9. THE LABOUR MARKET

A well-functioning labour market can contribute to the goals of more jobs and higher wages. High unemployment is a source of many social problems. For most New Zealanders a job is the key element of prosperity and participation in society.

Unemployment is a symptom of the wider economy performing poorly. Regulations affecting the labour market can also contribute to unemployment.

For the most part, New Zealand's labour laws result in wages and conditions being negotiated by union and employer groupings rather than by workers and firms. The basic decisions are often not made by the people who must put them into practice in the workplace.

Poor performance in related areas contribute to New Zealand's economic problems. For example, our workforce is poorly educated by international standards. More can be done to create the skills needed in the modern economy. The structure and administration of benefits can affect the ability of people to get back into work.

Such problems in the labour market make it harder to create growth and jobs. Addressing them is a key challenge for the Government.

INTRODUCTION

Better functioning of the labour market is important if New Zealand is to achieve a high-wage, high-employment economy. Employment is the main means by which most people derive their income and well-being. Real security and dignity mean having a job.

The economy's ability to produce more jobs and higher incomes is affected by a number of government policies. Macroeconomic policies underpin the expectations of both employers and workers and, in turn, wage- and price-setting behaviour. Wage- and price-setting is also affected by the degree of competition in the economy from tariff policies and regulations more generally. Social-welfare and tax policies influence people's attitudes towards work, training and risk-taking. Education and training policies play a major role in developing the skills, abilities and attitudes of the potential workforce. Finally, the labour market is directly affected by extensive government regulation and government spending on wage subsidies, training and placement services.

MARKET PERFORMANCE

The objectives for the economy that have been expressed by all major political parties call for:

- a highly skilled workforce
- sustainable and significant rises in real wages
- high employment growth
- low unemployment.

New Zealand has performed poorly on these counts, and in some cases, the lack of performance is longstanding.

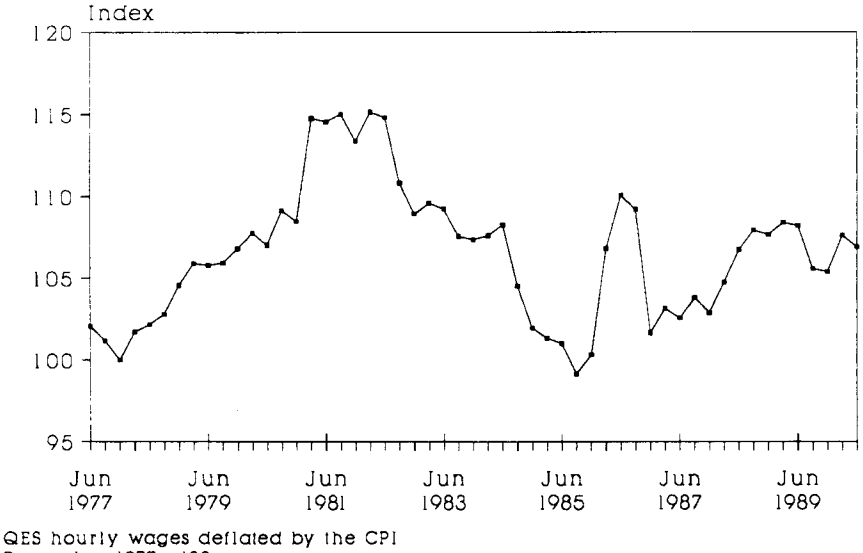
- Employment has grown little over the past decade whereas average OECD employment grew by 12% during the same period.

Figure 9.1

HLFS Based Concept
Source: Department of Statistics and Department of Labour

- Real wages have grown little since the late 1970s.

Figure 9.2

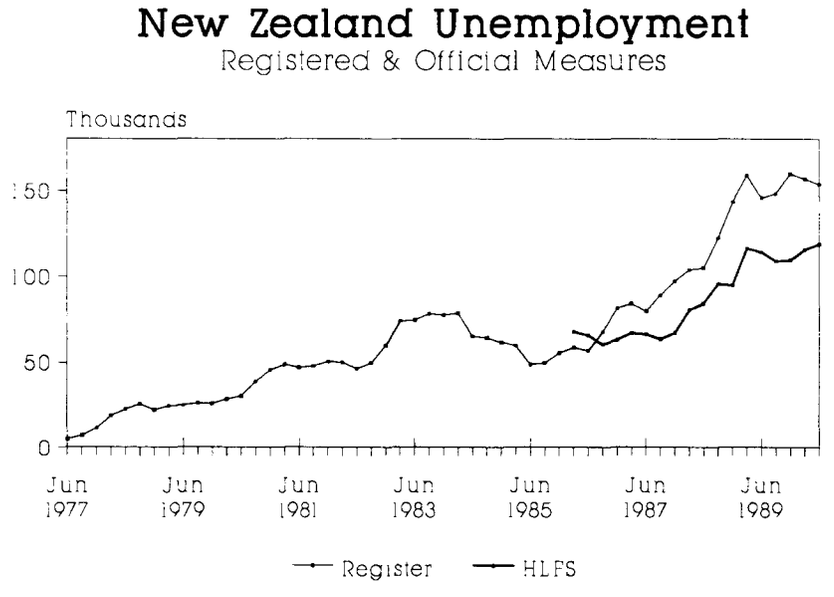


QES hourly wages deflated by the CPI
December 1977 = 100
Sources: Department of Labour, Department of Statistics

- New Zealand's productivity growth rate was the lowest in the OECD in the 25 years until 1985. Since then, New Zealand labour productivity has increased but primarily by labour shedding rather than by higher output.

- Unemployment, which had been gradually rising over the last 12 years, rose rapidly between 1987 and 1989.

Figure 9.3



Register includes vacation workers
Source Department of Labour and
Department of Statistics

- There are marked geographical differences in unemployment rates. The rates range from over 10% for the West Coast, Gisborne, Hawkes Bay and Taranaki, down to 5.3% in Southland and 6.5% in Wellington[10].

- Unemployment rates are higher for people with little or no educational qualifications. By contrast, vacancies are disproportionately concentrated in more-skilled jobs[11].

- Long-term unemployment has increased in New Zealand faster than the general rise in unemployment. About 66% of the present unemployment beneficiaries have been receiving the benefit for six months or more, 46% for a year or more.

10 Source: June 1990 Household Labour Force Survey (HLFS).

11 Source: June 1990 HLFS, Feb 1990 Job Vacancy Survey.

POLICY CONTEXT

These outcomes do not meet the community's aspirations. There has been very little improvement in living standards over the past 12 years. An increasing number of people, particularly the young and unskilled, are unable to find employment. This problem is particularly acute in some regions of the country, as noted above.

Achieving better results will require action on a number of fronts. Especially important for the labour market are:

- fiscal discipline and low inflation to provide businesses with more confidence for investing
- the competitive pressures that ensure that firms move into the most productive activities and thrive by meeting consumer needs in the international market
- keeping the cost of domestic regulation and taxation of business activities at the lowest possible levels consistent with meeting the Government's wider social objectives
- ensuring education and training systems are capable of meeting changing demands for skills.

The labour market is not uniform. There are demands for a wide variety of skills and abilities. Skilled labour, particularly the most skilled, is scarce while there is an abundance of unskilled. This has important implications.

Successful adaptation to the changing world discussed in Chapter 3 means that high-quality management, entrepreneurial and specialist skills, such as in marketing, computing, or engineering will be needed. Top people with these skills have employment opportunities elsewhere in the world, so New Zealand must compete internationally for such people as well as providing opportunities for New Zealanders to develop these skills.

People with low skills will find it hard to get jobs and without jobs their skills may well decrease further. As the length of unemployment is often a negative indicator to potential employers, this further decreases the chances of employment. To break this vicious cycle it is important to get them back into a regular job. This may require a balanced approach that makes benefits less attractive than work, reduces laws and regulations that lead to the low-skilled being priced out of the market, and adopts approaches to benefit administration that help people back into the workforce.

Policy changes along these lines have the potential to develop a momentum whereby lower benefit payments lead to lower fiscal costs, less pressure on interest rates, greater business confidence and activity, and thus more jobs. Initially, however, there will need to be greater variation in wages with changes particularly at the low-skilled end of the labour market where wages are currently above the level at which employers find it worthwhile to employ additional staff. Once in employment the work experience and skills developed on the job would eventually lead to higher productivity and higher incomes, thereby adding further to the positive momentum.

The terms and conditions of employment are of prime importance in the relationship between employers and employees. They can influence whether someone is employed at all, and the rate at which productivity improvements can be made and incomes rise. These are conditioned by the bargaining arrangements between employers and employees. Below we characterise a well-functioning labour market in terms of its ability to encourage growth-promoting arrangements.

KEY CHARACTERISTICS OF A WELL-FUNCTIONING LABOUR MARKET

The employment relationship, based as it is on people's contribution of their time, effort and initiative, is complex and dynamic. Employment involves on-going commitment and investment by firms and their employees on items such as capital equipment and training. Not all eventualities can be foreseen at the beginning of employment, so both parties look for ways to protect their investment by improving the potential for an enduring relationship. This often results in complicated and varied terms and conditions of employment.

The parties to these arrangements should be those with the best information and the greatest interest in the outcome. Concluding these arrangements could be difficult and costly without a specification of the rights and obligations of both parties within a clear legal framework. The specification of rights and obligations has an important effect on aligning incentives and transmitting the necessary information.

A well-functioning labour market can contribute significantly to job creation, income growth and increased national wealth by:

- allowing employment arrangements to reflect the diversity of opportunities and threats facing firms and workers
- allowing the adaptation of firms to changing markets and technology
- allowing adjustment to shortages and excess availability of workers in different regions and occupations
- allowing arrangements that lead to the development of productive skills and expertise for workers and managers
- ensuring that negotiations of employment arrangements are carried out in the interests of firms and workers
- encouraging the co-operative element of employment relations, while recognising that firms' and workers' interests can diverge.

LABOUR-MARKET REGULATIONS

The corner-stone of current regulations is the Labour Relations Act 1987 and its amendments. This Act establishes the status of collective bargains, the legal basis for trade union activities and procedures for negotiations and for resolution of conflicts. The State Sector Act 1988 extends those provisions to the public sector (while effectively making enterprise bargaining compulsory for state workers and employers).

The Employment Equity Act 1990 allows the Arbitration Commission to order pay adjustments for female-dominated groups where they are being paid less than specified male groups. The Equal Pay Act 1972, the Race Relations Act 1971 and the Human Rights Commission Act 1977 also deal with discrimination in employment. The Minimum Wage Act 1983 and various holiday and parental leave laws set minimum terms of employment. Other legislation not discussed here covers training, immigration, occupational licensing, safety and health.

Labour Relations Act

The Law

The Labour Relations Act regulates the process of negotiation but, apart from some minimum standards (such as statutory holidays), allows parties to agree on wages, employment practices and workplace arrangements. The Act promotes the role of bargaining agents, such as trade unions and employer organisations, and specifies their rights and obligations in relation to each other, and to individual workers and firms. The right to strike is defined and is confined to limited circumstances. Bargaining in addition to registered settlements is unenforceable under the Act. Within this framework the parties are free to negotiate without state intervention.

Blanket award coverage is a key feature of the Act. The standard bargain under the Act is an award between a union and the representatives of employers of all the workers covered by that particular award. An award is binding on all employers and workers within the coverage rule, whether they are involved in negotiations or not.

The Act constrains who can bargain. The Act gives workers little ability to enter into individual contracts or to choose bargaining agents. Trade unions have captive constituencies because the law grants them an exclusive right to cover every employee who falls within their membership rules in every firm in New Zealand. Union membership rules are expected to be mutually exclusive, so that individual workers have no choice over which union to join. Furthermore, when a compulsory membership clause is included in an award or agreement, workers are required to join unless exempted on grounds of conscience.

Groups of workers, however, can petition for transfer of coverage to another union. The procedure is relatively complicated and requires the assistance or supervision of third parties, such as the Registrar of Unions and possibly the Labour Court. Groups of workers can also choose among unions when boundaries overlap, as often happens with new occupations.

Workers cannot set up a new union simply out of disaffection with existing services. The right to represent workers can be contested only by the currently registered unions, which are required to have a minimum membership of 1000 workers. Obtaining registration for a new union is difficult: it has to find a niche not already occupied by an existing union, and it has to fulfil the membership minimum.

Employers can pursue alternative bargaining structures such as composite awards (between more than one union and more than one employer), agreements (between one employer and one union) and composite agreements (between one employer and more than one union). The arrangements for entering and exiting these various kinds of bargains are complex and, for the most part, give strategic advantage to unions relative to firms.

Employers with at least 50 workers on each site can opt out of awards subject to a ballot of workers. The resulting separate agreement still has to be negotiated with officially registered trade unions whose membership rules cover the workers at the site.

Performance to Date

Since the Labour Relations Act was passed there have been smaller wage increases and less industrial strife than previously. To a large extent, this has been due to slower economic growth, greater competition among the sellers of goods and services, and to greater pressure on management to perform. The 1987 legislation has also been a contributing factor.

There are examples of employment arrangements being developed to suit particular firms. For example, Fortex was able to introduce a three-shift killing chain at their meatworks for the first time in New Zealand. Nissan reported that as a result of productivity increases following its well-publicised enterprise agreement, it was able to pay its workers $3 per hour more than other employers in the New Zealand car assembly industry.

However, there has generally been little movement away from awards to alternative bargaining arrangements. As a result, the system of occupational awards seems to remain entrenched. This can have significant effects on the ability of the economy to adjust to changes. Changes in the ability of some firms to pay (for example, because of export price rises) are likely to pass through into the award wage. Since occupational awards spread across many industries, firms that were not directly affected by the price change face higher input costs. This would result in pressure for higher prices in the industries that are not exposed to international competition, i.e., occupational awards may magnify the extent to which a relative price change translates into a general movement in prices.

Awards registered under the Act continue to contain significant restrictions on work practices. Of the awards settled in the 1988/89 wage round, 10% banned part-timers and 27% disallowed casual work. More than 25% of awards required employers to pay part-time and casual workers between 5% and 20% more than full-time rates. Awards continue to impose limits on firms' ability to spread ordinary-time work, to use piecework and to offer bonuses. Under an award system there is no guarantee that such arrangements are in the interests of workers or potential workers, or of firms.

While these restrictions occur in less than a quarter of all awards, they tend to be strategically concentrated in the major documents with the widest coverage. It is not possible to estimate the number of workers covered by each award, but it appears that the extent of prohibitions and restrictions is generally not declining. More positively, some awards in the engineering industry permit non-wage arrangements to be made within firms.

Awards often have the effect of reserving certain tasks to members of particular trade unions, such as the distinction between the work of watersiders and harbour workers. As a result, the Act constrains workers' ability to develop and use new skills.

Changing work practices within an award is difficult and expensive requiring a co-operative effort by employers. This is unlikely since individual firms have different concerns and objectives and may not wish to share information with competitors. Each firm may adopt a soft line in order to insulate itself from the effect of possible strikes, and let others do the hard bargaining. Award negotiations also give larger firms the ability to block innovations of their newer, smaller competitors. Moreover, union strategy in award negotiations more often depends on perceptions of the preferences of the majority of members across many firms and is unlikely to accommodate the position of workers in a particular firm or region.

Being locked into an award is a major restriction on the opportunities open to workers and employers, and on their ability to respond to the changing environment. In the Masterton Agcon case (Wellington Labour Court, March 1989) the company's employees accepted conditions contravening the local award in order to secure jobs during a downturn in their industry. The Court noted that "the arrangement was satisfactory for all concerned ... it made jobs available to workers who would otherwise be unemployed." However, the union exercised its right to enforce the award, and the jobs were subsequently lost.

The system of occupational awards is reinforced by restrictions on union contestability and by agreements that unions will not contest each other's coverage. In the absence of contestability, such unions do not always have the incentive to represent the best interests of their members.

For example, the Nissan composite agreement was delayed by a lengthy and costly strike by the Cleaners and Clerical Workers Unions, which cover less than a third of the workers involved. In a newspaper interview, the union representatives identified two main reasons for their opposition: the agreement's consultative arrangements could lead workers to identify their interests with those of the company, and the team approach would undermine existing union structures. Neither of these reasons seems to be based on improving workers' pay and conditions, or at creating jobs in the industry; instead, they seem designed to protect the interests of the union.

Compulsory union membership is widespread in the private sector. Moving to new bargaining arrangements would trigger a new ballot on the union membership clause. As membership subscriptions provide union income, unions approach restructuring of awards cautiously. The break-up of a large award may lead to loss of union membership clauses in some of the resultant smaller documents.

Summary

The emerging picture is one of slow and halting improvement in the flexibility of industrial documents and of labour relations. The present framework for labour relations clearly allocates rights and responsibilities. However, it is less successful in ensuring that the labour market has the other desirable characteristics outlined previously. The Labour Relations Act has three fundamental flaws:

- The legislative rights and privileges are conferred on trade unions and employer associations rather than individual firms and workers, yet the latter parties have better information and incentives to reach agreement.

- The bargaining agents are not directly and effectively accountable to individual firms and workers as their roles are set by legislation rather than by choice of the firms and workers.

- The costs and risks involved for firms and workers in moving to bargaining arrangements that better meet their needs are high and reinforce the position of existing trade unions and employer associations.

The two general avenues for improving the regulatory environment are:

- to build on the strengths of the existing legislation while removing or reducing the constraints

- to recast the Act completely based on rights and responsibilities for employment contracts being established at the individual and enterprise level.

Reducing Constraints in the Labour Relations Act

This approach would build on the existing regulatory framework but enable further evolution. Such an approach potentially offers the attraction of a greater degree of flexibility and accountability, while retaining the clarity and some of the familiarity of the existing regime.

As discussed above, the Labour Relations Act provides a framework which is built around two principal features. First, it underpins the definition of the boundary of employment contracts - the workers and the firms who are included in the particular bargain. Second, it determines who will negotiate particular bargains. In addition, there are a number of important supporting provisions such as the right to strike and personal-grievance procedures, which are inter-linked with the key features. These features constrain the ability of workers and employees to enter into mutually beneficial deals.

The Boundary of Bargains

The main legislative constraint regarding the definition of the boundaries of the employment contracts is blanket award coverage. Its removal would make it less likely that workers and employers are forced into inappropriate deals. A further benefit is

that managers would be encouraged to communicate directly with their workers. This is likely to improve labour relations. Blanket award coverage could be modified either by providing very simple opting out rules, or by requiring firms to agree explicitly to being covered by awards.

Bargaining Agents

The existing legislation confers bargaining rights on trade unions and employer associations. The key requirement is to ensure that these bargaining agents, when their services are needed, fully represent workers' and firms' interests. This means that individual workers should have the right to choose bargaining agents to assist in contract negotiation. To achieve that, unions must have no legislatively guaranteed coverage rights, so their membership rules should be able to cover workers who could be covered by the rules of other unions, and there should be no restrictions on the establishment of new bargaining agents or on the minimum number of members to be covered by the bargaining agent.

The removal of the above constraints has the potential to break the log-jam of change and produce better labour-market outcomes. However, improvements may be slow to appear, may be accompanied by unintended effects, and the potential may not be realised in the end. The Labour Relations Act itself is an example of limited reforms achieving limited results.

The main reason for pessimism is that the present integrity of the legislation may be difficult to maintain through piece meal reform. Many other rights and obligations of workers, employers, their bargaining agents, and other labour market institutions such as the Labour Court created by the 1987 Act, interlock with the above constraints. Some provisions, which are consistent with the overall design of the existing legislation, might cause difficulties if the key supports were removed. For example, existing disciplinary powers of trade unions could be used for anti-competitive purposes if the unions had to compete for coverage rights. Rules regarding demarcation disputes might also become inappropriate.

The key constraints are also inter-related. For example, introducing voluntary unionism without removing compulsory coverage of collective bargains would mean that while individuals were free not to join the relevant union, they would still be covered by the awards or agreements which it negotiates. Since their position would not be necessarily threatened, unions might remain relatively unresponsive to the disaffection being signalled by the membership loss. At the same time, workers who resigned their membership would lose voice in influencing union behaviour. The resulting employment terms and conditions might be worse from the individual worker's standpoint.

The inter-linkages are numerous: for example, between unions' statutory rights and their liability in tort, between the right to strike and the conciliation procedures, between collective rights and personal grievances. Our broad conclusion is that simple removal of some existing constraints, without a sharper reformulation of the Act based on clear policy goals, is likely to result in the amending legislation reflecting particular

interests. This is likely to deliver sub-optimal labour market performance. For example, the Council of Trade Unions has expressed a strong preference for an industry-based union and negotiation structure. Even if the problems of defining industry boundaries can be resolved, such an outcome would be unsatisfactory.

An industry bargaining structure is unlikely to achieve the goal of ensuring that employment arrangements reflect the circumstances of individual firms and workers. Firms often operate in a number of markets. Competitive pressures encourage greater product differentiation, and technology permits greater responsiveness to the demands of smaller groups of consumers in niche markets. An industry structure for employment bargaining may constrain the ability of firms to respond efficiently to these developments and opportunities.

In order to be viable, particular new investments may require variations in employment conditions, particularly work practices. Since capital is raised by individual firms and not by industries, this implies that firms may have difficulty at times in achieving variations that suit them, and thus investment and employment opportunities may be foregone.

Industry arrangements may foster collusive and anti-competitive behaviour which raises prices for customers. New Zealand's history provides many illustrations of struggles between unions and firms for the distribution of excess profits resulting from market power. A disproportionate number of stoppages have occurred in industries with limited competition - witness the recurrent problems in moving port workers away from their national documents.

More Fundamental Reform

Given the differing needs for adaptability of different firms, the legislation should allow individual workers the freedom to contract with their employer:

- either individually or collectively at the enterprise level
- either with or without a bargaining agent of their choice.

Firms would similarly be free to choose a bargaining agent or to do without one. Employers and their workers would reach agreement on appropriate bargaining structures for each firm without outside interference apart from the general law. Only parties which signed up to an agreement would be covered by its provisions and a document would not be imposed on a firm and its workers without their consent.

This approach would not give statutory protection to existing agents. It would be more likely than current arrangements to ensure that wage deals and the related work practices reflected the value of the contribution of workers to a firm. It would make innovation and investment more likely, as the investor or innovator would not face the risks and uncertainties of trying to influence or negotiate out of existing awards or agreements not designed for them. Decentralised bargaining arrangements are also more likely to allow employers and employees to strike deals which facilitate training and improve productivity.

Giving individual workers and employers the right to negotiate employment arrangements would be fundamentally different from the philosophy of the Labour Relations Act, structured as it is around bargaining agents. This suggests that fundamental reforms could not be effectively implemented by merely amending the existing legislation. For the purposes of new legislation, a number of related issues would require consideration by policy-makers. Several of these issues are briefly discussed here:

- **The desirability of specific legislation allowing workers to act collectively**: Common law generally does not recognise collective arrangements. As a result, statutory labour laws in most advanced countries have established the rights for employees to act collectively in negotiating with an employer. Collective arrangements may be efficient in reducing bargaining costs associated with negotiating and enforcing many individual contracts. Thus policy-makers should consider legislation enabling workers to negotiate collectively (or to appoint a responsible agent). This could include consideration of creating a corporate identity for groups of workers if existing types of legal entities available under general law are inadequate.

- **The case for regulating bargaining arrangements**: The removal of existing regulations which impose bargaining arrangements may lead to initial conflicts between workers and employers, or among workers. For instance, an employer may not recognise the bargaining unit preferred by the workers. However, the purpose of reform would be defeated if bargaining arrangements were set by legislation. Labour relations have in-built balancing forces - desire to avoid loss of wages or profits - which are likely to inhibit extreme and unreasonable behaviour and encourage agreement on bargaining arrangements.

- **The right to strike**: The right to strike would need to be defined. The right (that is, protection from loss of job, or tort and contractual liability while on strike) would not exist under a contractually-based regime unless it was negotiated. Courts are likely to develop gradually new sets of principles on strikes, but it is difficult to predict whether these would restrict or enlarge the right to strike. As strikes can have considerable effect on the community, it may be better to define appropriate rules by legislation, covering such issues as balloting requirements prior to strikes and the right of employees to negotiate away the right to strike.

- **Concerns about the abuse of market power in the labour market**: Multi-firm employment agreements may raise costs, or facilitate product market collusion, which ends up raising prices. Where an industry is competitive there is little such risk. However, some industries enjoy substantial market power. For example, the restrictions on the use of third-party ships on trans-Tasman routes, which significantly increases freight rates, are enforced through an accord between trans-Tasman maritime and port unions.

Thus, the application of the Commerce Act (or legislation with a similar efficiency focus) to the labour market is an important policy issue. The Act is already being applied to anti-competitive practices of professional and trade associations (e.g., doctors). Legislation, for example, could impose tests on labour market arrangements that went beyond the firm, requiring that the efficiency gains more than outweigh losses from increased market power.

PROTECTION FOR WORKERS

Bargaining Power

Restrictions on bargaining rights and arrangements are often justified by reference to unfairness in the employer-employee relationship. The concerns are that less-prescriptive regulation might allow employers to exploit workers by driving down wages, and that incomes could fall for groups who already do worse than average. A single employer dealing with many employees might be able to use divide-and-rule tactics.

Generally, however, improvements in living standards for workers have been due to economic growth rather than bargaining protections. Thus in the long run workers are most likely to be protected by labour market rules that are conducive to growth. Also, most workers have some countervailing power. They can under-perform and have the ability to quit to find a new job, albeit at some cost, if their present employer is not treating them well.

The introduction of a more flexible bargaining system, with rights focused at the individual and enterprise level, would enhance the ability of employers and employees to co-operate and thus increase the protection to workers afforded both by shared interest with the employer and by their potential to cease co-operating.

Concern is often expressed that under a more flexible system employers may combine to drive down wages. However such a cartel is unlikely to be stable. This is because profitable opportunities will exist for other firms to take on workers at wage rates above the level fixed by the cartel. Flexible bargaining is likely to reduce the risk of collusive behaviour. Indeed, the existing rules require employers to form a cartel; with a more flexible bargaining system employers are likely to have to compete more fiercely for labour.

To the extent that some groups of workers gain from the bargaining strength of unions with wide coverage under present award arrangements, the resulting "averaging" of wages means that some groups are under-paid and others over-paid relative to what would be likely to emerge after the reform. Those who are currently over-paid will lose unless there are offsetting productivity increases.

However, if the people currently benefiting from averaging are low-skilled, the existing arrangement is likely to reduce incentives for the low-skilled to acquire skills. If workers in urban areas push up the wages of rural workers under current bargaining arrangements, this may make firms less willing to set up in rural areas.

Pay Equity Act

The Pay Equity Act aims to raise the pay of workers in predominantly female occupations to the pay level of workers in predominantly male occupations, where those occupations have similar work characteristics in terms of effort, skill, working conditions and responsibility. These assessments are largely unrelated to market pressures, such as the ability of the firm to pay, the number of people wishing to work in each occupation and the going wage for the workers in other employment.

Pay rises obtained under the Act will increase the attractiveness of "women's jobs" and reinforce the concentration of women in these jobs. Employers may reduce their employment of the workers whose pay has been increased by regulation[12]. The legislation will not open up new occupations for women or remove discriminatory barriers. In not addressing this underlying problem, the Act will achieve little of a sustainable nature.

Discrimination against females in employment is based on a complex array of factors. Typically it gains leverage through the employment flexibility that women often require because of their roles in child-bearing and rearing. This allows male dominated "insider" groups to erect barriers which effectively discriminate against women and so reduce the number of people able to seek "insider" jobs.

Such discrimination would be reduced by exposing employers and union representatives to greater competition. This would lead to "insider" groups bearing the costs of their own discriminatory practices, rather than being able to transfer them on to those being discriminated against. Mechanisms to achieve greater competition in the workplace include:

- greater competition for goods and services such as lowering import protection
- removing rigidities from the labour market
- EEO initiatives, which will get people to focus on discriminatory practices, make it less easy for employers to hire or promote on the basis of stereotypes, and open up new employment opportunities for women.

In summary, the legislation is likely to be ineffective in addressing the underlying problems, and would be likely to reduce employment and income growth over time.

Minimum-Wage Law

The Government sets minimum wage rates for people over the age of 20. From September 1990 this rate has been set at 48% of the average, ordinary-time earnings a substantial increase from 30% in 1984. The minimum will only have effect if lower wages would have been paid in its absence. The current bargaining structure and income support available from the benefit system are likely to lessen the effect of this regulation. Only two awards have minima in the range affected by the regulation. As

12 See, for example, Mark R Killingsworth "The Economics of Comparable Worth", Upjohn Institute 1990.

discussed in Chapter 8, current benefit policies provide relatively high income for some people in relation to their earning capacity. Effectively, these policies impose a wage "floor" in the labour market. The current minimum wage rates may have more effect if there is reform both of current labour market regulation and of benefits.

To the extent the minimum has effect, overseas studies[13] suggest that it will reduce employment. These studies also suggest that minimum wage laws do not tend to assist low-income households. With a binding minimum wage the numbers of workers seeking jobs will exceed the number of jobs available. The studies suggest that people from better-off households are more likely to get the available jobs. Thus low-income households are disadvantaged. This regulation can also have adverse long-term effects in that pay differentials for skills are narrowed, reducing incentives for skill improvement. Thus review of current minimum-wage regulations is desirable when labour-market and social-welfare policies are being re-examined.

TRAINING AND PLACEMENT PROGRAMMES

The Government has budgeted over $600 million for the Employment Service, training courses and wage and business set-up subsidies this fiscal year. This is relatively high by OECD standards. Only four of the countries for which data is available spent a higher percentage of GDP per percentage of unemployment in 1988. Experience shows that Government job-creation programmes are costly and ineffective in increasing employment and, in the long run, may reduce employment.

Studies suggest that over 60% of new subsidised jobs would have been created without subsidy. In addition, employers may substitute subsidised workers for unsubsidised workers. Precise measurement is difficult but, overall, new jobs generated by a job subsidy scheme are unlikely to be more than 10% of the subsidised positions. Applied to Job Plus, which costs taxpayers approximately $10,000 per subsidised position per year, this would give a cost of around $100,000 for each new job created. The taxes necessary to pay for the subsidies are likely to reduce further the net number of jobs created.

Hence, most OECD governments have moved away from spending substantial amounts on work schemes and are focusing on human-capital formation. As discussed above, training on and off the job can contribute to productivity growth. The government provides training targeted at disadvantaged people through Access and employer subsidies, and even more through tax-funded secondary and tertiary education. Considerable training is undertaken privately, or on the job - one New Zealand study has suggested that employers spend around 2% of their payroll on training - so schemes which help people into jobs will also help people upgrade their skills. The reforms to labour-market regulations discussed above would help boost people's employability by making training more attractive and easier to obtain.

Long-term unemployment (six months or more) as a percentage of total unemployment has increased in New Zealand since 1986. There has been a concern in OECD countries that temporary unemployment problems could become permanent as the

13 For example, C Brown et. al., "The Effect of the Minimum Wage on Employment and Unemployment", Journal of Economic Literature, June 1982.

unemployed lose skills, motivation, confidence and contact with the labour market and the associated information networks. Employment services including job clubs provide a substitute channel and can help people regain motivation and skills such as effective presentation at job interviews. Limited use of job subsidies targeted to those unlikely otherwise to find work can also be useful. Policies in this area need to be linked with work tests and benefit-reform proposals. Targeting policies at this group may help prevent the persistence of long-term unemployment.

CONCLUSION

Choosing the regulations to apply to the labour market requires an assessment of the appropriate balance of risks. The key requirements are to reverse the longstanding slow growth in employment, to maintain productivity improvements, and to reduce unemployment. This argues strongly that policy balance should be changed to favour getting people back into employment.

The approach should be to push responsibilities for labour relations down to the level of individual workers and enterprises. This would encourage changes to entrenched practices by both managers and unions. The protection previously afforded through tariffs and import licensing on one hand, and through blanket award coverage and the union registration rules on the other, sheltered managers from the need to give adequate attention to personnel management. There were few sanctions on employers from poor personnel management.

With a policy goal of attaining sustainable higher living standards, there would be gains from giving greater freedom to workers and firms to enter into mutually beneficial employment arrangements with minimal external interference. Such reforms would facilitate enterprise bargaining, rewards for productivity and training, and would encourage more efficient and responsive trade unions. Government expenditures in the sector are substantial, yet may produce little additional employment. Thus, these programmes represent a potential source of fiscal savings.

Fundamental reform, associated with changes in benefit policies which improve incentives to work, may put downward pressure on real wages for some workers. Over time, increasing levels of skills and higher levels of productivity should lead to rising incomes.

As improvements in labour-market performance will depend on changing attitudes of people who have long experience under a more centralised approach, such improvements are likely to take years to work through fully. Provided they are supported by sound macroeconomic policies, increased competition throughout the economy, and other policies relating to education, training and social-welfare benefits, these labour-market reforms will contribute to rising living standards and higher participation in the workforce in the medium term.