



16 July 2010

Dr Don Brash  
Chair, 2025 Taskforce  
PO Box 3724  
WELLINGTON 6140

Dear Dr Brash

Thank you for the opportunity to contribute to the second Taskforce 2025 report.

The Department of Labour (the Department) acknowledges the objective set for the 2025 Taskforce as being vital to New Zealand. A substantial improvement in productivity is needed to achieve the Government's goal of catching up with Australia's per capita income by 2025. The Department is therefore focused on improving the quality and performance of the labour market in order to strengthen New Zealand's economic prospects.

The Department oversees a range of legislation and responsibilities that ultimately contribute to New Zealand's economic growth potential. Current outcomes that the Department is focusing on include:

- a more effective immigration system
- more productive workplaces and sectors
- more people in quality work
- a better performing accident compensation system.

In your letter dated 12 May 2010, you highlighted a number of issues from your first report that required further analysis and discussion. I have included responses on those issues to which I feel the Department is in a position to contribute.

**What more can be said about when and why the income gap with Australia emerged? Can New Zealand's small size and distance from markets really explain the timing of the widening of the gap or are other explanations more plausible? Can more be said about the significance of Australia's mineral resources?**

New Zealand's labour productivity rate has been lower than the countries we tend to compare ourselves with in recent years. New Zealand's productivity fell rapidly from 1974 to 1980, mainly because of a collapse in the terms of trade after the UK joined the European Economic Commission in 1973, as well as a failure to successfully adjust to the oil shocks of the 1970s. This lost productivity was not recovered with the mid-1980s terms of trade rebound. The 1970s terms of trade shocks should have had transitory rather than lasting productivity effects.

Economic and structural reforms returned Gross Domestic Product (GDP) growth per capita from no growth from 1974 to 1992, to the previous two per cent trend rate from 1993. There was no rebound above two per cent a year to recover lost ground.

No one factor explains New Zealand's relatively low productivity, and after extensive economic reforms, there are no obvious culprits to blame. Recent research conducted by the Organisation for Economic Cooperation and Development (OECD 2009) has suggested that economic geography including remoteness to markets and size of domestic markets plays a part in explaining the productivity divergence<sup>1</sup>. Contributing factors exaggerated by distance include trade, foreign investment and technology diffusion and foreign direct investment.

However, this cannot be more than part of the explanation for our productivity gap.

**How important are human capital issues in explaining the movement in New Zealanders to Australia and our productivity gap? What role has New Zealand's education system played?**

Human capital and investment in skills play an important part in raising New Zealand's productivity performance. The more skills that staff have, the more innovative they can be. Skilled workers can also work more quickly with fewer mistakes and generally require less supervision, accept more responsibility and are better communicators.

The Department is working with a number of parties that influence the supply of skills and labour to make sure New Zealand has the workforce it needs. We are particularly focusing on working with the industry sectors identified as a priority through the Government's Economic Growth Agenda, to ensure they have access to the skilled workers needed to support their growth.

The quality of labour in New Zealand and Australia is relatively high, with levels of tertiary attainment above the OECD-average (ranked 5th and 8th highest out of 33 countries respectively). This could suggest that New Zealand and Australia's workforces have similar skill levels and that the gap in productivity is due to lower levels of capital deepening and/or multifactor productivity. The OECD (2009) identifies that the average capital per worker in this country is significantly lower than in Australia, and that our capital and multi-factor productivity growth has been relatively poor.

However, differences in labour quality have been measured using education attainment, which is only one aspect of skills (or human capital). It is possible that Australian institutions provide higher quality education or training; that the workforce in Australia is more experienced, and/or has received more or better quality on-the-job training; or that Australian firms are better than New Zealand firms at attracting employees with higher capability within any given qualification category.

Another important way in which skills influences productivity is through skills utilisation. Skills utilisation is about effectively applying skills to maximise performance within the workplace. It is more than simply training and includes management practices that enhance the way labour and capital are used collaboratively to enhance productivity.

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<sup>1</sup> Organisation for Economic Growth and Development (OECD) (2009) *Structural Policies to Overcome Geographic Barriers and Create Prosperity in New Zealand* Economic Department Working Paper No. 696, ECO/WKP(2009)37, Paris, 28 April 2009, [http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00002B4E/\\$FILE/JT03263750.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00002B4E/$FILE/JT03263750.PDF).

In 2009, the Industry Training Federation and the Department produced a report on the link between industry training and business performance<sup>2</sup>. The report found that training alone was not enough to induce significant improvements in business productivity but managers who utilised the skills gained by employees often saw improved productivity.

One common approach to addressing skills utilisation is through high performance workplace practices. The Department's contribution in this area will be discussed later in this letter.

The Department's Immigration Service has an important role in fostering human capital. We are currently developing and implementing a long-term strategic approach to immigration that supports sustained economic growth.

Migrants make up more than 25% of New Zealand's workforce, bringing investment, skills and international connections that generate growth in New Zealand's economy. It is estimated that currently immigration produces an annual net fiscal contribution of more than \$3 billion.

This work recognises that strong international commitments and relationships are crucial components for New Zealand's development, and that New Zealand needs people with the right skills and training at the right time to lift capacity in the workforce.

Evidence suggests that New Zealand's immigrants appear to be more skilled than our emigrants (and our general population)<sup>3</sup>. But there is cause for concern if immigrants cannot get jobs to make use of their skills.

Migration flows to and from Australia are different from those with the rest of the world. New Zealand consistently has a net migration loss to Australia, but departing Kiwis are not just the highly skilled. Instead, they are representative of the general population of New Zealand. That is, there is no brain drain to Australia, but what might be called a "same drain". This is likely to be a consequence of the common labour market.

The Department has recently undertaken a research project that examines the incomes and occupations of New Zealanders living and working in Australia. This has not yet been published, but we will forward a copy to the Taskforce when it is publicly available.

### **What might the reduction in government spending relative to GDP recommended in our first report mean for social outcomes?**

One element to the productivity debate is the contribution of government spending. Our focus on this point is how reductions in government expenditure proposed by the Taskforce (i.e. welfare, superannuation, health, and education) could affect workplace health and safety and industrial relations.

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<sup>2</sup> Department of Labour and Industry Training Federation (DoL/ITF) (2008) *The Skills-Productivity Nexus: Connecting Industry Training and Business Performance* Report prepared for the DoL and ITF by Owen Harvey and Peter Harris, Innovation & Systems Ltd, April 2008 <http://dol.govt.nz/publications/research/publication-view.asp?ID=246>

<sup>3</sup> Hayden Glass and Wai Kin Choy (2001) *Brain Drain or Brain Exchange?* New Zealand Treasury Working Paper 01/22, The Treasury, Wellington, December 2001 <http://www.treasury.govt.nz/publications/research-policy/wp/2001/01-22/twp01-22.pdf>

Reduced governmental spending in the areas noted in the Taskforce's first report could have a negative impact on injury and fatality rates at work. In particular, changes to the structure and level of superannuation may lead to a larger number of people choosing to stay in the workforce for longer. Older workers have specific needs that, if not adequately addressed, can increase their risk of injury at work (particularly in high hazard industries).

### **Where might better regulatory practice lead to gains for New Zealand?**

The Department's legislative and regulatory frameworks, and the way in which the Department applies those regulations, can make significant contributions to New Zealand's productivity growth. Better regulatory practice can have large impacts on the way in which the country's industrial relations framework operates, and to occupational health and safety outcomes.

The Department's focus on health and safety regulation is twofold. Obviously we have a statutory responsibility to enforce compliance with legislation and regulation. We also encourage employers to introduce good health and safety practice that goes beyond compliance with minimum legal standards.

Occupational disease and injury imposes a very significant cost on the New Zealand economy, in terms of direct medical and rehabilitation costs, production disturbance and lost productive capacity of workers. Accurately measuring the full costs is very difficult due to the complex range of factors involved, but estimates have ranged as high as \$15.6-\$16.6 billion<sup>4</sup>. If improved regulatory practice results in improved health and safety outcomes, then the economic benefits are clear.

There is a clear link between health and safety and increased productivity for individual businesses. Businesses that fully understand the impact burden of illness and injury on productivity and profitability are more able to appreciate the value of good health and safety practice. The key for government regulators is to encourage business to see health and safety as a means to improve performance, rather than as an unwanted compliance burden.

Research has identified common elements in businesses that clearly demonstrate the link between quality of work and productivity (DoL 2007<sup>5</sup>). Such common elements include:

- a good level of co-operation between management and employees
- a high-quality working environment
- employees being given challenges, responsibilities and job autonomy
- the development of new working methods and equipment to improve ergonomics and decrease the strain of physical work.

The Employment Relations Act 2000 aims to build productive employment relationships through the promotion of good faith by protecting the integrity of individual choice and promoting mediation as the primary problem solving mechanism. This framework can act as an important foundation for productivity growth in New Zealand.

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<sup>4</sup> NZIER (2008). Report to the Department of Labour. Workplace Health and Safety: Risk Landscape

<sup>5</sup> Department of Labour (DoL) (2007) *How Health and safety makes good business sense* Report prepared for the DoL by C Massey, F Lamm & M Perry, New Zealand Centre for Small and Medium Enterprise Research, Massey University, August 2007  
<http://www.dol.govt.nz/publications/research/good%2Dsense/>

Employer representatives and some employers have informed the Department through a range of forums about areas in which improvements can be made to the regulatory and legislative framework.

A number of issues have been identified including high compliance costs. A lack of clarity in employment relations provisions can have a negative impact on employment relationships and the efficiency of the labour market, because employers and employees have to divert resources towards trying to establish what their rights and obligations are.

Misleading perceptions about rights and obligations can also present problems, as they can lead the parties to make inappropriate decisions about how to respond to an employment relationship problem, that subsequently prove costly to rectify.

The most significant opportunity for improving regulatory practice is to improve perceptions and clarity about what is required, how it works and how it is enforced. This could involve a mix of legislative amendments and non-legislative activities to improve and perhaps simplify the operation and integrity of the Department's overall framework. Stability and certainty about legal obligations is a contributor to productivity for businesses, and providing a stable and well understood employment relations framework is an essential component of this.

With this in mind, the Government is currently reviewing the Employment Relations Act 2000 and the Holidays Act 2003.

However, from a comparative perspective, many commentators and international studies indicate that New Zealand's employment framework is relatively flexible.

### **What has Australia done well that we can learn from in terms of policies and are there perspectives from other countries that we can learn from?**

Australia's institutions share many similarities with New Zealand. Both Australia and New Zealand have low levels of employment protection legislation (i.e. both countries are regarded as relatively un-prescriptive) and a high ease of doing business<sup>6</sup>.

The Department is increasingly working with Australian jurisdictions on dealing with problems common to workplaces in both countries. For example, the Industry Solutions programme focuses on quad bike safety in agricultural workplaces, and involves a trans-Tasman working party (made up of representatives of all regulatory jurisdictions, unions, farmers, quad bike dealers/manufacturers, trainers, and after-market accessory manufacturers) to develop and implement workable solutions to a common problem.

In the employment relations area, the Australian industrial relations legislation has maintained an awards system with many similarities to the New Zealand system prior to 1991. Around 75% of Australian employees are covered by collective bargaining agreements, according to the OECD.

Most recently, the Fair Work Australia Act 2010 has adopted many of the concepts introduced by the Employment Relations Act 2000. These include good faith bargaining, and flexible and informal dispute resolution. These changes have tended

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<sup>6</sup> Danielle Venn (2009), "Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators", [www.oecd.org/els/workingpapers](http://www.oecd.org/els/workingpapers)

to reinforce similar ties between the two jurisdictions, not differences. Given the prevalence of firms operating across New Zealand and Australia convergence of health and safety and employment relations frameworks could reduce compliance costs.

### **Other areas the Department is making contributions to New Zealand's productivity growth**

A recent study that was partly funded by the Department of Labour looked at management in the manufacturing sector<sup>7</sup>. The study compared New Zealand to 17 other nations, including significant trading partners, and found New Zealand management scored significantly below their counterparts in leading nations. People management in particular was identified as an area New Zealand performs poorly in.

The study found that manufacturing firms with effective management practices tended to have higher productivity and output. The study also showed a clear link between better management practices and firms' innovation levels.

We believe management practices play an important role in firm workplace productivity, and suggest this as a subject area for further inquiry by the 2025 Taskforce in their second report.

The Department has been working towards more productive workplaces and sectors in the New Zealand economy. For example, the Department is leading a programme of work called the Workplace Productivity Agenda together with unions and business organisations. One of the key objectives of this work is to encourage and support the implementation of high performance working practices in New Zealand firms.

To test the impact of high performing working and to develop models of good practice, a small number of action research projects were developed with the private sector. The primary objective of the projects was to explore possible roles for government in raising workplace productivity, and to gain a better understanding of what was needed to get firms to introduce high performance working practices. These projects focused on different aspects of workplace practices, including utilisation of skills, worker participation in decision-making, business systems, and HR practices.

The Department's 2009 evaluation<sup>8</sup> of the productivity projects found that Government can effectively support better workplace performance through targeted initiatives to prepare workplaces for change, provide seed funding to "kick start" the change process, and develop more effective ways of disseminating best practice.

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<sup>7</sup> University of Technology, Sydney (UTS) (2010) *Management Matters in New Zealand – how does manufacturing measure up?* Findings from the New Zealand Management Practices and Productivity global benchmarking project, Ministry of Economic Development, May 2010 [http://www.med.govt.nz/templates/MultipageDocumentTOC\\_43278.aspx](http://www.med.govt.nz/templates/MultipageDocumentTOC_43278.aspx).

<sup>8</sup> Department of Labour (DoL) (2009) *Workplace Productivity Projects – Evaluation Report* Strategic Research and Evaluation Unit, August 2009 <http://www.dol.govt.nz/publications/research/wpp-evaluation-report/index.asp>

I trust you will find the above information useful. I would be very happy to expand on any of the points covered in this letter if you would find this useful. Thank you once again for the opportunity to assist the Taskforce.

Yours sincerely

A handwritten signature in black ink that reads "Lesley Haines". The signature is written in a cursive style with a large initial 'L'.

Lesley Haines  
for Secretary of Labour