key features of their labour relations regimes are that they are deregulated, decentralised and enterprise-based. No minimum wage regulations marginalise lower productivity workers by creating barriers to employment. The systems are harmonious. Strikes are a rarity.

Mr Fisher doubts that a country's industrial relations system and environment can easily be changed. It is difficult to see why best practice methods and policy should be harder to apply in this area than in any other, given sufficient community understanding.

Indeed history confirms this judgement. Japan acquired its labour relations system from the United States, and improved upon it. Singapore shifted from British-style craft-based trade union and wage bargaining structures to a Japanese framework. Japanese approaches to management and labour relations are now sweeping the Western world.

Evidence from these countries also gives the lie to the notion that small employers cannot operate without a national award structure. In the United States and Japan, hundreds of thousands of small enterprises and their highly paid workers arrange employment relationships through company agreements or individual contracts.

All that would be involved in such a development is the idea (somewhat radical in the New Zealand setting) that some employers should start talking to their workers - as a representative at a recent employers' conference rather unkindly remarked.

Equally, it would involve workers taking a direct interest in their employment terms and work practices, either individually or collectively. It would be more practicable for unions to assist them where necessary in this role if so many of their resources were not absorbed by occupational-based inter-union disputes of the type Mr Fisher rightly deplores.

Of course, nothing in the contracting framework advocated by the Business Roundtable and the Employers Federation would <u>require</u> employment arrangements to be handled on an establishment basis. Bargaining could occur at industry or regional levels, or even a national level, if such structures fitted the relevant economic circumstances. The important point is that all options should be available in an unconstrained way.

Steve Marshall has explained why, in current circumstances, employers are driven to maintaining tight relativities between large occupational awards (NBR, 27 October). Because the latter apply across many industries, they are simply unsuitable vehicles for reflecting the different circumstances of individual firms and industries.

At a deeper level, we have surely learned that it is generally unsound to place the blame for systematically aberrant behaviour or poor performance on individuals or groups, whether the issue is inefficiency in state-owned enterprises or abuse of the accident compensation scheme.

Such behaviour is much more typically the product of the environment, the institutions and the incentives to which people are responding. Our largely unreformed industrial relations system generates rigid relativities and other dysfunctional outcomes as a result of decisions by perfectly rational employers and unions. Swiss and Japanese systems generate quite different results.

If any further proof is needed that the problem is basically our archaic system, not attitudes and culture, consider the following quotation from a traveller to (unreformed) nineteenth century Japan:

> "Wealthy we do not think it [Japan] will ever become... The love of indolence and pleasure of the people themselves forbid it. The Japanese are a happy race, and being content with little are not likely to achieve much."

Tell that to General Motors today!

CANTERBURY EMPLOYERS' ASSOCIATION

ANNUAL GENERAL MEETING

POLITICAL AND ECONOMIC CHANGE

IN BRITAIN AND NEW ZEALAND

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

CHRISTCHURCH

20 OCTOBER 1987

POLITICAL AND ECONOMIC CHANGE IN BRITAIN AND NEW ZEALAND

Thank you for inviting me to be your guest speaker this evening.

The 12 months since your last Annual General Meeting have been not been easy for most New Zealand employers. The adjustments taking place to the new economic environment have been unpalatable for many firms and their workforces. I want to make a few remarks later about some of the policies shaping the present environment, and weaknesses in them.

On a recent overseas trip I had the opportunity to gain some more detached perspectives on the changes that are occurring in New Zealand. I thought I would begin by sharing some of those reflections with you.

Over the past ten years, there has surely been a sea change in the way much of the world is tackling its economic and social problems.

The OECD countries have been struggling to extricate themselves from the stagflation of the 1970s. They have been grappling with the problems of over-extended public budgets and regulatory controls that stifled economic vitality. The great bureaucracies of India, China and now the Soviet Union are attempting an even more radical transformation away from centralised planning and controls and towards more market-oriented economic systems. The market is the place where the individual can exercise choice.

I was in the United Kingdom, the country from which New Zealand has inherited so many of its institutions and intellectual traditions, at the time of the recent Conservative and Labour Party annual conferences. These were taking place, of course, in the wake of the return of Mrs Thatcher's Government to a third term of office.

The flavour of political commentary on these events was fascinating in the light of our own election result and the New Zealand political climate.

Some extracts from an article in one Sunday paper will give you an impression of the general theme.

"It is now difficult," this commentator wrote, "to believe that any party will ever again come to power in Britain to the Left of Mrs Thatcher... By a party to the Left of Mrs Thatcher, I mean one more concerned than hers to use the power of the State on behalf of the majority of the people. In that respect - which is the only relevant respect - Mrs Thatcher's Tory Party is very Left indeed; far more so than are the Labour and other Opposition Parties."

"The confusion," the article goes on, "arises from the fact that political commentators persist in supposing that State activities in favour of the majority must have something to do with helping the poor... Mrs Thatcher's battle against the over-mighty trade unions was a collectivist battle - i.e. one that used the power of the State to liberate the people from a neo-feudal baronial tyranny. Likewise her battle with the teaching trade unions is a collectivist battle to use the power of the State to give parents the education they want for their children."

Another article in the same paper pointed out that the socialist movement was once held to represent the industrial working class. It believed that the workers were exploited, and it sought various ways of bettering their lot. The State bureaucracy was the medium through which welfare and education could be spread and private property administered once it entered into public ownership.

This article went on to refer to the growing consensus that State bureaucracies are increasingly unable to control or inspire anything, and that welfare is more surely guaranteed by the creation and spread of private prosperity. Despite the opposition and cynical pursuit of power of some party activists, moderate Labour Party politicians like Mr Kinnock and Mr Gould "whistle tunes that Mrs Thatcher invented".

Since the Conservative Government came to office in 1979, the performance of the British economy has greatly improved. For most of the post-war period, Britain was almost on a par with New Zealand in having the worst economic performance in the OECD. In recent years, its economy has been growing faster than most European economies, inflation has remained low and unemployment is finally starting to come down.

The Government's policies have enjoyed wide popular support, especially among young voters. Interestingly, polls have shown that they have also attracted considerable support among trade union members.

At the same time, and despite the political rhetoric, the Thatcher Government has been far from radical in many of its economic policies and the British economy continues to operate well below its productive potential.

It is commonly observed, for example, that government expenditure in the United Kingdom has not been reduced relative to national income, the privatisation programme has been poorly handled in many respects, aspects of the tax system such as VAT are a mess, and massive subsidies to agriculture and parts of industry have been maintained. The quality of recent New Zealand decisions in some of these areas, for example GST, has been much higher.

Undoubtedly the main blight on the United Kingdom landscape during the 1980s has been the record rate of unemployment. An address by the British Minister of Employment earlier this year presented an analysis with striking parallels to the New Zealand scene.

Its theme was the need to make the United Kingdom labour market more flexible and responsive to economic change. Over the post-war period, it observed that a flood of economic pressures had impacted on rigid institutional structures, producing steadily rising unemployment.

Wage bargaining was not linked to economic reality. Employees in a firm teetering on the edge of bankruptcy would laugh if a cut in wages was suggested. The right to an annual rise was regarded as sacrosanct. The end result of wage increases negotiated without reference to productivity or profitability was fewer jobs.

The Minister argued for a system more clearly based on market forces, on demand and supply, on competition and on ability to pay. In particular, he advocated a move away from the annual pay round; from the going rate; from comparability; from job evaluation (the bogus science of determining the worth of a job); and from national pay bargaining.

To promote job creation and productivity, what was needed was local wage bargaining, performance-related pay and forms of profit sharing.

The analysis in this United Kingdom government statement is almost identical to that of the Business Roundtable, the Employers Federation and other groups in respect of New Zealand's malfunctioning labour market.

In my opinion, and that of many other observers, the inadequacy of its labour market policies is a crucial and perhaps fatal weakness of the Government's economic strategy.

The present wage round is again demonstrating the nature of the problem. The uniformity of increases around a 7 percent level will do nothing to ease the cost pressures faced by many firms or facilitate responses to skill shortages and surpluses. Unnecessary plant closures and job losses are inevitable. Although change is undoubtedly occurring in bargaining attitudes and structures, it is happening far too slowly in the present competitive and non-accomodating environment.

The handling of the labour portfolio has been seriously in conflict with the Government's overall economic approach. Despite his commendable non-interference in wage round bargaining, the Minister has practised a degree of interventionism in private sector affairs which is wholly at odds with the efforts of his colleagues and directions taken by previous Ministers of Labour.

Consider the track record. Compulsory unionism has been re-established. The heavily regulated framework of a conciliation and arbitration system has been maintained intact in the Labour Relations Act. Workers are being forced into union organisations of at least 1000 members. A new form of social engineering has been created in the Trade Union Education Authority. Legislative proposals are being canvassed or threatened in areas as diverse as worker representation on company boards, occupational health and safety, equal pay for work of equal value, and redundancy notification.

The Minister was again reported recently as regarding the Business Roundtable's views on these interventions as "extreme". I am reminded of a former Minister applying the same label to the Honourable Derek Quigley's criticism of some of his policies just a few short years ago. History has a habit of showing such judgments in a different light.

My belief is that as unemployment continues to rise over the next 18 months, the public will increasingly recognise that unemployment is basically a labour market problem, and that the prime responsibility for failure lies squarely in the labour portfolio. Changes in such things as a country's exchange rate or its level of protection and subsidies can be accomodated smoothly if its labour market is sufficiently flexible, as Japan's experience has repeatedly shown.

The evidence is clear that the solution to unemployment problems does not lie in job creation schemes, or so-called "active" labour market policies on Swedish lines, or highly subsidised public education and job training programmes. As one recent study put it : "Training outside the workplace does not create jobs. Jobs create training".

The answer lies in a flexible, decentralised labour market along Swiss or Japanese lines, and in a tax and social security system that encourages workforce participation not dependency.

Sooner or later I am confident that the issue of labour market reform will come back on the policy agenda. Employers, academics and politicians of all political parties who understand the disastrous social and economic consequences of a United Kingdom unemployment scenario have a duty to explain the need for change. For the sake of groups such as school leavers, Maoris and provincial communities, now facing double digit rates of unemployment, I can only hope it happens sooner rather than later.

In passing, I would observe that a move to decentralised bargaining, reflecting local costs of living and lifestyle preferences, would be the single most important contribution to regional development in this country, if only because the cost of labour is so important to most enterprises.

In a recent talk to your organisation, Athol Hutton of Waitaki International referred to the opening of a plant in Japan to further process New Zealand chilled meat.

"We chose the site," he said, "1 1/2 hours from the centre of Tokyo, because the local township had labour available at about half the price of Tokyo. There was no national award that imposed Tokyo-level wages on these workers and prevented then obtaining gainful employment in their own preferred locality."

Mr Hutton might also have asked his audience to reflect on why this processing task was being undertaken in high wage Japan rather than low wage New Zealand. There are no prizes for guessing that the reason may have had something to do with productivity.

Job creation, higher productivity and wage growth, and a strengthening of regional economies would all be fostered by a move away from national awards to enterprise-related agreements.

Your local member for Sydenham was recently speaking of his concern to have job creation and regional development addressed at the forthcoming Labour Party conference. If he is genuine in his concerns, one of the principal remedies is plainly apparent.

Our craft-based trade union structures, the adversarial basis of our industrial relations and the underlying doctrines of Fabian socialism are all part of our British inheritance. We also acquired many of the institutions and doctrines of the British welfare state, of which Lord Beveridge was perhaps the foremost architect.

I refer to Lord Beveridge specifically in the context of ideas which did much to motivate New Zealand's approach to accident compensation. Beveridge argued the case for State insurance "as a new type of human institution" which would be both compulsory and involve a pooling of risks, except insofar as separation of risks served a social purpose.

With respect to workers' compensation, Beveridge noted an example of an argument that has become familiar in New Zealand, namely that:

"... as other industries cannot exist without coalmining... employees in all industries should bear equally the cost of industrial accidents and disease, in coalmining as elsewhere."

However, he acknowledged that in this area "there may be reasons of social policy for adjusting premiums to risks, in order to give a stimulus for avoidance of danger."

New Zealand moved to an accident compensation scheme in line with the Beveridge vision following the Royal Commission of 1967. Its distinctive features are compulsory insurance with a monopoly state insurer and a no fault legal regime.

It has been the conventional wisdom in New Zealand for many years that our accident compensation scheme is a pioneering innovation, a model for the rest of the world. It should perhaps have given New Zealanders pause for thought at an earlier stage that not a single other country has adopted the same approach. Indeed those jurisdictions that commenced moves in a similar direction typically halted or modified them as the cost implications became apparent.

As with State-Owned Enterprises, we have learned a great deal about the effects of incentives on individual and political behaviour in the 20 years since 1967. The Business Roundtable recently completed a study which called into question some of the basic analysis on which the present scheme is constructed. Our submission has been received with shock and horror in some quarters - most of whom did not appear to have read it - but a good deal of interest in others.

In very brief summary, the study concluded that the Royal Commission correctly identified many serious problems with the previous system of dealing with accident disability. The heavy reliance on the legal system, with attendant costs, delays and uncertain outcomes, and the poor forms of government intervention in insurance markets were not a sound way of handling the problem. Nobody would want to return to those arrangements.

Where the Royal Commission went astray, however, was in placing prime emphasis on reform of the legal system and failing to adequately address the prior issue of the capacity of properly structured insurance markets to handle accident risk.

The points which the study made about the current scheme include the following:

* The cost savings which, it was claimed, would occur from redistributing the pool of funds applied to accident disability have not eventuated. Quite predictably, behaviour has slowly changed over time and costs are rising steeply.

* There is no evidence that the New Zealand scheme is the cheapest, even on a like-for-like basis. The study gives a number of reasons why the simplistic cost comparisons that are sometimes made are quite misleading.

* Most fundamentally, the issue is not whether a given system of cover is cheaper but whether it is what consumers really want. The single product available from a monopoly state insurer does not cater for the wide array of individual situations and preferences.

The approach proposed in the study places more reliance on individual choice of accident cover and competitive provision of accident insurance. The Government would require all New Zealanders to buy a minimum level of accident insurance and would provide income support and a safety net for those in low income or poor risk categories. As with other SOEs, the monopoly position of the Accident Compensation Corporation would be removed and it would operate in the market on a competitively neutral basis. The benefits of such an approach would include a reduced cost of insurance, greater choice and improved safety incentives.

One over-riding point in this approach needs to be stressed. As with the proposals to free up the labour market, the prime beneficiaries of more efficient accident compensation arrangements would be workers, since the costs of levies or premia are effectively borne by them. Current Government policies in both areas effectively penalise the interests of workers, even more than the interests of employers.

The problems of the scheme have been inconclusively debated by the Government for more than two years and the task is now in the hands of the Law Commission. The Commission's most recent discussion paper fails to address the fundamental issues and canvasses the idea of a uniform levy as its principal proposal.

This would take the social insurance approach even further than Beveridge envisaged away from economic pricing of accident risk and lead over time to still greater cost escalation. Safe industries and employers should not subsidise unsafe ones. Not only would this lead to an expansion of the wrong activities and enterprises, but it would spell financial purgatory for any insurance scheme. The idea has been roundly rejected by most employers.

A fresh approach to this whole area, which also considers the parallel issues of health policy which are now under review - including the anomalous treatment of accident and sickness disability - is urgently needed. Unless this is taken, I believe that the level of employers' frustration with the mounting costs and the Government's indecisiveness will rapidly increase.

My concluding observation is that in both the United Kingdom and New Zealand, two closely linked countries, sweeping changes are occurring in response to their record of relative economic stagnation and social decline. That such changes are being made by governments of different political persuasions should really be no surprise. Experience teaches us that community opinion and the political system sooner or later respond to cold facts and hard logic. Electorates in both countries have decisively rejected the failed policies of the past.

The short term economic situation in New Zealand is extremely difficult, and the Government has been slow to move on its mandate to carry on with its programme of reforms and to remedy outstanding weaknesses.

In this it is handicapped by some elements in its own party who are still trapped in habitual modes of thought.

I believe the Government has done a poor job of explaining that the policies of competition and deregulation that are being implemented around the world are of special benefit to low income groups in particular. Because such groups are not dominant in the political system, not many regulatory policies work to their benefit.

Moreover, the evidence suggests they are aware of that fact. For example, it has been found that the most poorly paid workers in the United States understand the adverse effects of minimum wage laws, and their representatives vote against such laws. It would be surprising if they were supporters of heavy governmental expenditures on higher education. Poor emigrants have typically voted with their feet and flocked to competitive, dynamic economies such as the United States and Hong Kong.

As one recent Nobel prizewinner has put it,

"An open, decentralised economy is still the land of opportunity for the lower classes".

That should be the message to all those genuinely concerned with social equity, as opposed to social engineering and control, in the conduct of our national affairs.

NELSON PROVINCIAL CHAMBER OF COMMERCE

FREEDOM IN EMPLOYMENT

REX LOACH
NEW ZEALAND BUSINESS ROUNDTABLE

NELSON

5 NOVEMBER 1987

FREEDOM IN EMPLOYMENT

Thank you for inviting me to speak to you today on a subject which in recent weeks has become critical to the future of Nelson as a stable, hardworking and successful community.

It hardly needs me to tell you that New Zealand today is a considerably different place than the inward-looking country of earlier decades. Our insulated environment in an over-regulated economy protected us from ever acknowledging our unimpressive economic performance.

The present Labour Government in 1984 inherited a rapidly deteriorating situation. Our per capital income placing had dropped from third to thirtieth, our productivity rate was 50% lower and our inflation rate 50% higher than our trading partners over the past decade.

Our rate of growth is appalling, with New Zealand figuring 126th out of 156 over a recent decade, down amongst the third world countries.

A lot of media time has been spent in communicating and assessing the Government's radical approach, indeed revolutionary approach, to turning the economy around.

Protective devices such as tariffs, subsidies, export incentives, restraints to movement of capital and taxation rules have all been changed, abolished, liberalised, exposing New Zealand industry, both manufacturing and service, to the hard reality of a very competitive world.

New Zealanders have a capacity when given a challenge to adapt to changed circumstances. The areas where deregulation has had a more profound effect have seen opportunities being taken which would have been undreamed of a short number of years ago.

That Fletcher Challenge should now be viewed as one of the top 4 forestry companies in the world and the fact that other leaders such as Brierley and Goodmans are showing initiatives in the world scene illustrates what can be done given the right environment.

But we are only at the start. We are in the midst of adjustment which in the main is yielding job shedding, repositioning of investment, and, of the greatest concern, insufficient job creation.

This is part of the pain that Roger Douglas, economists and commentators keep telling us we have to endure. The business community has generally accepted that proposition, provided the full set of policies needed to produce long run gains are put in place.

Now that companies are more exposed than ever before to international competition there is a tendency to move their investments offshore because of the lack of attractiveness in the home environment to further investment. An example is Waitaki International opening a plant in Japan to process chilled meat. Some industries are moving jobs offshore because they cannot cope with the expense and delays of getting increased productivity in the face of an entrenched monopoly in the union sector, and competition from other economies.

For example, Newmans Group, after analysis of the national road freighting investment, believed that the over capacity, restrictive work practices, industry strife record and feather-bedding of the industry would eventually lead to a position where TNL Freighting would cease to be profitable after a decline over,the last few years.

We believed that it was best for shareholders and staff alike to combine with a larger structure as a mechanism to provide economies and productivity in consultation with the union involved.

Given the evidence of the recent drivers strikes, unprecedented in this area, they are unable or unwilling to give that support.

I would have liked to report the money received by Newmans for its Freighting Division would be all spent in New Zealand or more particularly in Nelson. I have to say that the Australian scene is more attractive for tourism and related activity, so the Australians will be the short term beneficiaries of some of the money. The balance will be channelled into marketing and related activity offshore for tourist travel in the South Pacific region, including New Zealand but not exclusively here.

In looking at the present Government's economic policy we must keep in mind that the whole purpose of sound economic management must be to improve a nation's wealth and welfare. Three issues must be addressed constructively in the pursuit of this objective. They are: zero inflation, full employment and improved productivity.

Their inter-relationships and the positive effect of a flexible labour market are a key element in developing policies to achieve these objectives. As everyone here knows, there have been substantial redundancies and restructuring in both the private and public sectors and there is no doubt that there will be considerably more.

How many more depends on the flexibility or otherwise of the labour market to accepting changed roles for employee retraining, re-establishment and productivity. Productivity must be linked with profitability and those two with reward for effort, and then we will be successful in breaking out of the mould into which we have been constrained.

As Charlie Fitzgibbon, former Senior Vice-President of the Australian Council of Trade Unions has pointed out:
"We are in competition with societies in manufacturing which do not understand a "them-and-us situation", in particular the Japanese, where by tradition there is complete and absolute unity between capital and labour in big manufacturing plants."

An attempt was made to implant this concept in Auckland where Nissan were seeking to reduce job classifications at Wiri, introduce the Japanese concept of teamwork and establish a consultative committee of worker and management representatives. If ever an industry were in need of worker-management cooperation to cope with increased import competition, it is surely the New Zealand motor vehicle industry. Yet the proposed agreement was thrown out at the instigation of some union leaders, one of whom described it as an attempt to set up a "dangerous" worker identification with the company. Dangerous for who?

The Government's approach to issues has generally been clearly signalled and consistent, with the exception of the labour market.

The Treasury and the Reserve Bank have been quite critical. I quote from the Bank's recent post election briefing paper: "Reform has been inadequate. Little has been achieved in the past three years to increase labour market flexibility. Indeed the reintroduction of the unqualified preference clause and the proposal for a minimum union size of a thousand members are both likely to increase institutional rigidities. These ... appear to be part of a trade-off in order to gain union acceptance to certain reform proposals, such as limited contestability provisions within unions and the restructuring of the national award system".

The Treasury said that the new Labour Relations Act "fails to address in an adequate manner the single most serious problem with current law - the structure and level of bargaining".

It added that: "In our view, the union registration provisions have not been relaxed enough to significantly increase contestability, a crucial incentive, and reduce the costs imposed by compulsory union membership."

Why are organisations like the Business Roundtable so concerned that they are publishing booklets and giving speeches all emphasising the need for a flexible decentralised labour market? Because industry leaders feel most strongly that there has to be an understanding by the community of what is a serious concern before they can judge for themselves how they should react.

An OECD report of 1986 summarized what we are trying to say: "Labour market flexibility serves not only processes of adjustment, but also innovation, equity and a higher quality of life. It should be seen as an active agent of a manpower policy which is supportive of an overall objective of increasing the levels of employment. In this sense, labour market flexibility is a key to both economic efficiency and social progress."

What are some of the symptoms of this inflexibility? I guess that in addition to earlier examples I could start at home and say that the ultimate stupidity happened last week. We had strikers forgoing wages for something that they already had, a margin above award. That the union leader preyed on insecurity and gave misleading information was probably the base reason for otherwise intelligent people to take such action, but they lost wages to fight for something they already had. To compound the stupidity, whilst 4 or 5 picketers stood in the rain outside our building, we were upstairs with Japanese representatives trying to negotiate markets that had been threatened by their action which would help preserve their capacity to continue to stand there. I would record that we were fairly unsuccessful. Their timing was appalling.

I referred to Nissan earlier, and the decision by Honda/ NZMC to close their Wiri plant. The Honda move was lauded in Nelson. I hope they are not having second thoughts at the present time in the light of the last 4 weeks.

Another symptom - Why can't an unemployed kid in this region go to an employer and ask for a chance of taking him or her on the payroll at a special rate to learn something and establish a relationship with the employer, which may lead to a permanent job? Just such a start could be the key to becoming a responsible citizen and climbing up the income ladder. The issue is not just unemployment but also unemployability. As presently structured the employer would probably be breaking the law if he was to take that kid on.

The new Act does a few small things in a positive way but it has done a large number of things in a negative way. It has preserved, through compulsory unionism, a substantial monopoly which does not permit workers the right of choice. It impedes the formation of unions on other than existing occupational lines. It still retains the multiplicity of unions and awards that an employer has to deal with, the sanctions on unions to protect agreements with employers remain to be fully tested, and there is no real choice in mediation and arbitration services.

This leads to poor rates of productivity, lack of national growth and increased unemployment, especially among many disadvantaged groups such as Maori and Polynesian people.

We have witnessed the emigration of trained and educated people to other economies and paradoxically in certain areas in New Zealand a shortage of skilled workers.

There are unnecessary levels of industrial disruption with the strike weapon being used frequently, so reducing the community's capacity to absorb even modest settlements when they are agreed.

Given these fundamental problems there has to be a better way found in order that changes already applied to the economy by deregulation can be used to ensure New Zealanders have a better future with an assured employment opportunity.

The Business Roundtable has continued to argue for radical change not because we are politically naive but because we are convinced it will maximise the benefits and minimise the pain. We do not need a United Kingdom experience where the lesson was in the failure to move rapidly. This dragged out the time for economic and political problems to be resolved and condemned a generation of citizens to unemployment.

We can benefit from other countries' experience.
In Japan, which is the world's most successful economy, labour relations are flexible and decentralised. Unions are company based and bonuses account for more than a quarter of the annual earnings.

The fundamental principle of wage determination is the capacity of the individual enterprise to pay, and workers and unions are keenly interested in their company's profitability and competitiveness.

In the United States, job creation has compared very favourably with other western democracies. Much of this is due to the flexible labour market. Decisions on wages are decentralised and backed by enforceable contracts.
Employment has grown most in the services sector and in the small to medium size businesses.

Even Russia is joining the pattern. A report in The Economist recently stated that Russian factories are being given:

"... the freedom to make their own decisions, and (more shatteringly) the responsibility to pay their own way... Wages will vary according to a factory's profitability and each worker's effort... There will be anger from both the privilegentsia and workers in the factories - sometimes almost whole towns - that go bust."

What is needed to channel the enormous negative energy expended in the labour arena? To turn that spirit of conflict into a cooperative spirit that produces positive results.

The Government needs to recognise that it is responsible for creating the correct environment. In this I think most ministers would agree but the Labour Relations Act appears to be a departure from the principles and standards adopted in other areas. The present Minister of Labour perceives the Act as a compromise between local employer interests and union interests. His associates have shown a marked disinclination to compromise on other issues and on something so fundamental they need to be much more consistent.

There is no doubt that changes are occurring in the industrial relations arena. The agreement reached in the metal trades negotiations has signalled a shift away from national awards. A number of composite agreements are now being canvassed. Firms in the meat and newspaper industries, among others, are seeking company and plant deals. Economic pressures are forcing these changes, and the new Act and the debate surrounding it are having some effect.

But to leap from that observation to the conclusion of one or two commentators that the system is working and that its critics have been proved wrong is quite unreal.

It is not hard to set up some objective tests of whether a labour market is working or not. A simple one is whether it is throwing up jobs in the numbers required to meet the needs of those currently seeking work.

Quite obviously our labour market is failing abysmally in this regard. Unemployment is continuing to grow. It may well pass the 100,000 mark during the next 12 months. It is falling heavily on the unskilled, young people and those in provincial areas.

The standard for judging the quality of the Government's reform efforts in the labour market is not simply whether change is occurring. Rather, it is whether it is occurring at a rate which is consistent with the radical changes being implemented elsewhere in the economy. The verdict is clear. We are still losing ground. I know of no one who seriously contends that the Government has a labour relations policy that will make any inroads into our growing unemployment problem.

The performance in the labour portfolio stands out as a glaring weakness in the whole strategy. Sooner or later I believe the community will realise that unemployment is basically a labour market problem and will demand a response based on national interests and principles, not expediency and compromise.

We should have flexibility to encourage effective use of resources and reward performance and innovation.

We should decentralise bargaining from national to firm or enterprise level.

We should have greater freedom for parties to determine their own approach to bargaining.

There must be a respect for contracts legally entered into by consenting adults.

By ending compulsory unionism the present union monopoly would give way to a competitive choice for the employee which would lead to greater efficiencies and responsiveness from those servicing organisations. Workers should be allowed to join any union they want and be provided the opportunity for individual contracts.

It is interesting to note that evidence suggests, for example, that the most poorly paid workers in the United States understand the adverse effects of minimum wage laws and their representatives vote against such laws. Poor emigrants have typically voted with their feet and have flocked to competitive, dynamic economies such as the United States and Hong Kong. As one recent Nobel prizewinner has put it, "An open, decentralised economy is still the land of opportunity for the lower classes".

So far in this address I have had a fairly constant theme of the shortcomings of unions, or more particularly the law that conditions their behaviour, but I am not insensitive to the fact that some employers would prefer the present system to remain. There is evidence that these people are uncertain as to the laws surrounding labour relations, do not enter positively,into negotiations and are frankly scared stiff of the whole problem and intimidated by union representatives.

A system of national coverage protects these people but it certainly does not do anything for the long term growth of their concerns.

There is an urgent need for 3 parties - Government, employers and unions - to assume their responsibilities for improving economic wealth and social welfare. Our present adversarial concepts further bolstered by the most recent Act won't do it.

It is possible to conclude arrangements, contracts and highly complex negotiations in the normal course of business with widely divergent respondents all over the world, because of universally respected and consistent rules and conventions.

We must develop in New Zealand between the three parties of Government, employers and employees a similar framework to allow mutually advantageous labour contracts to succeed and join the rest of the world before it is too late.

MEDIA RELEASE

STRONG PUBLIC SUPPORT FOR LABOUR RELATIONS CHANGES

NEW ZEALAND BUSINESS ROUNDTABLE 23 FEBRUARY 1988

MEDIA RELEASE

NEW ZEALAND BUSINESS ROUNDTABLE

STRONG PUBLIC SUPPORT FOR LABOUR RELATIONS CHANGES

There is "overwhelming support" among the general public for company or workplace bargaining and for employees to be free to join the union of their choice. A large majority of past or present trade union members also support these concepts.

This is shown in research by the Heylen Research Centre, commissioned by the New Zealand Business Roundtable and conducted in a field survey in November 1987. The findings were presented to the Business Roundtable earlier this month. The report and a summary prepared by Heylen (copies attached) are released in the interest of public information and discussion.

Information on community opinion was sought by the Business Roundtable to improve its understanding of attitudes to key industrial relations issues and hence facilitate constructive advances in employer-employee relations. The main issues addressed were:

* the extent of support for wage bargaining at the level of the workplace or enterprise rather than through the national award system;

* whether enterprise agreements should be negotiated by a single bargaining unit;

* attitudes to the Government's decision to reintroduce compulsory unionism;

* whether workers should have a choice of union representation. (At present this option is heavily constrained by the provisions that only existing unions can obtain changes in coverage and new unions must have at least 1000 members.);

* the extent of support for individual contracts (which might better reflect employees' own performance and work preferences than collective agreements);

* whether unions should be affiliated with political parties. (Affiliation has been criticised on the grounds that political liberties are infringed if funds are devoted to political purposes which some union members may not support, and that trade union interests are best served by positive relations with all political parties.)

The project was also motivated by an earlier survey undertaken for the Business Roundtable which revealed a belief among Members of Parliament that there was an enormous general constituency for industrial relations reform but that the public had not been involved in the issue. It was suggested that if politicians had been able to defend the interests of the general public against the opposition of narrower organised interests, more would have been achieved. An inquiry into public and employee attitudes to industrial relations was recommended to assist those advocating change.

The Business Roundtable hopes a better understanding of the views held by the public and by trade union members, as indicated by this research, will lead to a more objective and informed debate on these important issues. The steeply rising rate of unemployment requires renewed attention to the problems of the labour market.

The Business Roundtable proposes to follow up this survey with further professional research and to work with other organisations to explore community opinion on labour relations in greater depth.

INDUSTRIAL RELATIONS POLL

A poll on industrial relations issues undertaken by the Heylen Research Centre found three issues to receive overwhelming support:

* politically independent unions (92 percent support)

* collective bargaining by the workforce of a firm or plant (84 percent support)

* the freedom of workers to join the union of their choice (73 percent support).

The poll was sponsored by the Business Roundtable and was part of a nationwide survey of 1000 people carried out on 28 November 1987. People surveyed were asked to indicate how much they agreed or disagreed with a range of statements covering industrial relations issues. In addition they were asked their opinions on how unions should be organised and whether they felt unions should be affiliated with a political party.

In addition to the above findings, a majority of the population was found to support the concepts of individual contracts and employers dealing with only one union in wage negotiations. Those who agreed with the concept of individual contracts out-numbered those who disagreed by approximately 3:1. Those who agreed that employers should only have to deal with one union in wage negotiations out-numbered those who disagreed with this proposition by just under 3:1.

On the issue of compulsory unionism, 45 percent of the sample disagreed with the idea that workers should be required to belong to a union, 31 percent agreed and 24 percent indicated that they were neutral.

On the issue of union structures, the view that unions should be structured so as to be able to represent any group of workers that wished to use their services received the highest level of support (39 percent), although public opinion is fairly evenly divided between all three options canvassed. Occupation-based unions (the predominant form of union organisation in New Zealand) are supported by 33 percent, while site-based unions are supported by 24 percent.

There is little significant difference of opinion between people who have belonged to unions and those who have not. However, people who have been actively involved in unions tend to be less supportive of changes from the status quo. Women were on average more supportive of change.

The chart below summarises the key findings of the study.

	AGREE %	DISAGREE %	NEUTRAL %
The workforce of a firm or plant should be able to negotiate an agreement with their employer if the majority wish to do so	84	4	11
Workers who wish to belong to a union should be able to join the union of their choice	73	15	12
Individual workers should be able to deal directly with their employer over wages and conditions	65	19	17
An individual employer should not have to deal with more than one union in wage negotiations	57	21	22
Workers should be required to belong to a union	31	45	24

Union Structures	%
Open representation	39
Occupation based	33
Site based	24
None of these	5

Political Affiliation	%
Independent	92
Affiliated	5
Not stated	3

NATIONAL BUSINESS REVIEW ARTICLE

UNEMPLOYMENT IS A LABOUR MARKET PROBLEM

ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE

11 MARCH 1988

UNEMPLOYMENT IS A LABOUR MARKET PROBLEM

ROGER KERR

EXECUTIVE DIRECTOR, NEW ZEALAND BUSINESS ROUNDTABLE

A sorry milestone was reached last week when registered unemployment broke through the 100,000 mark.

Well before the sharemarket fall, the Business Roundtable warned that present policies would see the numbers of unemployed far exceed the Labour Department's prediction of 91,000 by March 1988.

Sadly, the political reactions to this event indicate that the causes and cures of New Zealand's unemployment problem are still poorly understood by all too many policy makers.

The Minister of Employment blamed the increase in part on the sharemarket fall, and argued that unemployment would decline when lower inflation and interest rates stimulated a resumption of economic growth.

Unfortunately there is no economic foundation for this optimistic view.

Mr Goff's underlying assumption is that there is a direct connection between an economy's level or rate of growth of output and its employment record. This is a fallacy, as simple international comparisons demonstrate.

Switzerland has enjoyed virtually full employment but so has Hong Kong, whose per capita output (and income) levels are less than half those of Switzerland. By contrast, Belgium and the Netherlands, with income levels slightly below those of Switzerland, have massive levels of unemployment.

Similarly rates of output growth are only weakly related to rates of job creation. Britain's output growth rate in recent years has been faster than Switzerland's, but it has been jobless growth. Unemployment has stuck at well over 10 percent of the labour force.

Plainly output and employment growth arise from basically different sources. Growth in output (per head) comes from improvements in productivity. These are obtained by shifting our resources into more efficient industries, innovation in technology and in management and work practices and, as the Minister correctly suggests, sound macroeconomic management.

Eliminating unemployment, on the other hand, is a matter of achieving a balance between supply and demand in the labour market. As in any market, this balance is dependent on the value and cost of the services that are traded.

Present economic policies may well lift New Zealand's medium term growth performance moderately. But present labour market policies are likely to limit that improvement and, as in Britain, lead to jobless growth.

Attempting to create jobs by lowering the costs of labour through subsidies, as the Opposition spokesperson on employment has suggested, is also an illusory hope. So-called "job creation" schemes do nothing of the sort because subsidised workers displace unsubsidised workers and the additional tax burden destroys other jobs.

Basically work schemes simply shuffle the unemployment pack. As is usually the case with subsidies, they do not go to the heart of the problem - excessive levels of labour costs, relative to productivity. Such schemes have now been widely discarded in OECD countries.

As disillusion with employment programmes set in, training programmes became the fashionable solution to unemployment. Experience is now showing that these are, at best, a very limited answer.

Once again this is partly because they do not go to the heart of the problem which, in the case of skills, is a failing education system. More basically it is because, as one recent study put it: "Training does not create jobs. Jobs create training."

If we are to have any hope of coming properly to terms with our unemployment problem, political attention must be redirected. New Zealand's weak competitive position coupled with an excess supply of labour are conclusive evidence that our relative unit labour costs are too high. That is what the real exchange rate problem is all about.

There has been a growing recognition among OECD countries of the action needed to reduce unemployment. As the June 1987 OECD Economic Outlook reports:

"Countries have taken a number of measures to this end. Indexation has been scaled back and greater flexibility has been introduced into regulations governing hiring, firing, part-time work and other contractual arrangements. The role and scope of minimum wage legislation have been curtailed. Unemployment benefits have been lowered in relation to wages and eligibility criteria tightened."

In New Zealand, by contrast, there has been minimal progress towards freeing up the labour market and some tendencies to actually increase restrictive regulations.

The Labour Relations Act maintained a highly regulated framework for bargaining which has led to few changes in the pattern of awards and agreements in the current wage round. Further job-destroying regulation is being canvassed in areas such as dependent contracting, redundancy notification and comparable worth.

The thrust of minimum statutory and award wages has been ever upwards, skill margins have been compressed and the ratio of unemployment benefit income to wages has steadily risen. The gradual fossilisation of labour market law and practice has meant, for example, that contractual terms which led to the employment of young people in the 1950s and 1960s are simply illegal today. Our children are thus denied many and varied work experiences.

A wide range of competent economic organisations - the Reserve Bank, the Treasury, the OECD and the London Economist - have been critical of the Government's failure in labour market reform relative to its other economic achievements. (Unaccountably, the Labour Department's post election briefing was silent on the relationship between unemployment and the wage fixing system.) In a recent study on New Zealand, Professor Richard Blandy, an Australian labour market specialist, also noted that:

"Labour market flexibility is important, in the present New Zealand context, in terms of minimising the adjustment costs faced by enterprises and workers.

"In the longer run, an inflexible labour market contributes to inferior economic performance because of its effects on growth in productivity and makes it more difficult for "disadvantaged" workers - for example, women, Maoris, youth, the disabled - to gain entry into jobs and incomes in the face of job protection by the organised and advantaged."

Blandy emphasised the need for moves such as enterprise bargaining in order to achieve improved productivity outcomes. By contrast, he reported that New Zealand firms did not see a solution to their cost problems in pay reductions, since they had to attract and hold good people in order to survive.

It needs to be added that barriers to entry into employment and excessive labour costs do not only arise from outdated labour relations law. Measures as diverse as taxi licensing and shop trading regulation restrict employment opportunities. Excessive non-wage labour costs such as accident compensation levies destroy jobs as surely as excessive wage increases.

The prime beneficiaries of a more competitive employment environment are not large businesses. In the final analysis, many of them have the ability to move offshore and earn international rates of return on their investors' funds. The prime beneficiaries are employees, job seekers (particularly the most disadvantaged ones) and smaller firms, which are responsible for a significant share of job creation.

The Business Roundtable has argued that there is in fact widespread public recognition that the heart of our unemployment and productivity problems is to be found in labour market arrangements, and that the principal solution lies in the development of a future set of relationships between employers and employees which rejects the Marxist-inspired nonsense that such relationships are of the "zero-sum game" variety.

Strong confirmation of this view was received in a recent Heylen poll on public attitudes to key industrial relations issues. It revealed an 84 percent level of support for the concept of company or workplace bargaining and 73 percent agreement with the proposition that employees should be free to join the union of their choice. (The levels of disagreement were 4 percent and 15 percent respectively.) The poll found that a large majority of past and present trade union members also support those concepts.

If any further proof was needed of the difficulties of achieving change within national award and non-contestable union structures, it was surely last week's strike of INL employees against their own union.

With the backlog of adjustment that the New Zealand economy is still working off, it will be no simple matter to get unemployment down. Yet the potential for employment growth is substantial, as we saw in 1984-85 when the benefits of the fall in unit labour costs in the preceeding couple of years worked their way through.

Nor should the blame for the problem be laid solely at the Government's door. Employers and unions misread the implications of a disinflation programme, especially in agreeing to the massive wage increases of 1985-86, and in a direct sense have been responsible for the additions to the unemployment queue. But their decisions have been taken within a set of wage bargaining rules which ignore the interests of the marginal firm and marginal worker, and virtually guarantee such outcomes. While other measures can help, those rules, which are the Government's responsibility, must be the central issue in any serious attack on unemployment.

For the sake of the 100,000 unemployed, it can only be hoped that economic logic and the enormous constituency for change will, sooner rather than later, provide the political impetus for the labour market reforms needed to legalise full employment.

NEW ZEALAND INSTITUTE OF MANAGEMENT

WELLINGTON DIVISION

ANNUAL GENERAL MEETING

PRODUCTIVITY

SIR RONALD TROTTER
CHAIRMAN
NEW ZEALAND BUSINESS ROUNDTABLE

WELLINGTON

29 MARCH 1988

PRODUCTIVITY

I understand the Wellington Division of the Institute of Management is focusing this year on the theme of productivity. No concept is more central to the achievement of our national economic and social goals.

With very few qualifications, economics tells us that raising the rate of growth of productivity is the only long run source of advances in living standards in this or any other economy. It is the systematic, continuous, year-in year-out advances in productivity that have lifted a country like Japan from the rubble of the war to its status as one of the world's richest economies within the lifetime of most of us here tonight.

There is nothing complicated about the concept of productivity, or how to improve it. Productivity is about getting your costs down, doing more with less, creating more value per unit of input, avoiding waste.

Raising productivity requires innovation, experimentation, risk-taking and change. These were the characteristics of New Zealand's early history but they have been much less in evidence for the last generation or more.

The fact that productivity growth was becoming an endangered species in New Zealand was recognised by the former Monetary and Economic Council as far back as 1962. Since that time we have been far outstripped by others in the per capita income tables. Japan, the "low wage" competitor of the 1960s, now has wage levels that are roughly double ours. Singapore, Hong Kong and Taiwan, the "low wage" countries of the 1970s, have now reached similar income levels. Korea is not far behind.

Private sector management over this period left a lot to be desired. Too many managers went to sleep in the cocoon. They connived in a host of inefficient work practices. They paid their workers when they went on strike. And they acquiesced in or even promoted the growing entanglement of regulations and controls that brought the economy to a standstill.

The productivity record of our state owned enterprises was even more mind-boggling. They became factories for burning money. Taxpayer returns in many of them were non-existent. People wasted their lives in work of almost no social value.

None of this was due to the inherent quality of the people employed in these organisations - any more than people factors explain the difference between dynamic Hong Kong and (until recently) stagnant mainland China. The problem was the incentives they faced and the systems they had to deal with.

More recently in New Zealand, managements have been given the chance to get back to their job - concentrating on adding value in a competitive world. Most have risen to the challenges of an environment of greater commercial freedom. A few lost their way, and a still smaller number engaged in practices that brought no credit to them. By and large, the market has disciplined them swiftly and I question the need for the Government to interfere in what should be the business of company directors, shareholders, and a competitive equity market.

Experience suggests there is nothing new about good management. The principles are simple:

- focus on what you are good at. Abandon those activities that can never compete;

- concentrate on productivity and quality and involve your workforce;

- emphasise flexibility, change and innovation;

- decentralise and delegate responsibility and authority;

- have confidence: you're better than you think.

New Zealand managers must become part of a dynamic society in which innovation and entrepreneurship are normal, steady and continuous. Many firms have surprised themselves by their ability to improve under the threat of competition. But restructuring is not a one-off process. It is not a matter of working off the backlog of economic adjustment and reverting to a steady state. If we want ongoing increases in job opportunities and living standards, continuous innovation and adaptation must become normal practice in all our organisations.

The *kaizan* message was brought home to me again on a recent overseas trip. Despite its still phenomenal performance, by its own standards the Japanese economy was showing signs of becoming sluggish in the early 1980s. Some two years ago, the yen commenced a climb against the United States currency which has far exceeded anything that has happened to the New Zealand dollar. An old Japanese banking friend of mine told me it was the best thing that could have happened to the Japanese economy.

"The first reaction of Japanese businessmen", he told me, "was to say they were going to die. They told the Government it had to do something about the currency to save Japanese industry. The Government did nothing. So the business sector had to do something themselves. They knuckled down and took huge chunks out of their cost structures. They dropped uncompetitive activities. The results have been dramatic. The yen is no lower but Japan has remained competitive and the economy is currently growing faster than any in the OECD."

Just as in the aftermath of the two oil shocks, Japan has been an object lesson of the benefits of a flexible economy. With similar currency movements, most other countries would have experienced a job holocaust. Yet in Japan's flexible labour market, the unemployment rate barely flickered. It rose from about 2 percent to 3 percent, and is now on the way back down.

Japan's experience demonstrates that workers have nothing to fear from productivity gains, and New Zealand's experience shows that they have everything to fear from the lack of them. Productivity is not a job killer, any more than women, school leavers or older workers are a threat to existing jobs if our labour market is working properly. Proposals that would suppress productivity advances or labour supply - like the curious proposal by the Royal Commission on Social Policy to raise the school leaving age to 18 - misdiagnose the nature of the employment problem.

First, improving productivity and lowering unit costs will be necessary to enable firms to survive and retain jobs in the new environment. It will be a far more widespread and satisfactory approach than reducing wages, although Japanese experience again teaches us that that option should not be excluded on a temporary basis.

Secondly, jobs lost in a particular firm do not translate into job losses for the economy as a whole. Higher productivity means more income is generated which will be spent elsewhere and create other jobs. Managers have an important duty to facilitate the process of change for those affected, but a dynamic economy cannot keep people in disguised unemployment and put barriers in the way of redundancy, retraining and relocation.

In the more competitive environment, a new generation of New Zealand managers is emerging. There is a premium on skills such as finance and marketing, and even more on "people" skills - the skills to relate to teams, employees, unions, other people. I believe we can develop the resources of management and entrepreneurship to overcome the economic challenges, provided constraints are not put in the way. The constraints are largely of the Government's making. There are still too many of them. The Government must maintain the momentum of its efforts to promote a higher productivity economy.

Let me give you four examples of what I regard as major constraints to better management and economic performance.

* Much of the sheltered sector of the economy has not had to make the adjustments and productivity improvements that have been forced on farming and manufacturing , as Don Rowlands of the Manufacturers Federation observed earlier this week. Inefficiencies in areas like ports, electricity retailing, petrol distribution, local government, accident insurance and fire services are at the heart of our problem of international competitiveness;

* The Commerce Act has emerged as a massive barrier to industry rationalisation. It is now being said, only half in jest, that to gain consent to putting underperforming assets to better use by merger or takeover it is necessary to know nothing about the industry in question, and preferably to be a foreigner;

* The education system is not producing school leavers with the skills and attitudes needed by firms to foot it with the products of education systems like Japan. It would be surprising if the Picot review, and the similar exercise by the Gibbs task force, did not find enormous scope for productivity improvements in our education and health systems;

* Our labour market, described recently as the British empire's worst legacy to New Zealand, lacks the structures and incentives to encourage the innovation and entrepreneurship we desperately need. If ever there were any doubt as to whether the Government's attempts to grapple with this area had been adequate, the sharply rising rate of unemployment has answered the question in the negative. There is simply no way that New Zealand can become a high productivity, high employment economy like Switzerland or Japan with its existing labour market structures.

The Labour Relations Act has come through the first wage round with the equivalent of a School Certificate grade of D for "limited achievement", or what would previously have been recognised as a failure. The highly standardised settlement level of 7 percent, which was established at the beginning of the round and has not fallen despite the declining inflation path, is grossly inappropriate to an economy in recession and subject to widely varying economic pressures.

The weak provisions to enable workers to change union representation have not operated in a single instance, and virtually the only changes have been the artificial amalgamation of unions into units of 1000 members or more. Only a handful of employers have been cited out of awards into new separate agreements, and even fewer new composite agreements have been struck.

Contrary to the views of some commentators remote from the industrial arena, the view of seasoned practitioners is that the round has been far more "business as usual" than a new beginning. Change is occurring at a snail's pace rather than at the rate a rapidly adjusting economy requires.

There is now almost wall-to-wall agreement that private sector labour market arrangements are a fatal weakness in the Government's economic strategy. Employer organisations have highlighted the problem, and farming and other exporting organisations have recently concentrated on it in representations to the Government. The National Party spokesperson for Finance has been bringing the issue into sharper focus. A wide range of competent economic organisations - the Reserve Bank, the Treasury, the OECD and The Economist - have delivered the same message over the past 12 months. It would be astonishing if the IMF mission that has been visiting New Zealand has not said the same thing in its confidential report and stressed the urgency of reform. In the interests of open government, the public should know its assessment.

The public at large is quite receptive to further labour market change, as a Heylen survey commissioned by the Business Roundtable and released in February clearly demonstrated. It showed overwhelming support for collective bargaining by the workforce of a firm or plant, for the opportunity for workers to join the union of their choice, and for politically independent unions. A large majority of past or present trade union members also supported these concepts.

What then is the source of the political opposition to change? Besides the kind of trade union ideologues we saw at the Nissan plant on 'Frontline' this week, the recurrent theme in the labour market is people with vested interests, for example:

- national level union officials who have obstructed company agreements in the meat industry and the newspaper industry, in the latter case to the point of provoking a strike by workers in protest at their own unrepresentative union;

- union memberships threatened by more efficient work arrangements such as so-called "dependent" contracting;

- representatives of women in secure jobs arguing for interventions such as comparable worth which would improve their incomes at the expense of the jobs of marginal workers;

- existing retail workers on inflexible work arrangements supported by restrictions on shop trading hours. It is noteworthy that the retail industry in the United States, with its minimal regulation of hours, expanded by 1.5 million jobs over the three years 1982-85.

It is the Government's duty to govern in the public interest, not the vested interests of particular groups. The electorate provided it with a mandate to carry on the job of modernising the economy, and it assured the business community of policy continuity. To remedy the severe weaknesses that still exist in the economy, the constraints such as those I have outlined must be vigorously addressed.

In the present difficult economic climate, I have been impressed by business reactions. The heavyweights among the business community have maintained their support for the policy directions which I believe the finance spokespersons for the Government and the Opposition are both broadly in accord in advocating. To borrow a phrase, those business leaders have not wavered one iota, and the present low level of confidence is in large part due to uncertainty about whether the Government will keep its part of the bargain.

Business polls are clearly indicating a concern that both party leaders should get in behind their finance spokespersons. With the present fragile economy, a failure to tackle outstanding rigidities and to avert fiscal risks - for example by adventures in social policy - would be devastating. It would have consequences for interest rates , the exchange rate and unemployment which would put paid to hopes of improving community welfare, and particularly the position of the least well off. We must look at ideas other than those which the Royal Commission on Social Policy has put forward, such as Mr de Cleene's proposal for a privately-run contributory superannuation scheme.

Consider just one statistic. A recent estimate suggests that if inflation comes down to 4-5 percent by next March and interest rates on 5 year government stock come back to 10-11 percent, a household with a $40,000 mortgage will benefit to the extent of a wage increase of between 7.5 and 18.9 percent. There will be few, if any, wage increases of that magnitude around in the next wage round.

If New Zealand has the intelligence to remedy current policy weaknesses, the benefits of a strong economy like Japan, or more recently Britain, should be within our grasp. Indeed we should be able to improve on Thatcherite policies which have been in many ways unbalanced and unfair.

The Economist noted last week that Britain has now secured strong economic growth and, at long last, falling unemployment as a result of the harsh medicine of reducing inflation, closing uneconomic factories and getting companies into competitive shape. It added that the government had done much to help this process, above all by bringing trade unions within the law and making their bosses accountable to their members.

With the latest budget and its reduced tax rates, The Economist argued that there was now no excuse for British management. Like their New Zealand counterparts they had run a lousy show in earlier years, and the revival of business self-confidence had been the greatest single achievement of the Thatcher years. Their job was now to make the British economy become as productive as any other. I hope New Zealand managers will soon be given the chance to achieve the catch-up in living standards that ought to be possible after a generation of lost opportunities.