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LABOUR MARKET FLEXIBILITY

Economic Monitoring Group

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LABOUR MARKET FLEXIBILITY

Economic Monitoring Group
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LABOUR MARKET FLEXIBILITY

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New Zealand Planning Council
The Policy Development Centre
100 The Terrace
Wellington

30 April 1986

Mr I.G. Douglas,
Chairman,
New Zealand Planning Council,
Wellington.

Dear Mr Douglas,

I have pleasure in forwarding to you the seventh report of the Economic Monitoring Group which, in accordance with the independent right to publish which the Planning Council has given the group, will soon be released to the public.

Although the report was begun in continuation of earlier ones and in response to our judgment of the major medium term economic issues, it is directly relevant to the government's recent Green Paper on Industrial Relations. A copy has been supplied to the Minister of Labour as a submission from the Economic Monitoring Group.

Readers of the report will see that we have drawn on commissioned research from various sources. The Economic Monitoring Group is grateful for the responses it received from its researchers. It also appreciates the work of the members of the Planning Council secretariat allocated to it, especially in the case of this report, Ms Joss Stroombergen.

Yours sincerely,



G.R. Hawke,
Convenor,
Economic Monitoring Group.

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THE ARGUMENT

This report is presented as a response to the Government's Green Paper on the industrial relations system. It concentrates on economic aspects, among which various ideas of 'flexibility' are important. Movement of resources is obviously important to the government's general economic strategy of creating an environment in which decision-makers are encouraged to allocate resources so as to provide as much economic growth as possible. The related policy of reviewing and revising regulatory interventions to ensure that they are appropriate for our current needs directs attention to unnecessary barriers to movement.

Re-allocation of resources, requiring movement from one use to another, embraces the choices of occupation and job made by individuals. The labour market - that is the wide range of institutions, customs, and personal contacts through which people are recruited or retained for particular jobs and their rates of remuneration determined - includes a regulatory framework which may include some unnecessary restrictions. 'Flexibility' therefore looms large in discussions of the labour market. It is not an end in itself, but a means through which the labour market can contribute to the fundamental objectives of economic efficiency and equity. Flexibility can mean several different things, but the principal ideas for economic analysis of the labour market are the availability of price signals for attracting labour to an appropriate allocation, and the extent of movement of people in response to such signals. These ideas are the focus of this report.

It is not easy to assess the extent and significance of such flexibility. A comparison of New Zealand with OECD countries suggests that the degree of inflexibility in New Zealand is not out of line with OECD experience. This results from the combined effects of changes in relative rates of pay and the movement of people among industries. Whether the price signals could be made clearer or more appropriate remains uncertain.

Similarly, some other features of the labour market reveal flexibility of various kinds. Occupational pay patterns in Australia and New Zealand affect migration between the two countries but so do other characteristics of particular jobs and institutional changes affecting recruitment to them. The distinction between migration of skilled and of unskilled occupations is less than sometimes suggested, and there is not a single trans-Tasman labour market. Occupational pay rates in New Zealand show considerable variability, but not as much as in Australia. 'Secondary bargaining' or the determination of remuneration outside main award negotiations has been growing but still affects only a small fraction of all wage earners.

The transactions which reveal the kinds and extent of flexibility just discussed take place within a labour market characterised by its regulatory structure. Awards play a major part in fixing relative pay rates. The government provides a registration system which largely determines who are the parties to negotiations for particular occupations. The legislative provision of 'blanket coverage' ensures that the results of these negotiations apply beyond those immediately involved in negotiating them. The government provides a conciliation and arbitration mechanism for resolving disputes which arise from agreements and to resolve disagreements which prevent negotiations from resulting in an agreement. This organisation of the labour market has grown over time and while it has features in common with other countries, it is substantially unique to New Zealand.

Neither uniqueness nor a long evolution is adequate reason for either immediate change or complete satisfaction. The institutions of the labour market have to be scrutinized for their appropriateness for New Zealand's current economic and social situation. The

evidence available on the 'flexibility' of the labour market does not suggest that any crisis measures are called for. The extent to which changes in the labour market involve financial and other costs for some indicates that widespread consultation is desirable.

However, the New Zealand experience of unemployment and inflation, especially in comparison with other countries, points towards the possibility of some improvement. The government has shown a desire to trust New Zealanders to manage their own affairs within general restraints designed to look after the community interest. The Economic Monitoring Group therefore favours a change to the present registration system making it easier to form new or changed bargaining units within the labour market. It expects this to promote discussion of other possible changes and to provide some experience with which to assess their desirability.

FLEXIBILITY IN THE LABOUR MARKET: AN INTRODUCTION

Issues relating to the labour market are now very much in the forefront of public debate, and this report is a contribution to discussion of the issues raised in the government's Green Paper, *Industrial Relations. A Framework for Review*. But the planning of this report preceded the decision to issue a Green Paper. The Economic Monitoring Group turned its attention to the labour market for two interrelated reasons.

The first is the importance of the labour market to the broad economic strategy of the government. In earlier reports¹, the Economic Monitoring Group stressed the importance for our social objectives of getting resources into their best possible use, given the aims of maximum income and its fair distribution. An alternative way of expressing this is that more emphasis has to be given to adaptation of our products to world markets.

The present government has adopted policies which are broadly in accord with these views. It has moved in this direction with regard to the foreign exchange market, the financial sector of the economy, and the means and extent of protection accorded to local industry. However, these developments might be frustrated if we do not have an appropriate organisation of the way in which people find and retain jobs. There might be a significant gain in total income if people chose to move to jobs where they are more productive. We therefore want a regulatory and institutional structure which provides people with accurate signals of where they would be most productive. We also want signals to employers which encourage them to so arrange their affairs as to make the best possible use of their employees and to reward them as well as is compatible with economic efficiency.

Furthermore, the persistence of unemployment means both that we are not fulfilling one of our social objectives and that we are not making the best possible use of the most important of all our resources. Although the level of employment is influenced by many things, there is an obvious justification for enquiring whether our organisation of the labour market itself contributes to unemployment. Similarly, we are still having problems with inflation, which among other disadvantages makes it more difficult to judge the appropriateness of particular resource allocations. There is at least some link between inflation and the cost of labour, and there are therefore grounds for looking at whether the ways in which wages and other incomes are determined are consistent with the avoidance of inflation.

Secondly, the government has responded to the view that our present regulatory structure is not always well designed for the social objectives it is now intended to serve. In a number of cases, it has implemented regulatory reform so that market outcomes are more likely to be consistent with government policies. The Economic Monitoring Group shares the government's belief in the importance of reviewing the regulations which have grown up over many years, and endorses its approach which constitutes regulatory reform rather than deregulation for its own sake. The labour market is governed by part of the regulatory structure and this part is important enough to be prominent and early in the process of review.

1. See especially *Strategy for Growth: Report No. 3* of the Economic Monitoring Group (Wellington: NZ Planning Council, September, 1984).

The links between these two motivations for interest in the labour market are clear. In particular, improvements in regulations, including the removal of unnecessary restrictions, may be an important part of the process by which resources are allocated to their best possible use. However, the objectives of some regulations, such as those concerned with health and safety, are different from any simple view of maximum income.² The range of interests which are summed up in the phrase, 'efficiency and equity', has to be remembered. This is certainly true when considering policy moves relating to the labour market.

THE MEANING OF LABOUR MARKET 'FLEXIBILITY'

Encouraging labour into its most productive use directs attention to people's decisions about movement between jobs and the signals to which they respond. Regulatory reform directs attention to unwarranted obstacles to movement. It is therefore not surprising that attention quickly focusses on labour market 'flexibility'. The term is taken from ordinary language and is not part of any specialised economic terminology. The general sense of an efficient and adaptable labour market is clear enough, but it is much less easy to find a more precise statement of what is desirable.

'Labour market' is economists' shorthand for the wide range of institutions, customs and personal contacts through which people are recruited or retained for particular jobs and their rates of remuneration determined. The labour market is different from many other markets and arguments by analogy with the markets for commodities like wheat or soap-powders can be very misleading. It is convenient to have a shorthand expression for all transactions by which people are employed, but the complexity of those transactions and their importance to the individuals involved cannot be ignored. Contracts for employment range from the simple, e.g. when somebody is employed for a set task in return for a set payment, to the complex, e.g. when by contract or custom somebody is given security of tenure with more or less defined arrangements for occasional or periodic review of the work to be performed and of the amount and nature of remuneration. For most people, involvement in the labour market is closer to the complex end of this spectrum than to the simple.

It is worth noting that while employees have an obvious interest in job security, employers too are likely to value experience and skills specific to their own business, and to want a known and reliable labour force which minimises expensive monitoring and supervision, as well as turnover expenses. Long term contracts exist in many other markets, and this feature of the labour market does not make it unique, but it does mean that simple-minded market analysis is often inappropriate. Furthermore, individuals are directly involved in the labour market. Their work itself may be important to them as well as providing their income. Changes in conditions of employment can have a direct effect on their happiness, and their ability to respond to changes in the market may be constrained by things like their spouse's obligations or by their financial or emotional attachment to a particular location. Changes in the labour market which are desirable for economic objectives may be unwanted because of their social consequences, although even then it is useful to know what income is being sacrificed in favour of some social gain. Again, the labour market is not unique in this respect - happiness may be directly affected by changes in some product market that make an item of consumption unavailable or merely more expensive - but the depth of the relationship with individual lives is unusually great in the labour market.

² See *The Regulated Economy: Report No. 5 of the Economic Monitoring Group* (Wellington: NZ Planning Council, September, 1985).

Furthermore, many employees have combined into trade unions to increase their bargaining power against employers, and those trade unions are sometimes important actors in wider social and political concerns.

Even when these complexities are recognised, several different kinds of flexibility may be seen as important. Some refer to variability in the price paid for labour of a particular kind, where the price refers to any form of remuneration and not to wages alone. However, variability of this price can be expected to induce movements of people. This variability in the quantity or supply of labour may be the purpose and result of price variability. Variability in the supply of particular kinds of labour may also be induced more directly. For clarity of discussion, it is desirable to set out a little more fully the various ideas of flexibility which are sometimes confused. The intention here is merely to state the distinct meanings and to introduce the issues they raise. The Economic Monitoring Group's views on the New Zealand labour market are developed later.

1. Relativities among occupations

One aspect of price flexibility in the labour market is the notion that the relative rewards of different occupations should be more readily variable. For jobs for which there is a relatively buoyant demand in response to the growth prospects of the industries which offer them, higher rewards could be offered. People would be induced to change their jobs, and new entrants to the labour markets would be induced to choose jobs in a way which is compatible with maximum growth in the economy. However, it is not easy to measure either the extent of such price flexibility, or to assess its significance relative to other influences on choice of occupations, such as the terms on which training or retraining for various occupations is available. The extent of popular feelings about relative income levels ensures that non-economic considerations will always be important.

2. Relativities of occupations among industries

A second kind of price flexibility refers to variability in the remuneration of one occupation according to the particular industry in which it is employed. Such an idea underlies suggestions that wages and other incomes should be determined by an industry's ability to pay, so that some occupations such as, for example, electricians, should be paid more in industries which are experiencing growth than in those which are stagnating or declining. The price mechanism would be acting as a signal for workers to leave declining sectors and to adapt to the requirements of expanding ones.

The allocation of labour would thereby be improved, while the greater ability of expanding industries to reward workers appropriately without imposing unjustified costs on other industries would facilitate the process of economic adjustment and perhaps help reduce unemployment. However, if people responded to such incentives, declining industries would still have to contract, and over time one would expect the same reward to rule for the same labour services in whatever industry they were used. Therefore, measurement of the extent of price flexibility of this kind is not easy. Nor is it obvious how long we should desire the transitional period to be. We do not expect the cost of materials, finance, or other industrial inputs to vary according to the profitability of different users although they may vary for other reasons. The cost of some materials, for example, depends on geographical location and firms sited less advantageously have to find some compensating advantages in order to compete.

3. Relativities among regions

Yet another aspect of price flexibility in the labour market is the variability of occupational rates of pay between different geographic locations. Theoretically, pay differentials might eliminate any mismatching of the demand and supply for labour between regions. But people choose to live in different places for varying reasons, and even the economic reasons include more than income levels; the costs of many activities also vary with location. However, the recent changes in border protection levels mean that it is more difficult to maintain some old-established practices of uniform prices for products throughout the country and there may be a case for ensuring that income levels are more variable too.

4. Other aspects

Although most attention is usually paid to variability in wage rates, flexibility may also refer to something other than price levels or the ability and willingness of people to move from one job to another. The rapid introduction of new technology, and the opening of many of our economic activities to more competition from overseas have provided opportunities and incentives for changes in production methods and organisation, working time and working conditions. Social changes have promoted trends such as job-sharing and flexible working hours. It is not clear that the growth of part-time work which has occurred in recent years has all been desired rather than reluctant acquiescence in a shortage of full-time employment, but there is a case for ensuring that changes which suit both employers and employees should not be frustrated. One must expect conflict over the relative value of security of employment and adaptation to new products and work methods, but we should ensure that the institutions of the labour market are as well adapted as possible to reconciling the different interests within society. The labour market is characterised by continuing flux. Even in situations where medium term wage relativities appear appropriate we expect to see continuing movement as individual workers respond to the current set of price signals by moving between jobs and regions. Others will seek to enhance their income potential through further education and training or simply by taking a chance in new work situations. The ease with which such individual changes are accomplished is conditioned by the efficiency with which education, training and industrial relation systems play their role in the labour market.

THE AGENDA

The place of the labour market in our evolving social and economic policies is a very big topic. Our intention in this report is to focus on some parts of it, with an emphasis on economic considerations which, however, necessarily involve broader social and political implications. Chapter 2 reports what we have been able to discern about the flexibility of the New Zealand labour market in an international perspective. Chapter 3 then takes up some particular features and trends in the New Zealand labour market. In Chapter 4, we turn to the institutional arrangements in the labour market which bear on broader economic aspects. All developed western countries employ some institutional arrangement for wage determination and our question is whether the unique structure which has evolved in New Zealand is still an appropriate one. Chapter 5 presents our recommendations for the formulation of policy.

HOW FLEXIBLE IS THE LABOUR MARKET?

The claim is made frequently that the labour market in New Zealand is inflexible and that urgent action is needed to reduce its rigidities. Evidence in support of this claim is available in casual observation of wage disputes and demands for preservation of traditional relativities. Objective assessment is harder to find. This chapter explores some possible measurements.

The OECD has recently devoted more attention to the operation of labour markets, principally in the search for ways of reducing unemployment. Its most recent economic survey of New Zealand,³ following discussion of recent changes in economic policy, comments that "the area where there has been least reform and what may give the most problems ... is the labour market ... the continued presence of rigidities in the labour market will make economic management more difficult". These statements reflect the harsher judgment by the Treasury⁴ that "the wage fixing system that existed before the freeze is inherently rigid".

The emphasis in both these assessments is on relative wage flexibility - that is flexibility in wages paid by sector, industry and occupation. Flexibility in aggregate or national real wage costs is a different, and important issue, but not the one to be dealt with here. Indeed, the OECD report on New Zealand noted that there had been "some significant aggregate real wage flexibility since 1982 ..." and turned its attention to the need for relative wages to be more responsive.

Measures of relative wage flexibility between industries (but not between occupations) were examined in a subsequent OECD report on labour markets.⁵ New Zealand was not included among the countries covered in the OECD analysis but this chapter reports on the duplication for New Zealand of some of the measures applied.

The benefits of relative wage flexibility are seen to lie in the ability of industries and occupations where demand is expanding to offer higher wages than those where demand is declining thus signalling to workers that they can improve their economic position by moving. The economy as a whole, as well as the workers concerned, will benefit by this shift of resources to the growth points of the economy.

It is important to remember that the desired structural changes in the economy may reflect both price and quantity adjustments.⁶ In other words, wages may adjust rapidly and smoothly to clear the labour market, or adjustment may occur mainly through firms laying off and hiring workers at relatively fixed wages. Wage changes alone are unlikely to persist for long in a properly flexible labour market if workers are able and willing to shift in response to the price signals. If an expanding industry offers higher wages and is succeeding in attracting the workers it wants, declining industries

3 *New Zealand, OECD Economic Surveys, OECD July 1985*

4 *Economic Management, The Treasury, 14 July 1984*

5 *OECD Employment Outlook, OECD, September 1985*

6 Readers are referred to more extensive analysis of these adjustments in Rose, W.D. "The Pursuit of Full Employment," a paper presented to Conference on Labour, Employment and Work, Victoria University, September 1985 and "Inter-sectoral Variations in Real Wage Rates" in *Employment and the Economy, Planning Paper No. 21, NZPC, February 1985.*

will need either to contract or to improve their performance in order to pay wage rates sufficient to retain their workforce. Successful adjustment may then moderate the signals that initiated it. Shifts between industries will generally be more rapid than shifts between occupations: higher wage rates will have limited influence on the rate at which new skills are learned.

In the process of adjustment one would nevertheless expect to observe changes in relative wage rates between industries. The OECD report notes that, a flexible relative wage structure might "exhibit some of the following characteristics: a high and increasing wage dispersion, changes in the ranking of industries according to their relative wages, and a higher (lower) growth rate of relative wages among expanding (contracting) industries". Following sections discuss the OECD's measurements of these characteristics, their application to New Zealand and consideration of the inferences to be drawn.

Data

The choice of measures made by the OECD was influenced by the availability of comparable data for the different member countries. Two data sets were used, both were for the manufacturing sector only, and covering average hourly wages per employee. The first set, from the United States Bureau of Labour Statistics, contains data for 13 to 19 groups of industries in 17 OECD countries from 1975 to 1982, and this provides comparisons between most OECD member countries for relatively broad categories of manufacturing activity. The second was information from five countries (Canada, Japan, Sweden, the United Kingdom and the United States) for a much more detailed breakdown of industries over longer and different time periods. The data used for the New Zealand comparisons is drawn from the Department of Labour's Quarterly Employment Surveys 1971 to 1985 for comparable categories of manufacturing industries.⁷

⁷ For 1971-79 the full coverage April surveys are used; from 1980, when the collection procedure was changed, the February surveys are used.

The data set is *average ordinary hourly wages* and numbers employed full-time. That is, an average of the hourly wage rate (excluding over-time) for *all* occupations within each industry. Therefore, it should be remembered that changes in this average rate may simply reflect changes in the *occupational composition* of an industry.

The wage rate data is divided into two sets. The first comprises 12 manufacturing industries at the 2/3 digit level of the New Zealand Standard Industrial Classification. They are:

3111-3114	Seasonal Food Processing
3115-3140	Other Food, Beverages and Tobacco
32	Textile, Clothing and Leather
33	Wood and Wood Products
34	Paper & Paper Products, Printing and Publishing
35	Chemicals, Petroleum, Rubber, Plastics
36	Non-metallic Mineral Products
37-381	Metal Products and Engineering
382	Machinery except Electrical
383	Electrical Machinery and Equipment
384	Transport Equipment

As usual, particularly with cross-country comparisons, the limitations of the data need to be remembered. In New Zealand, for example, the data for four of the original 81 industry categories is not published because there are so few firms in these categories that publication would breach the Department's confidentiality requirements. What similar modifications are made in other countries is not known. Not too much reliance should be placed therefore on the fine detail of the results but they should provide reasonable indicators for the broad comparative purposes of this study.

In addition, it is important to remember that the data is limited to differences between industries. It gives no direct information about variations between occupations.

Wage dispersion

The first OECD measure is of the magnitude of wage dispersion, that is the extent to which average hourly earnings vary between industries.⁸ The theory behind this is that as structural changes in the economy affect different industries, the payments they make for units of labour should vary. A more flexible labour market would be expected to show greater variation.

The eighteen graphs in Infogram 1 show the results for each country covered by the OECD study and for New Zealand. To make comparison easier, since the OECD graphs use different scales, the New Zealand result has been superimposed as a dotted line on each of the others.

7 continued

385-39 Manufacturing N.E.C.

This set is used as the comparison for the OECD's first data set of 13-19 two-digit manufacturing industries for 17 countries.

The second set is the full breakdown of manufacturing industries to the 4-digit level. This data set contains 81 industries, however to satisfy its confidentiality requirements the Department did not publish (*in some years*) data for four industries.

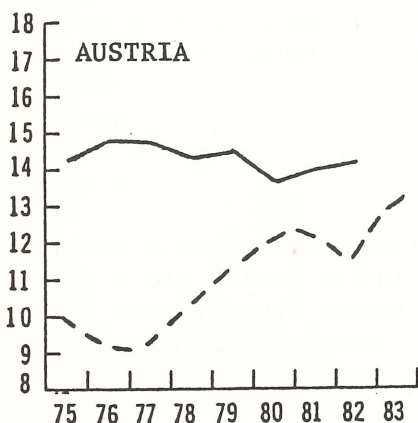
3118	Sugar Factories and Refineries	not published	1971-82
3530	Petroleum Refineries	" "	1971-80, 82
3844	Motor Cycles and Bicycles	" "	1976-80
3853	Watches and Clocks	" "	1979, 80, 82, 83

To provide a consistent time series these were removed. However doing this will have "tempered" the results as in the years the figures were available they included both the highest paying (petroleum refineries) and sometimes lowest paying (watches and clocks) industries.

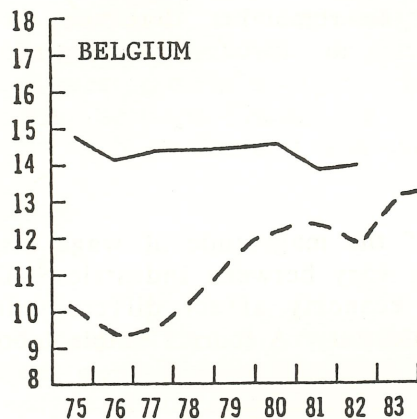
⁸ The statistical measure used is the coefficient of variation. That is for each year the standard deviation of wages divided by the mean wage, expressed as a percentage.

Infogram 1
Coefficient of Variation of Industry Wage Levels

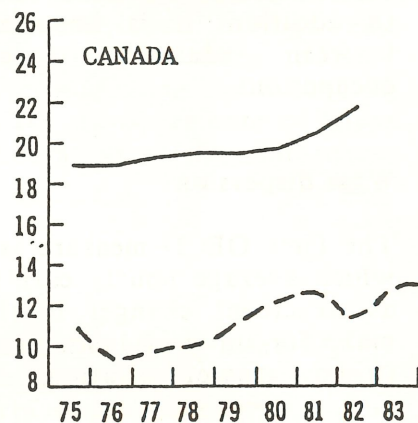
Coefficient of variation



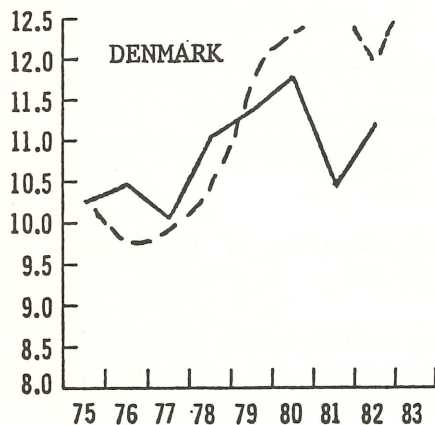
Coefficient of variation



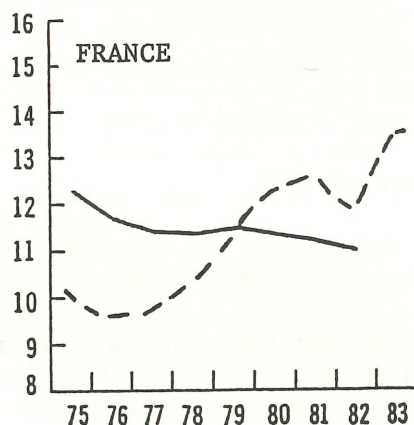
Coefficient of variation



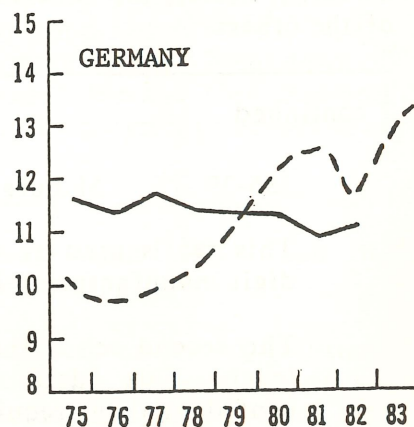
Coefficient of variation



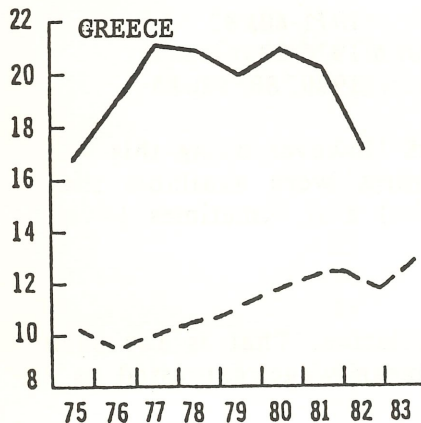
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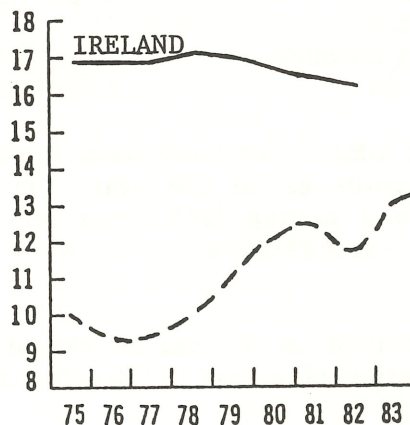
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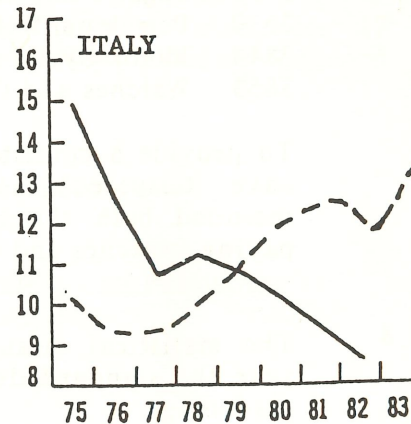
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Coefficient of variation



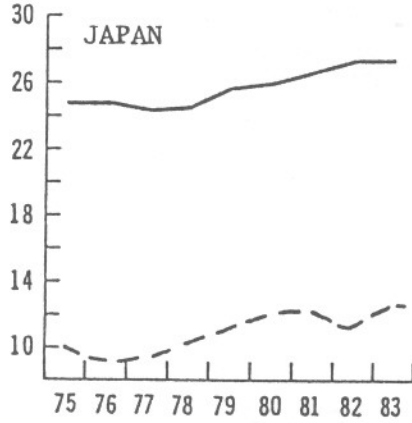
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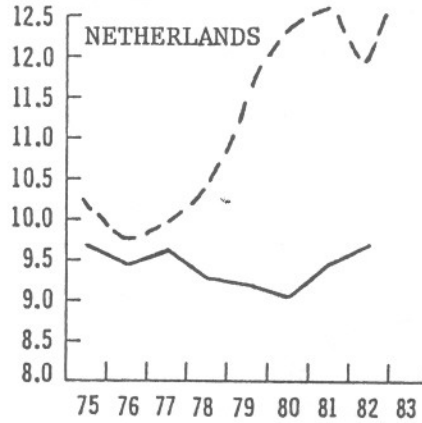
Source: for non-New Zealand data
 OECD Employment Outlook, OECD, September 1985
 page 88, chart 15

Infogram 1 (Continued)

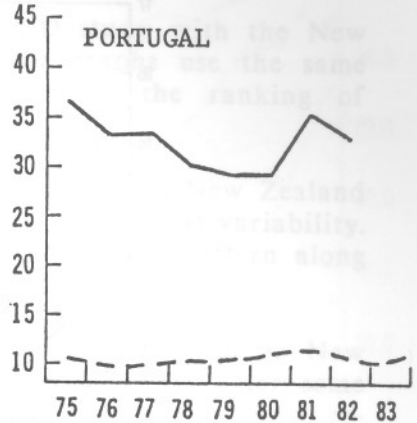
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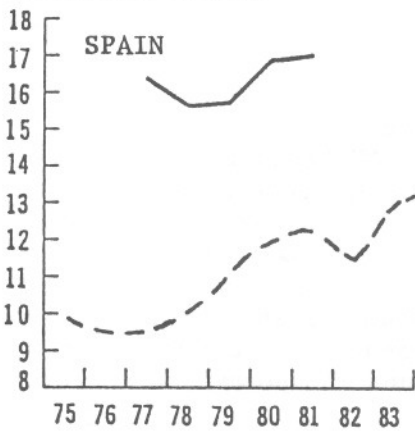
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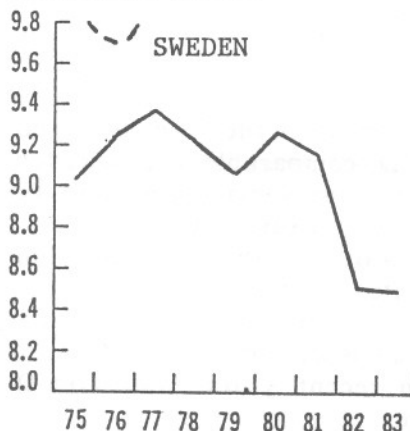
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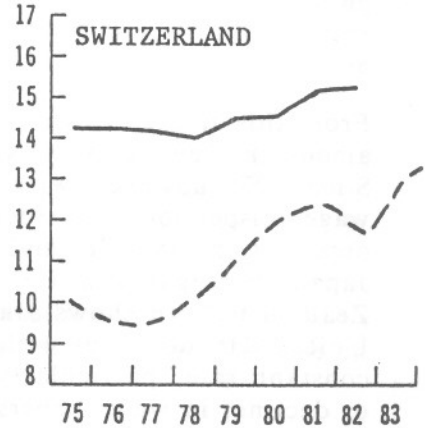
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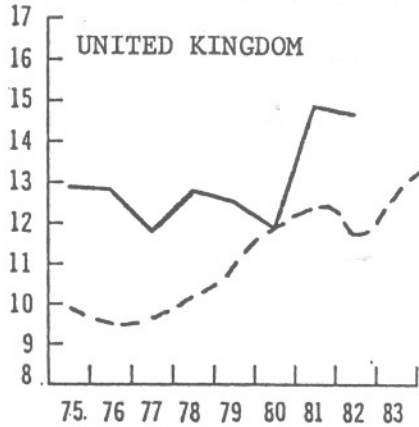
Coefficient of variation



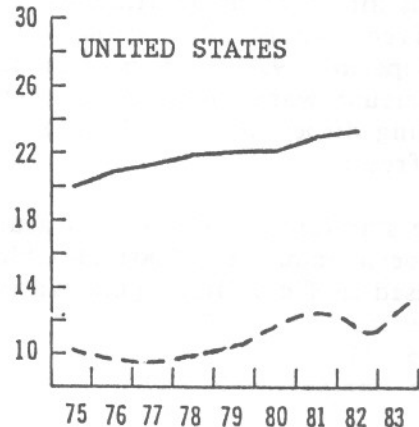
Coefficient of variation



Coefficient of variation



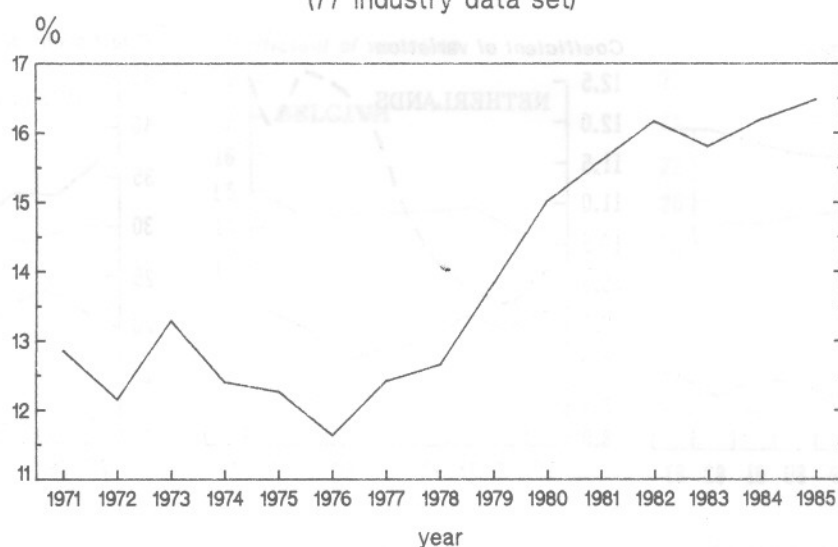
Coefficient of variation



Infogram 2

Coefficient of Variation of Industry Wage Levels

(77 industry data set)



From this it can be seen that in 1975 the level of wage dispersion in New Zealand was among the lowest in the OECD, comparable with Sweden, the Netherlands and Denmark. Since 1976 however, with one sharp variation around 1982 (at the time of wage freeze), wage dispersion has increased steadily. By the end of the period the dispersion observed in New Zealand is above or about the level of most OECD countries. Canada, Japan, Portugal and the United States show significantly wider dispersion. The New Zealand pattern shows some similarity to that observed in Denmark, Switzerland and the United Kingdom, but with the dispersion in New Zealand widening at a greater and more constant rate, particularly in recent years. Most OECD countries showed little change or declines in wage dispersion.

Infogram 2 shows the New Zealand case using the finer detail of the 77 industry data set, and confirms the pattern already observed. It is worth noting that government policies aimed at moderating national real wage increases do appear to have significant side-effects on the dispersion of industry wage rates. The narrowing of the dispersion in the period 1973 to 1976 coincides with the incomes policy in that period of awarding flat amount wage increases. The ending of that policy is followed by another period of widening dispersion in 1977 and 1981 and the dip around 1982 again coincides with the wage freeze.

By the standards of this one measure, the labour market in New Zealand would appear to have been among the least flexible by OECD standards in the early 1970s but to have increased its flexibility significantly in the last decade.

Industry rankings

As wage payments by industries vary, changes would be expected in the rank order of higher and lower paying industries. Again, the more flexible the labour market, the more changes would be expected in the rankings. The OECD measure compares the rank order of industries from highest to lowest according to the average wage paid in each year, with the rank order in the base year.⁹

Infogram 3 shows the results for the 17 countries of the OECD study with the New Zealand result again superimposed as a dotted line. (All these graphs use the same scale.) The flatter the line, the less change there has been in the ranking of industries.

It is clear that there has been more change in industry wage rankings in New Zealand than in most OECD countries. Most European countries show some significant variability. By contrast, Austria, Germany and the Netherlands exhibit a very stable pattern along with the United States, Canada and Japan.

In a number of countries, including Spain, Sweden and Switzerland as well as New Zealand, the ranking of industries returns towards that of the base year after some years of change. It is not clear whether traditional relativities were being re-established or whether adjustment to a new economic situation required reversal of trends in relative wage levels.

In New Zealand, the variability is due almost entirely to movements in middle ranking industries. Over the time period examined there was little change among the highest (seasonal food processing, paper & products, and printing & publishing) or among the lowest ranked industries (textiles, clothing and leather).

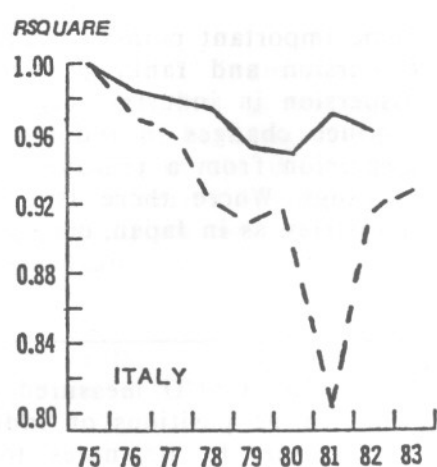
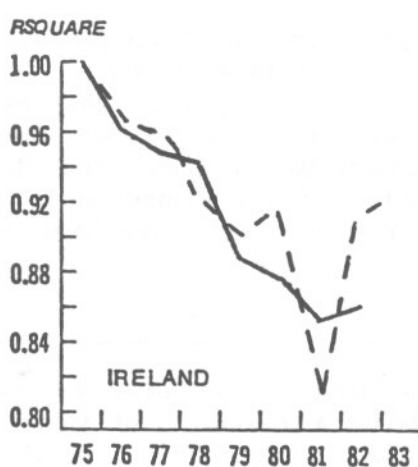
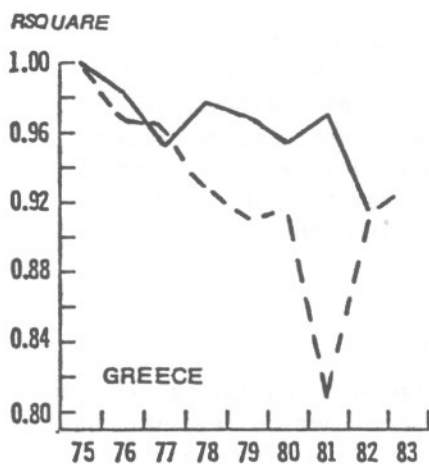
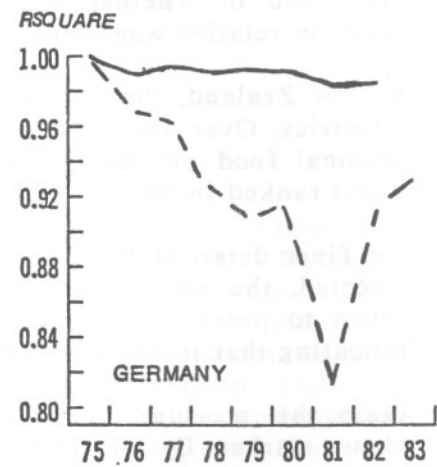
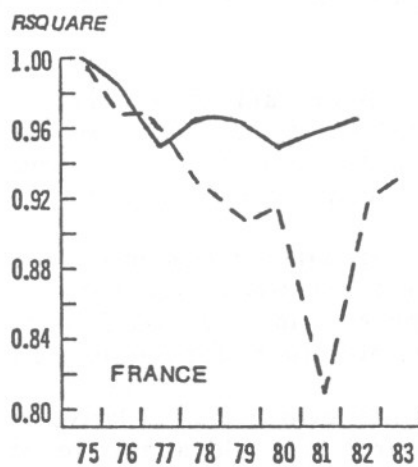
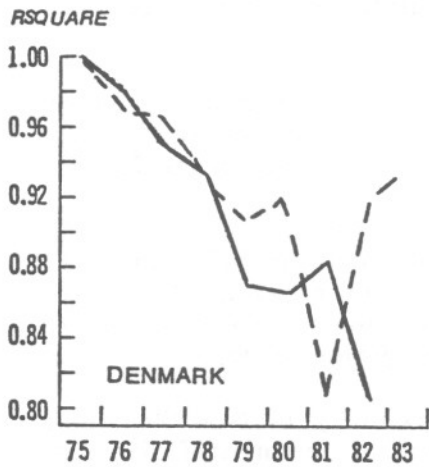
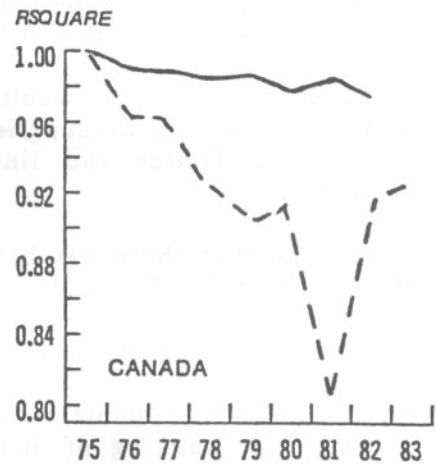
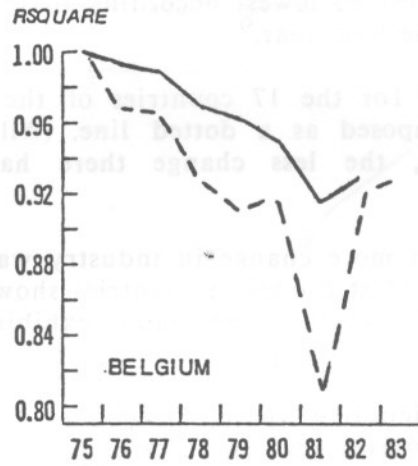
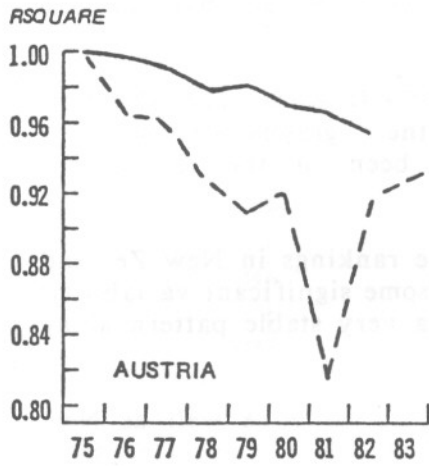
The finer detail of the 77 industry data set produces the graph shown in Infogram 4. As expected, the more disaggregated data shows up more changes in rankings. The sharp return to previous rankings apparent in Infogram 3 does not show up so dramatically indicating that it may have been due almost entirely to the aggregation of data.

Again this measure provides little evidence of relative inflexibility in New Zealand's labour market. By OECD standards it would appear to be one of the most flexible in terms of changes in industry wage rankings.

Some important points of interpretation should however be noted. The two measures, of dispersion and rankings, can interact to some degree. In a country with a narrow dispersion in industry wage rates, relatively small changes in rates are more likely to produce changes in industry rank order. In the New Zealand case, the widening of dispersion from a relatively narrow base is particularly likely to result in changes in rankings. Where there is already a wider dispersion in the rates paid by different industries, as in Japan, changes in wage rates are less likely to change the rankings.

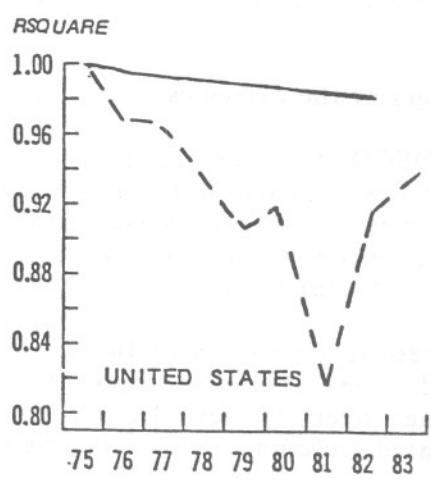
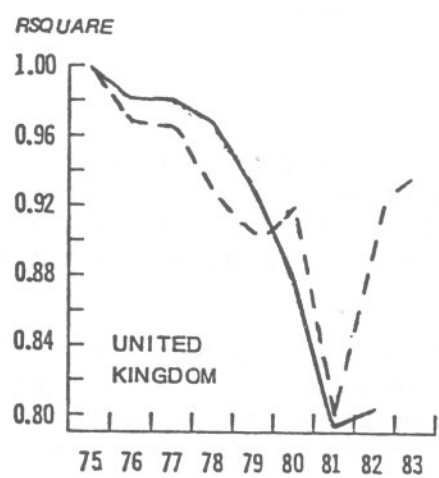
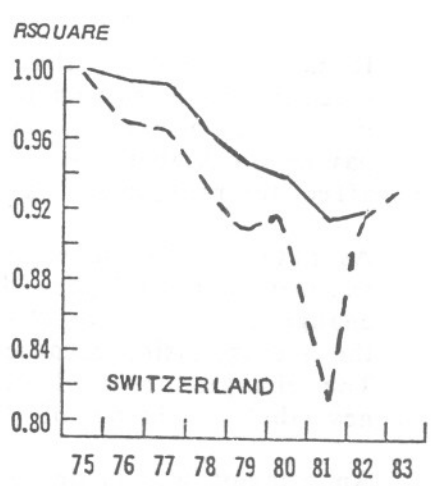
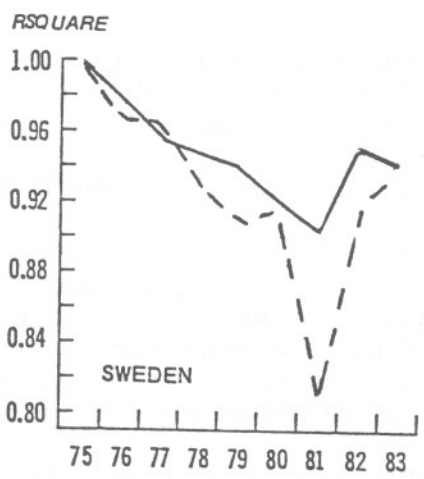
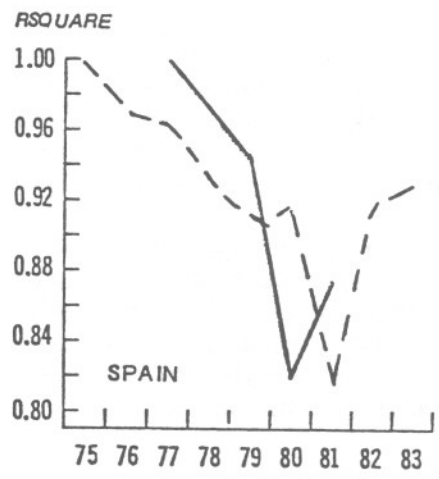
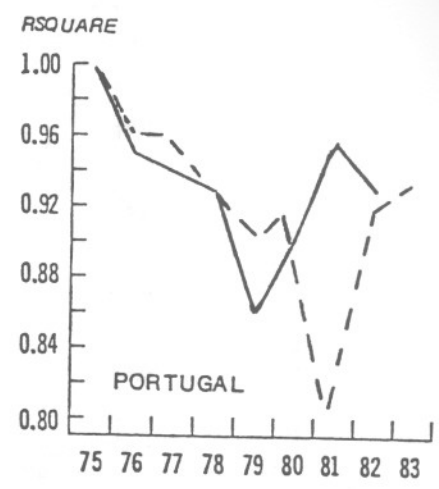
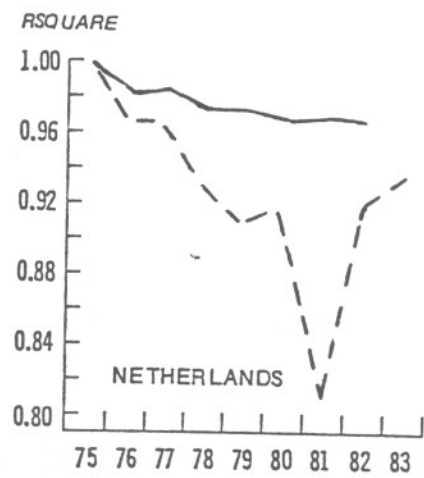
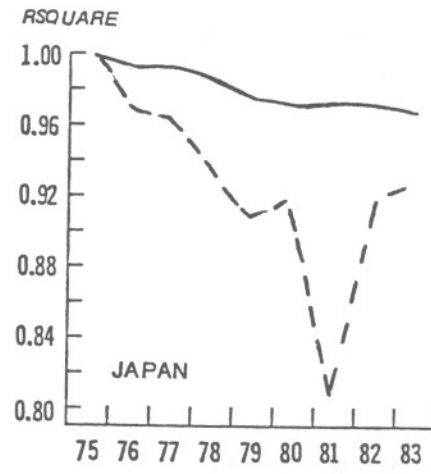
⁹ The OECD measured the stability of industry rankings by correlating relative wage positions of industries among pairs of years, one of which was the base year. In its notes to the chapter they state that "a rank-order correlation procedure could have been utilised for this purpose as well. These two approaches should, however, give very similar results". The New Zealand results are Pearson product-moment correlations.

Infogram 3
Stability of Industry Wage Structures



Source: for non-New Zealand data
 ibid page 86, chart 14

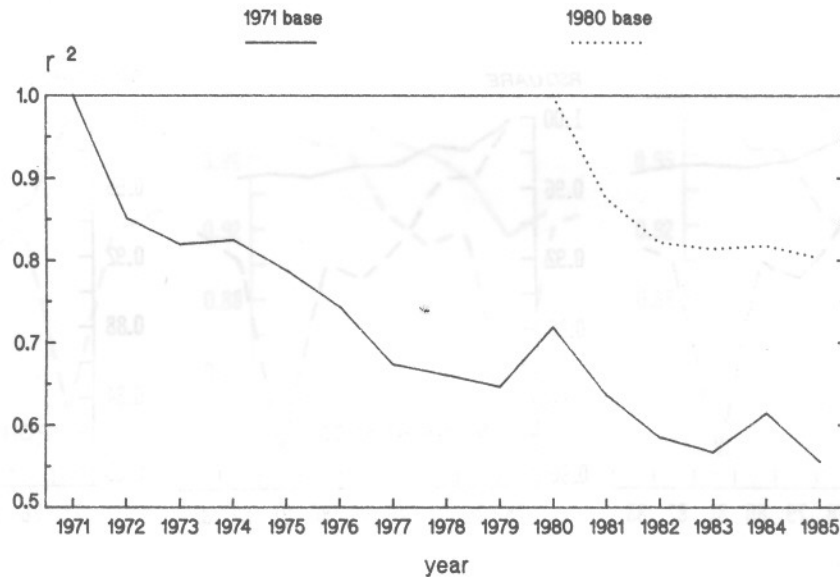
Infogram 3 (Continued)



Infogram 4

Stability of Industry Wage Structures

(77 industry data set)



It may be however that changes in rankings, as seen in New Zealand, provide more effective price signals to labour than the wider dispersion seen in Japan. If the aim is a labour market in which relative wages will encourage workers to move from lower paying to higher paying industries, wage rate changes, however large, that do not affect the ranking of industries may not be sufficient to induce workers to move.

As noted earlier however, the changes revealed by the data - average hourly wage payments per employee - do not reflect only price changes. Average hourly payments may change as a result of changes in the mix of occupations employed in an industry with the average rising because of increased employment of more highly paid skilled workers. The changes observed in these measures are not simply price signals but they are nevertheless evidence of change, flexibility and adjustment in the labour market.

An attempt was made in the course of this study to disaggregate price and quantity changes in the New Zealand data by using the prevailing weekly wage rate index. The results achieved were not strong but are set out in Appendix I.

Changes at the extremes

The OECD study also used its more extensive, five country, data set to examine changes at the low and high ends of the industry wage range. From the ranking of manufacturing industries by average wages paid, the OECD study selected industries in the top and bottom deciles (or 10% of the range) and compared their movements with the average for all manufacturing industries.

The results are shown in Infogram 5 to which analogous data for New Zealand has been added. The table also shows the proportion of industries whose relative wage rates declined over the period (columns 2 to 4) and the proportion whose relative wage rates increased (columns 5 to 7). The New Zealand figures should be treated with some

Infogram 5

Summary Statistics on Changes in Relative Wages by Industry

Country and time period	Inter-decile range of relative wages as a percent of the average manufacture wage (1)	Proportion of Industries with a decline in relative wages			Proportion of Industries with an Increase in relative wages			
		All Industries (2)	Lower decile at start (3)	Upper decile at start (4)	All Industries (5)	Lower decile at start (6)	Upper decile at start (7)	
Canada	1961 1980	58.6-132.1 61.0-129.0	59.5	25.0	66.7	40.5	75.0	33.3
Japan	1970 1979	43.5-166.0 46.3-163.2	47.1	28.0	64.0	52.9	72.0	36.0
Sweden All workers	1964 1983	67.9-120.3 72.5-120.0	56.9	5.9	64.7	43.1	94.1	35.3
United Kingdom All workers	1970 1979	62.6-132.3 63.1-135.7	49.6	53.8	56.2	50.4	46.2	53.8
United States	1958 1980	59.9-129.1 52.3-142.0	65.0	70.4	36.4	35.0	29.6	63.3
New Zealand	1971 1985	84.1-115.7 83.5-119.7	50.7	0.0	14.3	49.3	100.0	85.7

Source: For Non-New Zealand data OECD Employment Outlook, OECD, September 1985, page 91, Table 34

caution: the total number of industry categories is 77 and only 7 appear in each of the lower and upper deciles.

In New Zealand the lowest decile of industries paid wages in 1971 equal to 84.1% of the average wage while the upper decile paid 115.7%. By 1985 these had changed to 83.5% and 119.7%. This range is much narrower than in the other five countries, notably by contrast with Japan where wages in the lowest decile are only 46.3% of the average and in the highest 163.2%.

But the range has widened in New Zealand, at both ends of the scale. The United States and the United Kingdom also show some widening of the range, compared with Sweden, Japan and Canada where the range has narrowed.

Over the period all the New Zealand industries which were in the lowest decile at the beginning of the period experienced a gain in relative wage rates (admittedly marginal in some cases). This compares with 94% in Sweden, 75% in Canada and only 30% in the United States. Those industries in the highest paying group in 1971 (including for example, pulp & paper, slaughtering, preparing & preserving meat, tyre & tube industries) all experienced larger increases relative to the average by 1985 than those at the bottom end of the range (e.g. in the wearing apparel, textiles and leather industries).

Of the 38 New Zealand industries that improved their relative position between 1971 and 1985, 20 were already above the average wage. Of the remaining 18, 8 improved to a position above the average by 1985. Of the 39 industries whose position declined compared with the average, 20 were already below average.

To summarise, this confirms the earlier picture of wage dispersion in New Zealand: a narrower range of industry wage payments than the other five countries but one which is widening and showing evidence of changes. The measurement says nothing about whether the changes are in an appropriate direction nor about the extent to which they are related to changing patterns of employment.

Employment and wages

Changes in the labour market may, as noted at the beginning of this chapter, occur either through wages as the prices which clear the labour market or through movement of people between industries and occupations with relatively little change in wages. Price and quantity changes are intimately linked. The OECD study sought to examine these linkages by using its detailed five country data to measure the relationship between:

- 1) changes in wages and changes in employment,
- 2) base period levels of wages and changes in employment, and
- 3) base period levels of wages and changes in wages.

Infogram 6 shows the OECD results with the results of similar tests on New Zealand data. Generally, larger positive (or negative) numbers indicate a stronger positive (or negative) relationship between changes in the two variables. The table shows results for the whole period covered by the data and for sub-periods chosen to correspond approximately to cyclical turning points in each economy. In its analysis the OECD used simple percentage changes for each period, a procedure which takes no account of variations in intermediate years. Employment figures in particular can show large variations, so for New Zealand, a final row is added in Infogram 6 showing relationships based on mean annual percentage changes. It should be remembered that the

Infogram 6

Bivariate correlation coefficients relating changes in nominal wages, changes in employment, and the original level of earnings for selected time periods

Bivariate correlation coefficients for:			
Country and time periods	Changes in wages and in employment	Original level of wages and changes in: Employment	Wages
Canada			
1961-1980	.22*	.11	-.39**
1961-1966	.30**	.07	-.38**
1966-1973	.15	.04	-.05
1973-1979	-.18*	.27	-.21**
Japan			
1970-1979	.24**	-.06	-.31**
1970-1973	.25**	.01	-.28**
1973-1979	.12**	.02	-.19**
Sweden			
Wage earners			
1964-1983	.12	.19*	-.47**
1964-1973	-.14	.16*	-.47**
1973-1979	-.17*	.27**	-.46**
1979-1983	-.22**	.18*	-.06
Salaried employees			
1964-1983	.05	.11	-.66**
1964-1973	.05	.13	-.60**
1973-1979	.03	.28**	-.57**
1979-1983	.24**	.02	-.18*
United Kingdom			
Operatives			
1979-1979	.08	.08	-.21
1970-1973	.17	-.15	-.04
1973-1979	-.01	.18*	-.26**
Non-operatives			
1970-1979	.16	-.02	.02
1970-1973	.02	-.15	-.21**
1973-1979	.09	.07	-.02
United States			
Production Workers			
1958-1980	-.10*	.05	.16**
1958-1966	-.05	.08	.10*
1966-1973	-.05	-.09	.02
1973-1979	-.02	.07	.26**

Non-production			
1958-1980	-0.21**	.53**	-0.31**
1958-1966	-0.29**	.59**	-0.44**
1966-1973	-0.31**	.16**	-0.44**
1973-1979	-0.22**	.28**	-0.34**

New Zealand			
1971-1985 (1)	.05	.06	.002
1971-1979 (1)	.18	.06	-.17
1971-1976 (1)	.08	.09	-.41**
1971-1985 (2)	.15	.07	.20

- * indicates coefficient significant at the 95% confidence limit
 ** indicates coefficient significant at the 99% confidence limit
 (1) using simple percentage increases
 (2) using mean per annum percentage increases

Source: For Non-New Zealand data
 ibid page 93 table 35

New Zealand figures are based on average wages paid in industries as measured by the Quarterly Employment Survey.

While the OECD report finds several points worthy of comment, it notes that "the results defy any simple generalisation". All but one of the correlations for New Zealand are small and statistically insignificant.

A clearer pattern of relationships might be expected from examining the extremes, i.e. that industries with the fastest rates of growth in employment would show significantly larger wage increases than those where employment was declining, and that industries with the most rapid growth in wages would show substantially faster growth in employment than those where wages were growing more slowly.

This more detailed examination for New Zealand is set out in Infograms 7 and 8 using mean annual percentage changes. Infogram 7 shows wage growth in the seven industries in the highest and lowest deciles of employment growth. Infogram 8 shows employment growth in the industries in the highest and lowest deciles of wage growth.

At these extremes, the pattern of relationships is certainly clearer. Overall employment has grown in the higher wage growth category and fallen in the lower. Wages have risen faster in the employment growth industries than in the declining industries. The OECD found this clearer pattern in Canada, Japan and the United Kingdom but not in the United States and Sweden.

While the overall pattern is clear in the New Zealand results, there are anomalies. Some industries suffering employment declines still pay relatively high wages, such as those involved in tobacco manufacture, while other industries experiencing employment growth pay relatively low wages, such as those involved in canning and preserving fish. Clearly the influences acting on labour markets are complex and a variety of strategies is available for dealing with the required adjustments.

Where an industry is experiencing a relative decline, wages might decline so that new employees are not attracted while natural attrition provides the needed reduction in the labour force, as might seem to be true in the recent experience of some New Zealand textile industries. On the other hand, an industry might negotiate an agreement with its employees that provides relatively high wages in return for an agreement to facilitate the labour force reduction. Such a process has occurred on the New Zealand waterfront in recent years. An industry which is experiencing buoyant conditions might pay relatively high wages to attract labour, as has been the case with major projects in the construction sector. Alternatively an industry which is able to locate near a pool of available labour might be able to expand while paying relatively low wages. This may have been important for the fish-canning industry. Consequently, one can see forces acting in different directions between relative wages and relative industry growth.

Conclusion

From examination of these various aspects of flexibility, some conclusions can be reached both in the behaviour of labour markets in general and on the comparison between New Zealand and other OECD countries.

In general the results of the tests applied in the OECD study serve as a reminder of the complexity of labour markets. Simple models cannot be expected to explain their

Infogram 7

Highest Decile of Employment Growth

Industry	Mean per annum employment growth	Mean per annum wage growth	Mean numbers employed 1971-85
Canning and preserving fish, crustacea, etc.	9.09	12.10	1308
Synthetic resins, plastic materials and manmade fibres	5.85	12.76	330
Pulp, paper & board	4.62	14.31	5782
Special industrial machinery and equipment, excl. metal and woodwork	4.60	13.08	647
Wine industries	4.48	14.73	649
Fur dressing and dyeing industries	4.43	12.66	551
Canning & preserving fruit and vegetables	4.02	13.01	4067
Average		13.24	
Average weighted by numbers employed		13.55	

Lowest Decile of Employment Growth

Transport equipment	-18.32	11.78	175
Structural clay products	-5.05	12.28	815
Soft drinks & carbonated water	-4.08	13.76	1246
Spinning, weaving & finishing textiles	-3.84	12.98	5209
Knitting mills	-3.59	12.83	4766
Tobacco manufacture	-2.90	13.31	1059
Distilling, rectifying & blending spirits	-2.88	13.43	180
Average		12.90	
Average weighted by numbers employed		12.97	

Infogram 8

Highest Decile of Wage Growth

Industry	Mean per annum wage growth	Mean per annum employment growth	Mean numbers employed 1971-85
Wine industries	14.73	4.48	649
Pottery, china	14.44	2.16	959
Pulp, paper & paper board N.E.C.	14.30	4.62	5782
Slaughtering, preparing and preserving meat	14.15	1.06	36218
Office, computing and accounting machinery	14.07	-1.69	489
Aircraft	14.07	0.19	3096
Radio, TV and communication equipment and apparatus	13.98	0.53	4830
Average		1.62	
Average weighted by numbers employed		1.39	

Lowest Decile of Wage Growth

Transport equipment	11.78	-18.32	175
Shipbuilding and repairing	11.93	-1.90	3165
Musical instruments	12.07	-1.24	59
Canning and preserving fish, crustacea, etc.	12.10	9.09	1308
Wooden and cane containers and cane ware	12.13	-1.20	319
Wood and cork products N.E.C.	12.15	3.56	726
Structural clay products	12.22	-5.05	816
Average		-2.02	
Average weighted by numbers employed		0.11	

behaviour satisfactorily and there are many ways in which labour markets can adjust to changed circumstances. As the preceding section noted, a declining industry may find ways of reducing its workforce by either lowering or raising its wage rates. Discussion in earlier sections brought out the point that industries may change their total wage payments either by changing the rate paid for labour or by changing the mix of labour skills for which it pays. Adjustment may of course also be achieved in ways not addressed in this chapter - by changing the technology used and the disposition, organisation and training of its workforce. Prices certainly have an important but by no means an exclusive role to play in labour market flexibility.

Secondly, the wage flexibility measurements used in the OECD study provide no clear evidence for arguing that the New Zealand labour market is particularly rigid by comparison with those of other developed economies. Several limitations on this conclusion are clear. Comparisons with other OECD countries cannot show what degree of flexibility is necessary or desirable for New Zealand, in its present circumstances. Wage flexibility in the New Zealand labour market has been increasing but is still based on a relatively narrow range of industry wage payments. Is the broadening of that range, with its social implications, necessary, or can price signals play their role effectively within that range? Does the evidence of increasing flexibility provide a sufficient base for further development or is a more radical shift required? The comparative OECD tests do not answer these questions but by themselves they provide little support for the judgment that rapid and radical reforms are required.

Chapter 3

SOME RECENT DEVELOPMENTS IN THE NEW ZEALAND LABOUR MARKET

Research and writing about the labour market quickly leads into all the economic and social issues which have attracted the attention of policy-makers and commentators in recent years. While it is important to remember the central position of the labour market, this chapter focuses on some particular issues which are especially important for economic analysis. These are the manner and extent to which the New Zealand labour market is interconnected with that of Australia, recent trends in occupational 'flexibility', and the development of secondary bargaining.

A TRANS-TASMAN LABOUR MARKET?

International migration ensures that there are always some links between the labour markets of different countries. Because of geographical proximity, and because relatively few problems of assimilation are incurred in movements between New Zealand and Australia, the trans-Tasman link is especially strong. In some occupations or industries, the impact of immigration has long been sufficiently strong for people to think of a single market encompassing both countries, shearing being the longest-established example. In recent years, the volume of trans-Tasman migration has been large, and there have been several suggestions that integration of the Australian and New Zealand labour markets has become a general phenomenon rather than a feature of some particular industries or occupations. This is sometimes qualified so as to suggest that skilled labour competes in a single market while the markets for unskilled labour remain distinct.

The Economic Monitoring Group commissioned the Agricultural Economics Research Unit at Lincoln College to carry out some research into this question.¹⁰ It has also benefitted from some research commissioned by the NZ Planning Council from the New Zealand Institute of Economic Research.¹¹

Despite the recognised importance of migration to the labour market, the data required for economic analysis is not readily available. In particular, the cross-classifications available in various sources of data are often not readily compatible so that it is difficult to relate occupations to industries. There is clearly a case for more co-ordination between the various government organisations involved in collecting and processing migration, occupational and industrial statistics so that the relevant cross-comparisons are more accessible. The Economic Monitoring Group was glad to learn that this need was already recognised and endorses the efforts which are underway to deal with it. There is a case for more consultation with the analogous organisations in Australia, although it will clearly be difficult to persuade the Australians to alter their classifications to suit New Zealand. The issues involved have been recognised by some private-sector management consultants, and the research conducted for the Economic Monitoring Group was greatly assisted by the co-operation of Hay Associates NZ Ltd and P.A. Management Consultants. Data limitations sometimes required that the analysis be confined to a shorter period than is desirable.

10 The research was directed by Mr R. St. Hill and is published as *Labour Mobility between New Zealand and Australia* (Lincoln:AERU Research Report 179, 1986).

11 The research was conducted by Mr J. Savage and copies are obtainable from the Planning Council.

The data does enable us to conclude that trans-Tasman migration is found across the whole spectrum of occupations. Infograms 9 and 10 relate to emigration to Australia and immigration from Australia in 1979, 1982 and 1985. The occupational categorization used is shown in Infogram 11 and the graphs show migration as a proportion of the total recorded for each occupation in the census of 1981. There are differences among occupations. Those showing relatively high propensities to emigrate include statisticians, mathematicians and systems analysts, sculptors, painters, photographers, composers and performing artists. Those with relatively low propensities to emigrate include government officials, transport and communications supervisors, farm managers, farmers and farm workers, and papermakers. Occupations with a high propensity to immigrate include workers in religion, composers and performing artists, athletes and sportsmen, computing machine operators and cooks and waiters. Occupations with a relatively low propensity to immigrate include transport and communications supervisors, wholesale and trade managers, and papermakers. Earlier studies which used different techniques also suggested that overseas experience is especially important for some occupations such as those of artists. The results reported here confirm those earlier ones but they also suggest that a ranking of occupations by propensity to migrate bears little relationship to one by common intuitive ideas of skill-level; that is, there is no support for the idea that a single trans-Tasman labour market is important only for skilled labour.

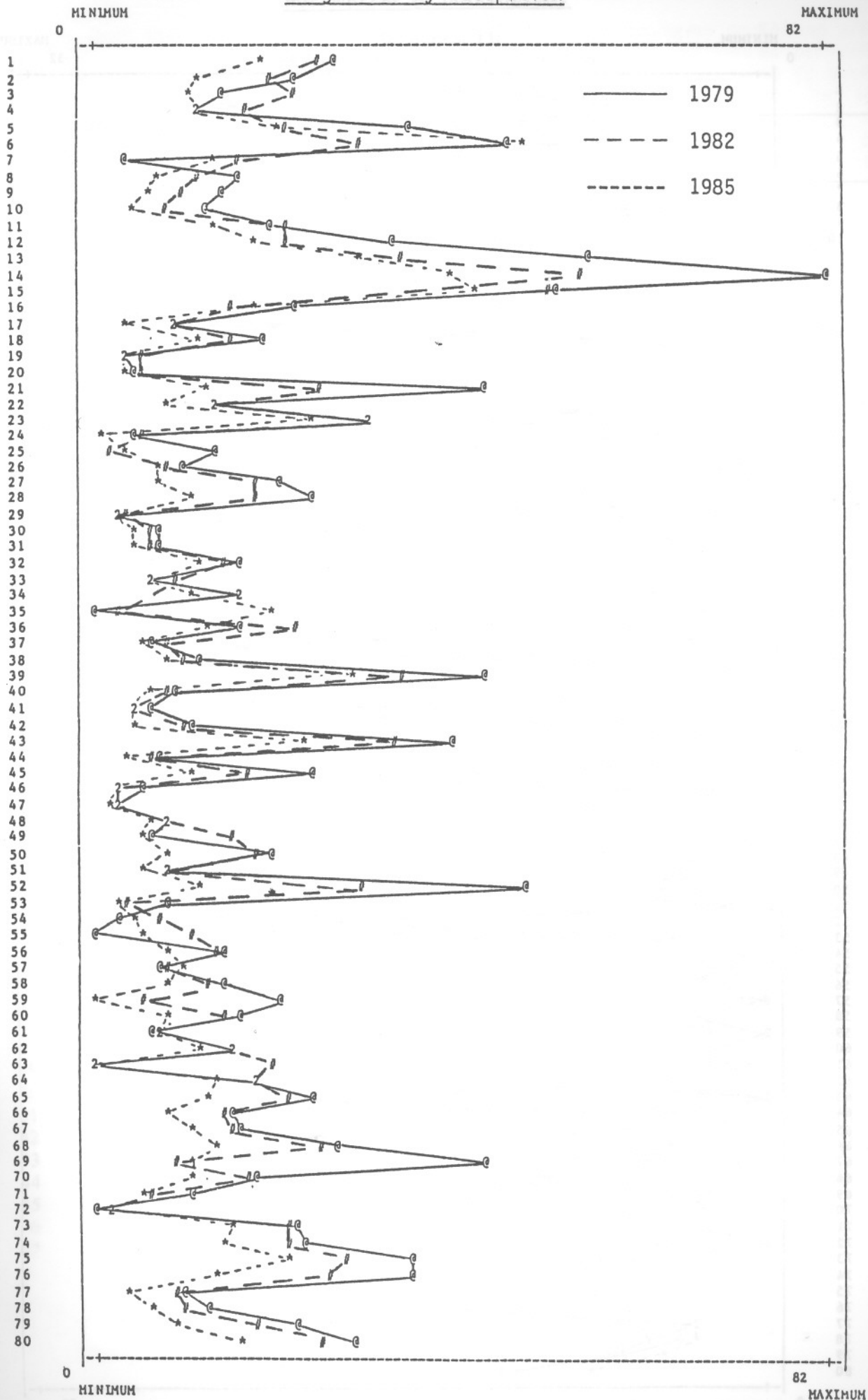
Earlier studies have found that relative incomes in Australia and New Zealand are important in determining trans-Tasman migration flows but that other things such as personal contacts are also important. The research commissioned by the Economic Monitoring Group has similar results, extending them from migration in total to migration of individual occupations. It also found that migration tends to be more closely related to comparisons of New Zealand and Australian basic wages and salaries than to comparisons of total remuneration, although as not all the influences on migration could be specified, this conclusion has to be treated with caution. It is consistent with earlier studies which suggests that people considering migration make only rough comparisons of the standard of living in the two countries. It implies that although the relative size of direct and indirect taxation can affect trans-Tasman comparisons, changes such as the announced switch from income tax to the goods and services tax in October 1986 cannot be expected to have a marked impact on migration trends. (This follows from the conclusion that most potential migrants look more at gross salaries and wages than at post-tax income.)

Trans-Tasman migration involves many more New Zealanders than Australians. This in itself qualifies the idea of an Australasian labour market. Rather south-eastern Australia attracts people from the less metropolitan areas of Australia and from New Zealand, many of whom return to their places of origin either after a brief experience of a somewhat different style of life, or after a longer period of residence. The economic trends of the metropolitan area affect labour markets elsewhere, but not with sufficient strength to constitute a single labour market. This is especially true of New Zealand because it is a separate country, whereas many aspects of the Australian economy are the direct responsibility of the federal government.

Nevertheless, some particular actions in Australia can have an immediate and large impact on the New Zealand labour market. For example, it seems that the manner by which New South Wales chose to implement a change of nurse training programmes from hospitals to educational institutions had the impact of creating a shortage of nurses in New South Wales for three years at least, so creating pressures to recruit nurses from other Australian states and from New Zealand with obvious implications for the supply of nurses in those areas.

Infogram 9

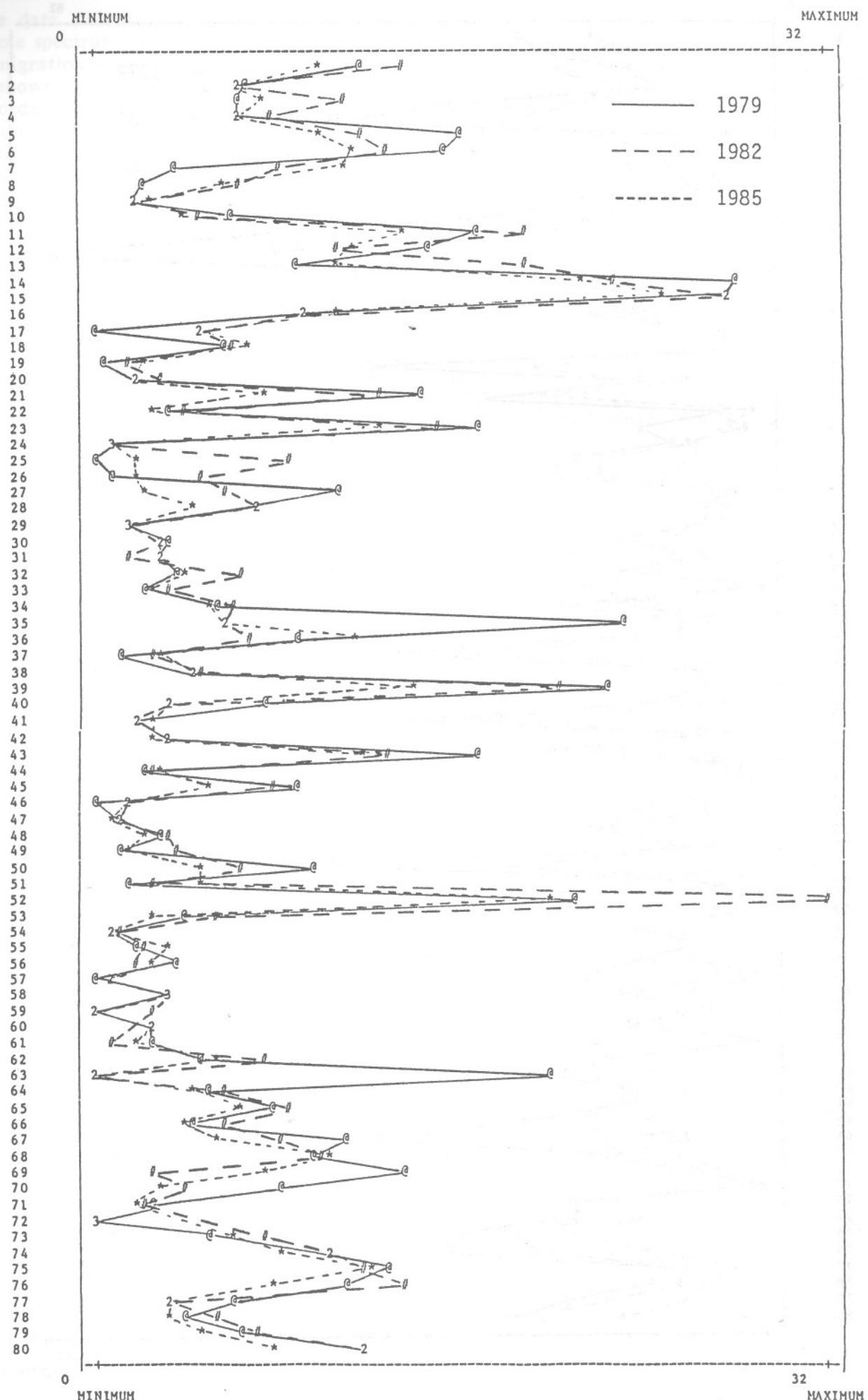
Emigration by Occupation



Infogram 10

Immigration by Occupation

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Infogram 11
Occupation Categories: Migration

Number	NZSCO	Occupation
1	01	Physical scientists
2	02/03	Architects, engineers
3	04	Aircraft and ships officers
4	05	Life scientists
5	06/07	Medical, dental, veterinary
6	08	Statisticians, mathematicians, systems analysts
7	09	Economists
8	11	Accountants
9	12	Jurists
10	13	Teachers
11	14	Workers in religion
12	15	Authors, journalists and related writers
13	16	Sculptors, painters, photographers and related creative artists
14	17	Composers and performing artists
15	18	Athletes, sportsmen/sportswomen
16	19	Professional, technical n.e.c.
17	20	Legislative officials and government administrators
18	21	Managers
19	30	Clerical supervisors
20	31	Government executive officials
21	32	Stenographers, typists, card and tape punching machine operators
22	33	Bookkeepers, cashiers
23	34	Computing machine operators
24	35	Transport and communications supervisors
25	36	Transport conductors
26	37	Mail distribution clerks
27	38	Telephone and telegraph operators
28	39	Clerical n.e.c.
29	40	Managers (wholesale and retail trade)
30	41	Working proprietors (wholesale and retail trade)
31	42	Sales supervisors and buyers
32	43	Technical salespersons, representative and manufacturing agents
33	44	Insurance, real estate, securities, sales persons and autioneers
34	45	Sales persons, shop assistants
35	49	Sales workers n.e.c.
36	50	Managers (catering and lodging services)
37	51	Working proprietors (catering and lodging services)
38	52	Housekeeping and related service supervisors
39	53	Cooks, waiters, waitresses, bartenders, etc.
40	54	Housestaff and housekeeping services n.e.c.
41	55	Building caretakers, char workers
42	56	Launderers, dry cleaners and pressers
43	57	Hairdressers, barbers, beauticians, etc.
44	58	Protective service workers, including armed forces
45	59	Service workers, n.e.c.
46	60	Farm managers and supervisors
47	61	Farmers

48	62	Agriculture and animal husbandry workers
49	63	Forestry workers
50	64	Fishermen, hunters
51	70	Production supervisors and general foremen/women
52	71	Mine-quarrymen, well drillers, etc.
53	72	Metal processors
54	73	Wood preparation workers and paper makers
55	74	Chemical processors
56	75	Spinners, weavers, knitters
57	76	Tanners, fellmongers and pelt dressers
58	77	Food and beverage processors
59	78	Tobacco preparers and tobacco product makers
60	79	Tailors, etc., upholsterers
61	80	Shoemakers and leather goods makers
62	81	Cabinet and related woodworkers
63	82	Stone cutters and carvers
64	83	Blacksmiths, toolmakers, machine tool operators
65	84	Machine refitters, assemblers, etc., not electrical
66	85	Electrical fitters, etc., electronic workers
67	86	Broadcasting, sound equipment operators and cinema projectionists
68	87	Plumbers, welders and sheet metal preparers
69	88	Jewellery and precious metal workers
70	89	Glass formers, potters
71	90	Rubber and plastics product makers
72	91	Paper and paperboard product makers
73	92	Printers
74	93	Painters
75	94	Production workers, n.e.c.
76	95	Bricklayers, carpenters and other construction workers
77	96	Stationary engine and related equipment operators
78	97	Material, dockers and freight handlers, etc.
79	98	Transport equipment operators
80	99	Labourers n.e.c.

Not too much should be attributed to migration. If the numbers in an occupation are traced between censuses, it becomes clear that the movement of individuals between occupations is greater than can be accounted for by retirements and migration. To some extent, this reflects the arbitrary element in the definition of occupations, but it also results from people tackling new challenges for any of a wide variety of motives.

The Economic Monitoring Group therefore concludes that it is certainly important to monitor trends in migration, especially to and from Australia, and to pay attention to comparative economic trends, both those in the economies as a whole and those affecting particular occupations, but that there is not at present any need to think primarily in terms of a single trans-Tasman labour market.

OCCUPATIONAL FLEXIBILITY

It will be recalled that the analysis of 'flexibility' in Chapter 1 concluded that several of the ideas embodied in it referred to *occupations* while the focus on international comparisons in Chapter 2 necessitated a concentration mostly in *industries*. The same research which underlies the conclusions of the Economic Monitoring Group on migration permits some observations on issues related to occupational flexibility.

Wages drift

The Department of Statistics publishes index number series of both nominal (award) and prevailing weekly wage rates for full-time adult employees whose minimum or mandatory rates of pay are within the jurisdiction of the Court of Arbitration or some other statutory authority. These are often used to deduce the extent to which "wage drift" occurs; that is the extent to which rates of pay move outside the formal institutions of the labour market. Data are available separately for twenty-three industry and seven occupational groups. Because the currently published series are expressed as index numbers rather than as wage rates in dollars and cents, comparisons are limited to those of rates of change. Normally published data do not enable a comparison of the average levels of prevailing and nominal wage rates but the Department of Statistics agreed to supply the Economic Monitoring Group with arbitrarily scaled base year data which have enabled estimation of the ratio of prevailing to nominal wage rates in all years covered by the index without revealing the underlying information on average levels. From this data it was possible to conclude that the conventional measure of wage drift shows little change between December, 1977 and June, 1985 for professional, administrative, clerical, sales, services, and production occupational groups. The only significant movement was a rise in the ratio of prevailing to award rates for agricultural occupations. Weighted average data for all industries and occupations shows that prevailing wage rates exceeded award rates by about 4.7 per cent over the period as a whole. The sample underlying the current index number series is not designed to provide a cross classification of occupational rates by industry. Indeed the index construction method implicitly assumes that rates for the 461 surveyed job descriptions are the same across all industries. The extent to which that is so in practice is clearly an important question of fact which might usefully be addressed in the planned future revision of the index.

Fringe benefits

Material from management consultants provides some information about a different kind of wage flexibility for various occupations. Infograms 12 and 13 refer to total remuneration defined to include values of fringe benefits such as bonuses, commissions, and expense allowances as collected by a management consultant for occupations of various levels of skills and pay. As is to be expected, fringe benefits are larger at the upper levels, and there has also been a tendency for them to rise in recent years. (The data refers to years before the imposition of a fringe benefits tax.) The tables show that the patterns are similar from year to year at a broad level, but that there have been differences of experience. Both total remuneration and the proportion composed of fringe benefits have risen most for occupational categories which might be described as lower or middle management.

A data set from a different management consultant permits some comparisons between Australia and New Zealand as shown in Infograms 14 and 15. The occupations covered, essentially the spectrum of white-collar occupations, are shown in Infogram 16. As with the earlier set, fringe benefits in New Zealand are a bigger proportion of total remuneration at the more senior managerial positions, have tended to rise in recent years, and are unevenly spread across occupations. The broad patterns for Australia and New Zealand are quite similar, but for the years covered there was more change in Australia, perhaps reflecting the wage freeze in New Zealand in the early 1980s. It is also possible that the important fringe benefits differ between the two countries. It is probable that in Australia health insurance and education costs are much more important and that employer contributions towards them have varied as government policies have changed.

Fringe benefits can provide 'flexibility' in remuneration packages, but their attractions depend essentially on the tax system. From the point of view of both resource allocation decisions and equity, it is desirable that taxation should be determined by the level of incomes irrespective of the forms in which they are paid, although administrative practicalities will prevent attainment of the theoretical ideal.

The second data set also provides some information on the variability of incomes among individual occupations. Infograms 17 and 18 show the changes between 1979 and 1982 and between 1982 and 1985 in the total cash remunerations in New Zealand and Australia for the occupations listed in Infogram 16. As with the data from the other management consultant, Infogram 17 suggests that there is a good deal of variability in the remuneration of different occupations in New Zealand. Infogram 18, however, suggests that there has been even more variability in Australia. Much more work would be required to establish whether the differences follow essentially from the wage freeze which was imposed in New Zealand, from other features of the economies, or from the institutions of the labour markets.

SECONDARY BARGAINING

One of the ways by which variability can be introduced into occupational and thereby industrial rates of remuneration is through wage and salary negotiations leading to supplementation of the minima established in awards. This is often referred to as 'secondary bargaining' or 'second-tier bargaining' but as is often the case in labour market matters, the precise meaning of such terms is not obvious.

Rates of remuneration are set in many ways. Awards set minima for most occupations and

Infogram 12
Ratio of Total Remuneration to Basic Remuneration - New Zealand

Code	Y79	Y80	Y81	Y82	Y83	Y84	Y85
200	1.07	1.03	1.04	1.02	1.05	1.04	1.04
300	1.11	1.09	1.09	1.08	1.10	1.10	1.12
300	1.15	1.14	1.14	1.13	1.14	1.13	1.13
600	1.15	1.18	1.16	1.17	1.16	1.16	1.19
800	1.18	1.18	1.17	1.17	1.17	1.19	1.21
1000	1.19	1.20	1.17	1.19	1.18	1.20	1.22
1200	1.21	1.21	1.18	1.18	1.19	1.20	1.21
1500	1.21	1.21	1.19	1.17	1.18	1.19	1.23
2000	1.16	1.22	1.17	1.16	1.23	1.21	1.24
2500	1.18	1.21	1.21	1.21	1.23	1.23	1.20
3000	1.17	1.23	1.13	1.15	1.20	1.20	1.19

Notes:

1. Code refers to occupation level. 200 is trades level; 3000 is managing director (large corporation) level.
2. Y79 refers to March of 1979, etc.

Infogram 13
Indexes of Total Remuneration - New Zealand

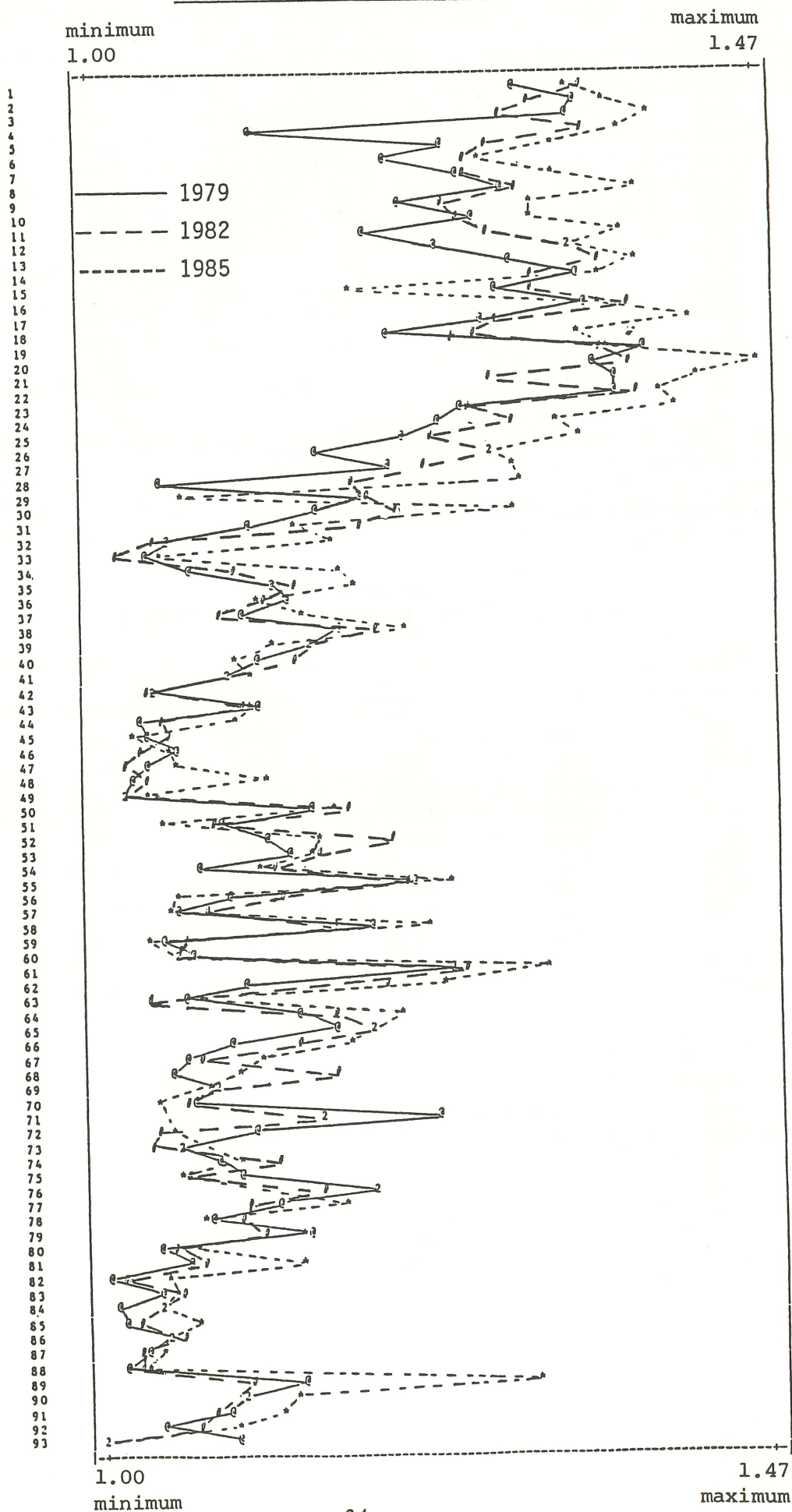
Code	I80	I81	I82	I83	I84	I85
200	1170	1393	1615	1776	1770	2001
300	1158	1385	1637	1788	1822	2055
400	1173	1394	1650	1803	1804	2047
600	1204	1402	1680	1780	1838	2098
800	1174	1366	1645	1719	1793	2062
1000	1180	1353	1644	1731	1788	2024
1200	1173	1355	1602	1703	1729	1954
1500	1151	1343	1569	1661	1684	1880
2000	1192	1359	1570	1755	1782	2015
2500	1144	1377	1608	1739	1717	1873
3000	1137	1241	1523	1669	1693	1894

Notes:

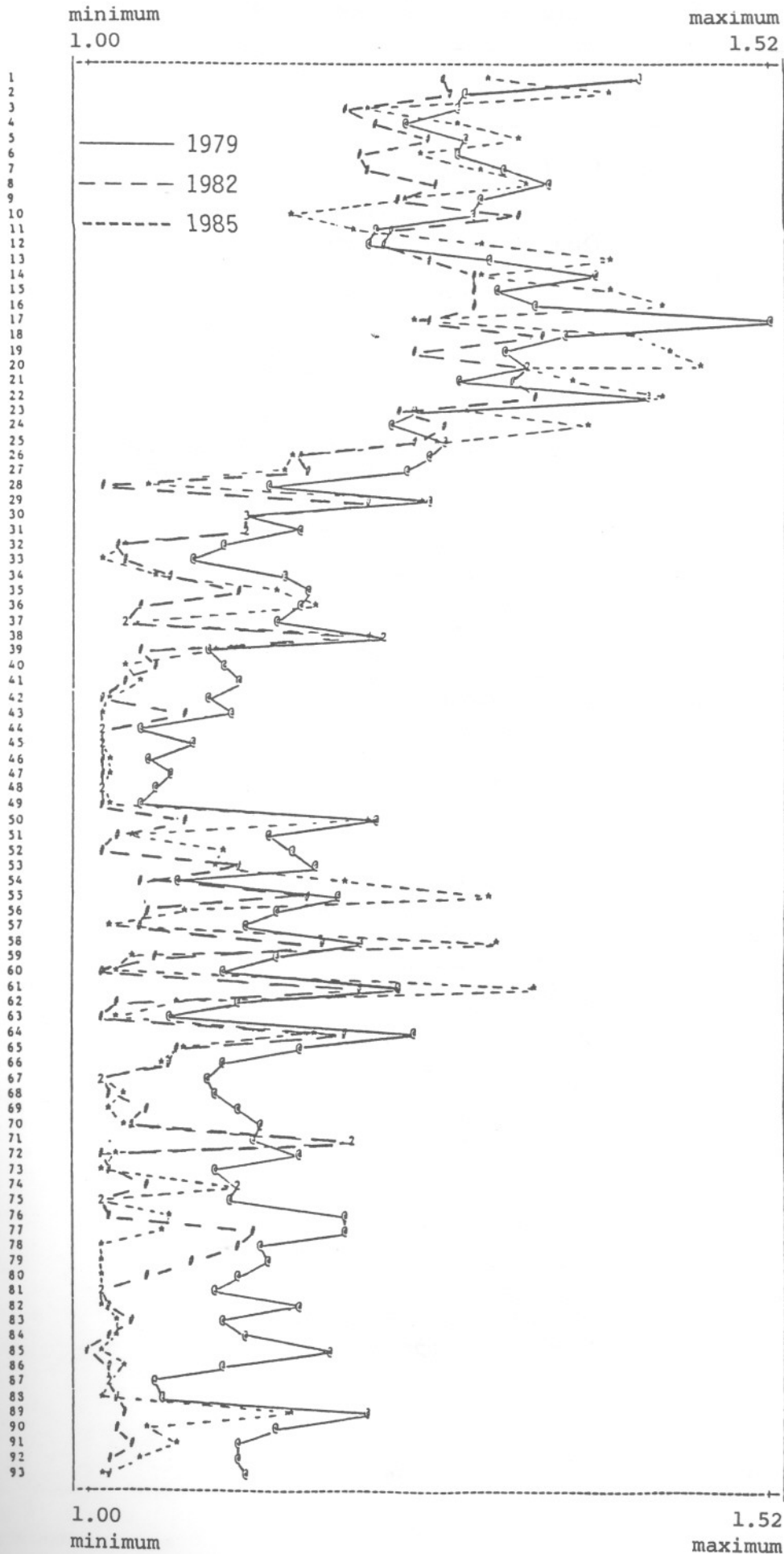
1. Code as in Table 3
2. I80 is the index of total remuneration as at March of 1980; etc.
3. Base: March 1979 = 1000

Infogram 14

Ratio of Total Cash Compensation to Basic Remuneration - New Zealand



Infogram 15
Ratio of Total Case Compensation to Basic Remuneration - Australia



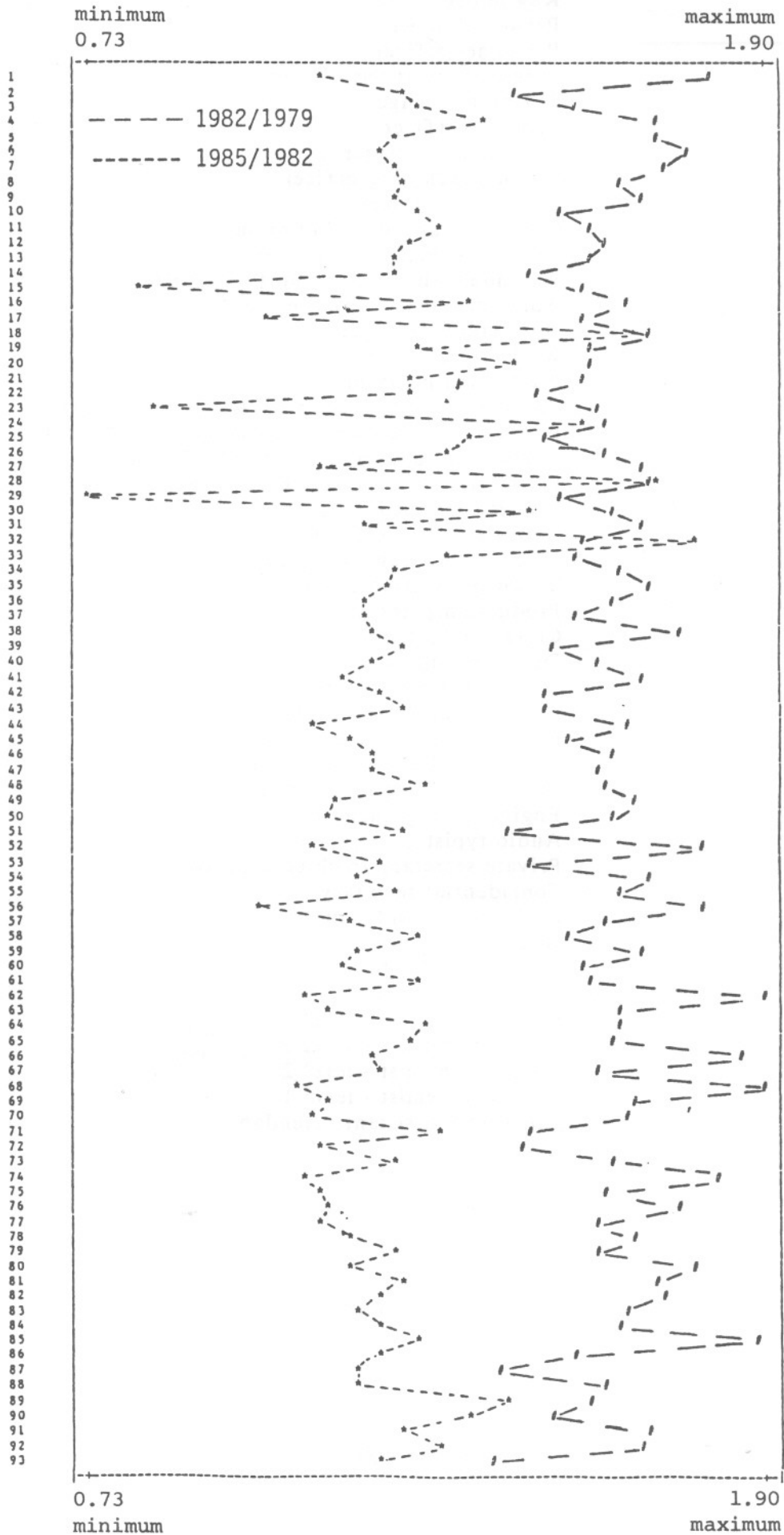
Infogram 16
Occupation Categories - PA Data

Number	Occupation
1	Chief executive A
2	Chief executive B
3	Assistant chief executive
4	Divisional general manager
5	Senior executive - finance
6	Senior executive - personnel
7	Senior executive - supply
8	Senior executive - operations/manufacturing
9	Senior executive - engineering
10	Senior executive - secretary/administration
11	Senior executive - corporate planning
12	Senior executive - research and development
13	National sales manager
14	Branch sales manager
15	Regional/areas sales manager
16	Sales supervisor
17	Sales manager (sales budget > \$2m p.a.)
18	Sales engineer
19	Senior sales representative
20	General sales representative, over 30 years of age
21	Technical sales representative, under 30 years of age
22	Medical detailer
23	Marketing manager
24	Product manager- sales
25	Product manager - marketing
26	Advertising manager
27	Marketing services manager
28	Market research officer
29	Chief accountant
30	Divisional/branch accountant
31	Financial accountant
32	Assistant accountant
33	Accountant - newly graduated
34	Cost accountant
35	Management accountant
36	Credit manager
37	Office manager
38	Data processing manager
39	Senior systems analyst
40	Systems analyst
41	Senior programmer
42	Computer programmer
43	Computer operations manager
44	Data control supervisor
45	Data control operator
46	Senior EDP machine operator
47	EDP machine operator

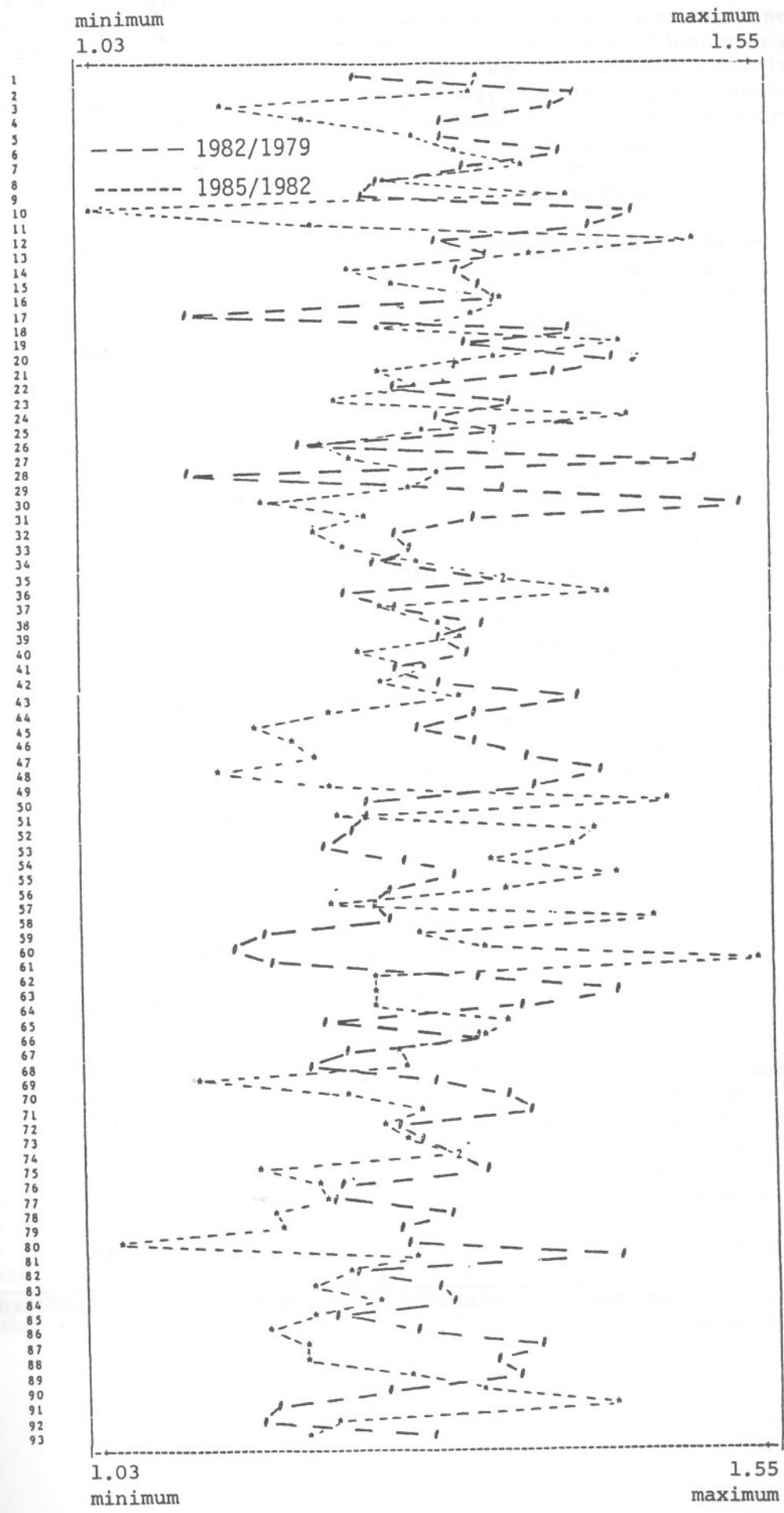
48	Key punch supervisor
49	Key punch operator
50	Personnel manager
51	Personnel officer
52	Industrial relations officer
53	Training manager
54	Training officer
55	Purchasing manager
56	Senior purchasing officer
57	Purchasing officer
58	Warehouse and distribution manager
59	Packer - over 21 years of age
60	Warehouse supervisor - up to 10 staff
61	Works manager - up to 50 staff
62	Work study manager
63	Work study officer
64	Production manager
65	Production superintendent - less than 50 staff
66	Production superintendent - more than 50 staff
67	Production supervisor - less than 25 staff
68	Production supervisor - more than 25 staff
69	Trades supervisor
70	Quality control officer
71	Production planning manager
72	Senior production planner
73	Production planner
74	Chief draughtperson
75	Design draughtperson
76	Senior professional engineer
77	Professional engineer - level 4
78	Professional engineer - level 3
79	Professional engineer - level 2
80	Professional engineer - level 1
81	Engineer - not qualified
82	Audio typist
83	Private secretary to chief executive
84	Confidential secretary
85	Junior shorthand typist
86	General clerk - level 3
87	General clerk - level 2
88	Telephone operator
89	Scientist/chemist - level 4
90	Scientist/chemist - level 3
91	Scientist/chemist - level 2
92	Scientist/chemist - level 1
93	Laboratory assistant/attendant

Infogram 17

Changes in Total Cash Compensation - New Zealand



Infogram 18
Changes in Total Cash Compensation - Australia



many people are paid the amount specified in the relevant award for the kind of work they do. Unions and employers, either from a particular firm or from a group of employing firms, may formally negotiate higher rates of pay for some occupation. (Legally, they could agree to substitute a lower figure than specified in an award but this is virtually unknown in New Zealand.) Or unions and an employer or group of employers may reach an informal agreement to pay above-award wages for some group of employees. Or an employer and an employee may reach an informal agreement to pay above-award wage without any union involvement. And an employer may decide to pay more to an employee or group of employees as a matter of managerial decision rather than wage negotiation with anybody at all.

Further, while secondary bargaining is usually discussed in terms of rates of remuneration, award provisions go much wider and any of them may be subject to change in any of the ways just distinguished. Some unions, for example, have agreements with employers about union fee deductions. Such agreements have the same form as formal second-tier agreements on remuneration but would not generally be regarded in the same light.

The first issue that arises is therefore the extent of secondary bargaining that presently exists. The Economic Monitoring Group commissioned Mr Ray Harbridge of the Industrial Relations Centre at Victoria University of Wellington to conduct some research in this area.¹² It also benefited from discussions with some people concerned with wage negotiation on behalf of employers.

The conclusion to be drawn from the investigations made in this area is that it is not the proportion of employees affected by secondary bargaining which provides justification for the attention which it has attracted. Some secondary bargaining results in formal documents known as VCAs (voluntary collective agreements) or COAs (composite agreements) registered with the Arbitration Court. Earlier studies have suggested that only about one-third of union-employer agreements are registered and the research conducted for the Economic Monitoring Group confirmed that finding, but it is unlikely that any union significantly involved in second-tier bargaining would not be a party to some registered documents. Large employers especially are likely to follow the legal procedures. Consequently the records of the Court provide a means for identifying where second-tier bargaining is sizeable. In most cases other methods then have to be used to assess the proportion of members affected. The results of the research are shown in Infogram 19.

Infogram 19
Union Involvement in Formal Secondary Bargaining

	Unions		Members	
	No	%	No	%
1. Special tribunals	29	12.7	21139	4.4
2. No involvement	62	27.2	30416	6.3
3. Few members involved	65	28.5	75813	15.7
4. All members involved	5	2.2	33973	7.0
5. Indeterminate but probably small	67	29.4	322718	66.7
Total above	228	100.0	484049	100.0

¹² It is expected that the results of this research will be published in an academic journal.

The first row refers to unions, principally those involved with the railways and the waterside, where wage negotiations proceed in somewhat unusual tribunals and which are not involved in secondary bargaining. The unions in the second row have no formal secondary documents and are therefore unlikely to be involved in secondary bargaining; they are mostly small unions. The unions in the third row do have some formal documents but they affect few members and are often supplements to the national award meeting the specific circumstances of some employers. No significant second-tier wage bargaining is involved.

The unions in the fourth row, all of which are extensively involved in secondary bargaining, are plumbers, meat workers, and stationary engine drivers. The plumbers union did not re-negotiate its award in the short 1984-5 wage round and instead negotiated an extensive set of agreements which effectively replaced the two national awards. The significance of second-tier agreement in the freezing works is well known. Engine drivers have a strong tradition of second-tier bargaining.

That leaves the large group of unions in row 5 for which the records of the Court of Arbitration do not permit any judgment on the extent of second-tier bargaining. Further enquiries have been made for the larger of these unions. In the case of the Clerical Workers' Unions, a large number of registered VCAs refer only to union fee deductions and only 19 of the total of 158 provide wages and conditions at a level above that provided in the national award. Three of these apply to the airlines industry and the rest affect employers on large industrial sites or who may be thought to be 'soft' in industrial relations terms - other unions, students' associations and voluntary welfare groups. The number of clerical workers involved is miniscule. For engineering unions, the dominant second-tier activity is that of the Auckland branch of the New Zealand Engineers' Union and the number of workers in workplaces where an agreement has been negotiated has been rising in recent years. The agreements mostly affect fitters and tradespeople rather than process workers and it is likely that only about 5000 of the branch's 30,000 members are directly affected. A similar pattern is found in unions of electrical workers. While this kind of analysis has yet to be extended to other unions, it can be concluded that secondary bargaining is not yet affecting the wage rates of more than 10% of the labour force covered by the Court of Arbitration.

This is in accord with observations of people involved directly in wage bargaining. The significance attached to second-tier bargaining is more likely to be related to its recent growth and to its nature than to its present size. The growth is observed to be spreading from Auckland, and to be closely related to construction sites where independent contractors can be persuaded that they should pay the same rate on different sites.

Although secondary bargaining is facilitated by things like the nature of industry organisation (as with construction) or the energy and effectiveness of individual union officials, the principal driving force behind it is market pressure on the price needed to attract labour of a particular kind (usually somebody with appropriate occupational qualifications or experience). In the case of clerical workers, especially, it is noticeable that even the rates provided in second-tier agreements are exceeded as employers compete for some scarce skills. The flexibility which secondary bargaining provides for responding to such pressures creates ambiguity in union circles where the higher pay is welcomed but there is also concern about the fairness of the pay relativities which result. It is generally welcomed by employers, and their concern relates to the way in which secondary bargaining currently proceeds. The principal negotiations about wages and conditions proceed in the setting of an award round, and secondary bargaining is essentially supplementary. (There is indeed often confusion over whether particular negotiations are part of the award round or separate secondary

bargaining.) Large employers with appropriate industrial relations staff can meet their staff and union officials and discuss adjustments to the award in the light of both market pressures on pay rates and other adjustments to working conditions which can provide productivity increases. Smaller employers are likely to be faced with the claim that the 'going rate' for a particular job has changed from that provided in the award and have neither the opportunity nor the capacity to negotiate in terms of the total market situation rather than on the rate of pay alone.

The earlier noted data supplied to the Economic Monitoring Group by the Department of Statistics enables a comparison of award and prevailing wage rates at industry level. The figures are of considerable interest because they provide for the first time a reasonably comprehensive summary of the relationship between prevailing and award wage rates.

Infogram 20
 Percentage Difference Between Prevailing and
 Nominal Weekly Wage Rates
 (mean annual percentage values 1977-85)

	Percentage Difference	Standard Deviation
Agriculture	10.7	2.8
Fishing and Hunting	4.4	3.0
Forestry and Logging	2.1	0.2
Mining and Quarrying	2.6	0.4
Food, Beverages and Tobacco	29.0	4.0
Textiles, Apparel and Leather	3.3	0.3
Wood and Wood Products	3.7	0.9
Paper, Printing and Publishing	3.7	0.9
Chemicals, Petroleum and Plastics	6.9	1.0
Non-Metallic Mineral Products	4.8	1.6
Basic Metals	7.0	1.4
Machinery and Metal Products	8.0	1.8
Other Manufacturing	11.5	2.9
Electricity, Gas and Water	0.8	0.4
Construction	3.1	0.7
Trade, Restaurants and Hotels	4.5	0.5
Transport and Storage	1.1	0.2
Communication	-	-
Insurance and Financing	4.8	0.2
Community and Personal Services	4.6	0.8
Central Government	0.1	0.1
Local Government	0.3	0.3
Private Non-Profit Services	3.2	1.0
All Industries	4.7	0.3

As previously noted prevailing weekly wage rates exceeded award (or nominal) weekly wage rates by 4.7 per cent on average 1977-85. This all industry average relationship was relatively stable from year to year. There is however, marked variation between industries. Prevailing rates exceed award rates by nearly 30 per cent in Food, Beverages and Tobacco and the difference ranges between 7 and 12 per cent in Agriculture, Chemicals, Petroleum and Plastics, Basic Metals, Machinery and Metal Products and Other Manufacturing. These industries include many of those where second-

tier bargaining has been identified as important.

In addition the figures stand as an important reminder of the existing degree of flexibility in the New Zealand system of wage determination. The complex institutional nature of that system perhaps too easily invites the image of a quasi-judicial system prone to rigidity. The above figures show that actual rates of pay show considerable variation from those set in award negotiations.

CONCLUSION

There have been other developments which indicate some kinds of 'flexibility' in the labour market. Issues related to the introduction of new technology have been widely discussed. The growth of job-sharing and flexible working hours have also been significant. It is not clear that the growth of part-time work which has occurred in recent years has all been desired. It may have been reluctant acquiescence in a shortage of full-time employment with tendencies towards a duality in the labour market, whereby (mainly male) skilled workers aged between 25 and 49 have stable jobs while others are much more likely to have unstable jobs or experience long-term unemployment. The position of women is especially uncertain.¹³

For our present purposes, these issues resemble those related to secondary bargaining in that they direct attention to whether the institutions of the labour market are optimal from the point of view of economic adjustment.

13 *Part-time Work in New Zealand*, (NZPC, April 1986)
Clark, Alison

THE INSTITUTIONAL FRAMEWORK OF THE LABOUR MARKET

We have already observed that 'labour market' is economists' shorthand for the wide range of institutions, customs and personal contacts through which people are recruited or retained for particular jobs and their rates of remuneration determined. Knowledge of the labour market therefore encompasses different kinds of information, from the very abstract where interest is concentrated on broad aggregates like total employment or the average rate of income per person employed, to the very specific concerned with the employment history of particular individuals. For some purposes it is necessary to know the detail of wage negotiation; for others a broader understanding is sufficient. In the current context our requirement is for an overview of the general legislative framework of the labour market, something more institutionally specific than in many economic studies of the labour market but which does not require detailed knowledge at a level available only to participants in wage-setting.

THE PRESENT ROLE OF THE STATE

In a broad international perspective, New Zealand has a centralised system of wage determination. The state plays a key role. It provides a system for the *registration* of unions which results in certain rights and obligations for the registered bodies. In particular, agreements on wages negotiated by registered unions are provided by law with *blanket coverage*; that is, they apply to all employees and employers of the relevant class whether or not they were parties to the process which produced the agreement. These provisions give registered unions a substantial advantage in negotiating wages. To assist the process of negotiation, the state further provides a *conciliation* service; appointed conciliators chair meetings of employers and unions and their diaries provide an external constraint on the time which can elapse between negotiating sessions. Furthermore an *arbitration court* can be used to make a settlement where conciliation does not result in agreement or to record the results of an agreement so that it is publicly available and enforceable by legal action. In either case, the settlement approved by the court is called an award. The present legislation imposes certain other requirements on all awards; they must for example provide for a standard working week of no more than 40 hours and normally of five days, be for a duration of at least 12 months, continue in force until superseded by another award unless cancelled by the Court after non-renewal for three years, and include a procedure for settling grievance disputes. They may also provide for other conditions of employment such as the proportions to be maintained between qualified and junior staff. Awards can therefore become very complex but the four components of registration, blanket coverage, conciliation and arbitration constitute the basic framework of the labour market.¹⁴ The trends in the average wages paid in different industries as discussed in Chapter 2, and trends in occupational wages discussed in Chapter 3 were generated from wage-fixing in the context of these basic components and from the responses of people to that wage-fixing.

¹⁴ The recent "Green Paper", *Industrial Relations: A Framework for Review* 2 vols. (Wellington:Government Printer, 1985), provides much more detail on the award system.

The framework leaves a great deal of room for variation. In particular, awards are formally concerned with minimum¹⁵ rather than actual wage levels. The labour market includes direct bargaining outside the basic framework. As was discussed in Chapter 3, this can range from an agreement between a union and an employer or a group of employers through an informal understanding between such parties to a unilateral decision by an employer to pay an above-award wage to a worker or a group of workers. People who are not covered by an award, such as management personnel, are entirely dependent on such means for determining remuneration. But for most wage-earners, they are only supplementary to the award system and the common term, 'secondary bargaining' is an appropriate one. Furthermore, the results of secondary bargaining flow through to the main award system. Market rewards, the rates actually paid for work of a certain kind become the standard by which negotiators of awards judge the fairness of prescribed minima. Historically, this has been true of the Court of Arbitration itself, but amendments made in 1984 prescribe criteria for the court starting with supply and demand for the relevant workers and their significance has not yet been tested.

When the conciliation and arbitration system was established in 1894, the principal concern was with the avoidance of strikes and the court was not expected to be prominent in wage determination. It was thought that most rates would be set in conciliation and that the court would be called on only for occasional issues where agreement was not possible. In practice, it soon emerged that conciliation could be perfunctory with each party relying on putting its argument directly to the Court where a decision was really sought. And as in Australia, the Court soon saw itself as having a general responsibility for preserving the justice of the distribution of income; as early as 1907, Mr Justice Sim declared that fair remuneration of workers had to take precedence over any consideration of employers' profits.¹⁶ And it was natural for lawyers to judge fairness primarily by what was already occurring in the community. Existing relativities between different kinds of job, and the results of any secondary bargaining were therefore given a prime role in the setting of award rates.

The procedures of the Court meant that it was easily adapted when the community in its political processes decided to take a more direct role in issues of income distribution. Standard wage pronouncements by the Court were used to establish rates for particular occupations. From about the Second World War, the Court was empowered to issue general wage orders, that is, to amend the rates of pay specified in all awards. The Court then became a significant element in general economic policy. In the circumstances of the 1950s and early 1960s, it may well have been useful in rendering more consistent the income objectives of different sections of society. As historical relativities became more divorced from the needs of a changing economy and as inflation occurred at unprecedented rates, satisfaction with the Court diminished, especially after it rejected an application for a general wage order in 1968. The government intervened to affect award rates more directly, and although the Court has been largely re-established, it no longer has the power to make general wage orders.¹⁷

General wage orders usually applied to public servants as well as to people covered by private sector awards (and were customarily passed on to people not covered by awards as well as to over-award payments) but otherwise our analysis of the framework of the

15 The minimum character of award rates and conditions can legally be overridden by voluntary collective agreements but this is not of practical importance.

16 F.G. Castles, *The Working Class and Welfare* (Wellington: Allen & Unwin, 1985), p.14

17 J. Boston, *Incomes Policy in New Zealand* (Wellington: Victoria University Press for Institute of Policy Studies, 1984).

labour market has been concerned with the private sector. The public sector poses some peculiar problems. Its size alone engenders difficulties in comparing the value of work done across the various departments. More difficult problems follow from a desire to secure comparability of pay for work of a particular kind whether it is done in the private or public sector when for much of the work of the public sector there is no obvious private sector analogue. Relativities therefore tend to be even more prominent in determining public sector wages than in the private sector and there have been many suggestions that public and private sector pay rates tend to ratchet each other in an upward direction. (This is one of several reasons for interest in the current proposals of the Federation of Labour and the Combined State Unions to form an umbrella organisation for all trade unions.) The government has been deeply involved in the labour market as a significant employer, as well as by providing the basic framework and at times using the machinery so established as an important part of economic policy.

ANALYSIS OF PRESENT SYSTEM

The constitution of the labour market has evolved over the last 90 years. There have been many changes in that time, including some quite important recent ones. But that does not imply that the current system is necessarily optimal for our present social and economic requirements.

Registration

The provision and maintenance by the state of a registration system for unions, thereby recognising that unions are an important part of a system of wage determination acceptable to all its parties is likely to be part of an optimal framework. Recognition as an appropriate bargaining party was important to the growth of trade unions in New Zealand and elsewhere, and the provision of some mechanism whereby employees can make effective a decision that they wish to negotiate collectively is common in developed economies.

There is at present some confusion in the legislation in that deregistration of a union amounts to its dissolution. From the point of view of labour market organisation, it is desirable that these two processes should be distinguished so that the rights and obligations conferred by registration are not confused with questions about the existence of trade unions.

Furthermore, it may be possible to improve the criteria by which proposals for the registration of new unions are judged. At present, the main criterion prescribed for the registrar is whether the workers involved could conveniently be covered by an existing union. The rationale for this is presumably that small unions are undesirable and, indeed, the fragmentation of the New Zealand union movement has been a subject of comment for many years. From an economic point of view, the main content of this is that bargaining is more difficult when many separate parties are involved, but it may be that a more direct approach to reorganising bargaining units is now possible. The effect of the present criterion for registration is to protect existing unions in at least two senses. First, obstacles are placed in the way of people from outside the unions, such as those unemployed who do not consider their interests to be given adequate weight by the union movement, who could otherwise offer to provide the work of members at a lower price. Secondly, discontented members of an existing union cannot readily move to a different union or form a new one. Evaluation of these effects depends on prior value judgments; unions would generally think that protection from the undercutting of wages is desirable (and many unions seek to retain the unemployed as

effective members of their unions) while employers would welcome the possibility of cheaper labour if it did not involve problems for their labour relations. Views are more mixed on the second issue. Employers would like to negotiate with their own employees but would not welcome having a further multiplication of unions represented among their workforce. Nor would they like a further source of demarcation disputes. Unions would generally discourage competition for their own membership but would see advantages in stronger unions being able to replace ineffective ones. They would be concerned about the development of employer-sponsored 'sweetheart' unions displacing 'real' unions. Workers might welcome a greater range of choice from which to replace unsatisfactory union officials.

The public policy decision is essentially whether there should be more competition within the union structure. There have been in recent years a few specific instances, as in the case of the fishing industry, where *ad hoc* decisions on union coverage have been imposed by legislation, but appropriate coverage has seldom been discussed as a general question. It does seem a more appropriate topic for discussion than the familiar ones of craft versus industry unions, large versus small ones, or whether membership of existing unions should be compulsory. Given the government's general disposition to trust New Zealanders to determine where their interests lie, it seems proper to focus on whether the area of choice of potential union members should be widened rather than to seek to prescribe in advance the kinds of unions which should be available to them.

Blanket coverage

The automatic extension of awards to employers and employees of a particular kind who were not directly engaged in their negotiation is now evaluated differently according to the point of view adopted. Employers usually see it as an assistance to unions, one that is unwarranted given the present strength of the union movement. Unions regard it as a means of protecting workers whose employers would otherwise use their industrial strength or geographical isolation to avoid dealings with unions at all, and it is regarded by the Federation of Labour as an essential element of the system of national awards which it wishes to retain. Its origins were probably different. When the idea of settling wages by agreements with unions was a new one, employers wanted an assurance that if they paid the agreed rates they would not be undercut by competitors paying lower wage rates. Blanket coverage originated not so much as protection of weak unions but as a means of ensuring that employers who accepted the new system of wage determination were not subject to unfair competition.¹⁸ The idea that employers can use their membership of negotiating teams to achieve a commercial advantage for their own firms is by no means entirely dead.

Nevertheless, the system now works primarily to assist unions which for some reason are in a weak position relative to particular employers. It is, for example, difficult for unions to ensure that meaningful negotiations take place with employers in remote locations or in industries with many small plants.

The critical question is whether the system of blanket coverage is incompatible with the optimal system for wage determination because it prevents achievement of the best

¹⁸ J. Holt, 'The Political Origins of Compulsory Arbitration in New Zealand. A Comparison with Great Britain' and 'Compulsory Arbitration in New Zealand, 1894-1901. The Evolution of an Industrial System', *N.Z. Journal of History* 10 (1976), pp. 99-111 and 14 (1980), pp. 179-200.

possible arrangement of bargaining units. There is a connection here with the criterion for registering unions; if there is to be more choice among possible unions, does that also imply that the unions have to negotiate with each employer rather than rely on blanket coverage? Negotiation would obviously not have to be with each employer separately if groups of employers chose to join together in much the same way as groups of workers chose to combine their negotiating strengths. One would expect bargaining units to be formed so as to minimise the real resource cost of effective negotiating.

Blanket coverage has some relationship to the purpose of minimum wage legislation. One argument for the existence of a minimum wage is an extension of the community moral judgment that slavery and most forms of indentured labour are not acceptable in a modern community. Once it is accepted that a community can properly make such judgments, it is difficult to see any compelling logic against its extension to establish a minimum level below which employment is to be prohibited as unfair and unreasonable. Arguments are therefore likely to be about the effects of setting the minimum wage of a particular level rather than about its existence and especially about the possibility of leaving some people unemployed by eliminating some jobs which can support only low wages. A pragmatic argument is that the social welfare system provides for people not in employment, that the award systems provides protection for most people in employment but misses a few and so the minimum wage legislation provides a safety net for them. It is redundant if the award system provides adequate coverage for those in low-paid employment, but it may be helpful to some who, for whatever reason, are not covered by an award. That then directs attention to further pragmatic questions about the appropriate level at which the minimum wage should be set, questions which include incentive effects of setting it too low relative to welfare benefits and of setting it too high relative to the total income which the resources of the community can support. Minimum wage legislation would become more important if a change to the blanket coverage provision meant that more employees fell outside the award system. (There are some parallels between minimum wage legislation and the way in which the law of bankruptcy provides some protection to people who derive their income from undertaking the risks of entrepreneurship.)

Conciliation and arbitration

Blanket coverage is also linked to the state's provision of a conciliation and arbitration system. The argument that if employers are automatically to be covered by the award system they ought to be given an opportunity to participate in their negotiation through the institutional arrangements for conciliation and arbitration is parallel to the argument that compulsory education should be free. There were also other influential arguments in 1894. The system was intended to diminish the incidence of strikes and to facilitate reaching fair bargains by parties able to look after their own interests. (As we have already seen, these interests came to be in the provision of persuasive argument to the court rather than in negotiating skills.) Both of these arguments now need to be scrutinized as to their appropriateness to the present and future rather than the past.

There is obviously a community interest in avoiding strikes but it is not an unlimited one. Strikes are intensely irritating to third parties caught up in them and may be costly to both the employers and employees involved. But the best available evidence suggests that the real aggregate costs of strikes in New Zealand are not high.¹⁹ This

¹⁹ D.J. Turkington, *The Economic Effects of Industrial Conflict* (Wellington:VUW Industrial Relations Centre Occasional paper 19, 1976).

evidence relates, of course, to the present system; the lowness of the cost owes a good deal to the short average duration of strikes in New Zealand and this may be because the conciliation and arbitration system makes the parties well-known to each other as well as because of their geographical proximity. Nevertheless, it does suggest that it would be possible to pay too high a hidden cost for the return of fewer strikes. Furthermore, it is the cost of strikes to third parties rather than the total cost, including those to the employees and employers involved, which should be the focus of discussions of appropriate arrangements for the labour market in general. Payment of their own costs can be expected to help induce employers and employees to make rational decisions about the employment of the strike or lock-out weapon as part of their negotiating tactics.

Some recent changes in the economy make it less likely that third-party costs will be large. For example, the greater availability of alternative airlines means that a strike affecting Air New Zealand has less effect on the public than would have been the case when Air New Zealand was the only significant provider of internal air transport. Reduction of border protection - tariffs and import licensing - means that consumers can more readily replace the products of a firm involved in a strike by imports. Third party costs have not been eliminated; Air New Zealand is still the major element in the market for air transport, and New Zealand's distance from other countries still limits the availability of imports. But there is reason to reevaluate the costs and benefits of techniques for eliminating industrial disputes.

The strength of the trade union movement is also now very different from that of 1894. Unions were then generally small and disunited, and the few unions generally regarded as powerful had recently been defeated in the 1890 maritime strike. The situation now is different. Whatever is the case in other countries there is no reason in New Zealand to think that trade unions have become too powerful relative to the government, but equally there is less need for paternal state assistance than there was in 1894. The trade union attitude to the conciliation and arbitration system has always been an ambivalent one; on the one hand, it has been an assistance, but on the other, it has restrained unions which could bargain effectively. At times, the latter element has predominated with terms like 'Labour's Leg-Irons' much in vogue.

Unions are unlikely to have as much in the way of financial resources as at least some employers, but they do have effective negotiating instruments when they are supported by their members. It now seems likely that the bargains they reach would be those of parties able to look after their own interests even in the absence of conciliation and arbitration, although there is a case for removing legislative restrictions on the range of things in which they can legitimately take an interest.

This discussion has been directed to the present appropriateness of compulsory conciliation and arbitration. There is obviously a case for continuing to provide mediation, conciliation and arbitration services for parties which find them convenient for their negotiating and which are willing to bear the cost of such services. (The recent change to voluntary arbitration can be seen as a small step in this direction.) This would have the further advantage of making it easier for specialist private institutions to compete with existing services in providing mediation and conciliation services. In other countries, such firms often include former union secretaries and other people with specialist knowledge of certain firms or industries, and although there is no particular reason to question the effectiveness of the present services, there would be advantages in widening the range of choice of unions, employees and employers.

A specialised court for interpreting and enforcing whatever agreements are reached

between employers and employees is likely to be more efficient than reliance on the standard judicial system as well as having the advantage of attracting more confidence from the union movement. The case law which has led to an inappropriately narrow definition of 'industrial matter' shows that even a specialist court can lose contact with the reality of the labour market, and the danger would be even greater if the standard courts were relied on. There are attractions in assimilating contracts of employment to any other form of contract, and relying on the standard means of enforcing contracts, but the history of legal antagonism to trade unions makes it unlikely that such a change would win widespread acceptance for some time yet.

Summary

There are choices facing the community in all the key components of the framework of the labour market. Before any decision to introduce a major change was made, much more detailed consideration would be required than has been presented here. For example, if it was wished to facilitate the forming of new unions, there would have to be a decision on which people could change from one union to another. One would expect that agreements with a fixed duration should be respected (with new employees recruited during its currency being bound by them as part of their conditions of employment), that the change would be dependent on a secret ballot of those involved, and so on. But it is possible to evaluate the key issues with such matters reserved for future debate.

Similarly, there are other questions which could be described as concerned with the framework of the labour market but which, in the view of the Economic Monitoring Group are less pressing. For example, if it was decided to place more reliance on unions negotiating bargains for their members and less on a blanket extension to employers and employees of a particular kind, should there be any consequential adjustment to the present rules about picketing? Indeed, does the labour market require further specific legislative requirement, or would it be sufficient to rely on the general law, such as that of contract, as the means of enforcing agreements? It seems likely that some special rules would be needed to keep the interests of parties to wage agreements in line with those of society as a whole, such as, for example, the present distinction between essential and inessential industries. But the precise content of such rules can be left to later deliberation.

OTHER GOVERNMENT ROLES IN PROMOTING FLEXIBILITY

The principal justification for government intervention in the labour market beyond setting the basic framework is the ability to define some kind of externality which can be appropriately modified by government action. An externality exists when the actions of some people affect others who cannot bring their influence to bear directly. But externalities can be of varying degrees and not all externalities should be matters of concern. Only if powerless people are affected to a significant extent should some adjustment be considered. Nor is government action always the appropriate response to a significant externality. Some other coalition of private interests might be efficient and equitable. But there are areas where government action is likely to be appropriate.

Training

Much training is not specific to a particular firm and the total resources devoted to it are likely to be less than socially optimal if the government does not complement the private efforts of both employers and employees. It is important that private

employers be encouraged to make sound decisions about the value of training programmes which they organise and finance. In particular, with the high unemployment of recent years, firms may have become accustomed to being able to hire people with specific skills so that the training programmes which they operated in years of full employment have been allowed to run down. But even if employers eliminate this defect, to whatever extent it exists, there will be a role for government training programmes, especially for young people. The government is already addressing the issue through a number of studies and through changes in its schemes, and these efforts should be continued whatever decisions are made about the future course of policy towards the labour market. In this respect, the conventional arguments for an 'active employment policy' remain valid.

Redundancy

It has sometimes been suggested that a valuable addition to the institutions of the labour market would be a national fund from which redundancy payments could be made. Redundancy is certainly likely to have costs for individual workers, including psychological costs to their self-respect and additional family costs if housing and schooling are affected. But it may be that these are better addressed as parts of social welfare provision for the unemployed than related specifically to redundancy. (The welfare costs to individuals are unlikely to be highly correlated with claims on a redundancy fund as any conceivable scheme will favour older workers with a stable employment record who may suffer only a few years of premature retirement rather than employees who planned for many more years in employment.) For firms, a national redundancy fund may make firms more ready to take on staff, confident that if expansion proves to be unwise the firm itself will not have to face difficult and expensive redundancy discussions. On the other hand, a national fund would probably be financed by a levy on employers and that would raise labour costs. Furthermore, a national fund would mean that firms where redundancies were rare would subsidise those where it was more common (even if differential levies were attempted), and it would create an opportunity for fraud in that firms would have an incentive to describe all lay-offs as redundancies and would sometimes be under pressure to do so. There are some externalities associated with redundancies, especially where they affect a large employer in a small locality as was recently the case in Patea and Waihi. But these are rare and are probably better handled on a specific basis rather than by a national and general fund.

From the point of view of labour market policy, the crucial issue is to balance the advantages of a national redundancy fund in encouraging workers to move to new but perhaps risky employment against the costs which it would impose on employers, especially on those employers not likely to incur redundancies. With our present knowledge, it seems unlikely that this would favour a major innovation.

There are, however, few cogent reasons for retaining the present limits on redundancy payments that can be negotiated especially if any move were made towards placing more emphasis on negotiated agreements in the basic framework of the labour market. There is a general tendency, here as in other countries such as Australia, for a kind of property right to be built up in performance of employment, with employees gaining some right to reward for their firm-specific skills and experience. This is the contemporary equivalent of the way in which in the nineteenth century the power of hiring and firing was redivided between employers and employees giving the latter more dignity than the status of a servant. It is something which can be left to grow by negotiation among employees, unions and employers and does not call for government restriction. Unions and employers can be expected to value it appropriately in their negotiations on

remuneration, including provisions by which those entitled to payments can be assured of them should the employing firm find itself in a process of liquidation.

Superannuation

An equivalent argument applies to the issue of superannuation. There are grounds for regretting that superannuation schemes sponsored by many employers are not portable when the beneficiary moves to other employment. Flexibility in the labour market is thus reduced. However, investment in skill is encouraged. It seems likely that this should be regarded as a matter for negotiation rather than one where the government should seek to prescribe limits.

CONCLUSION

Registration, blanket coverage, conciliation and arbitration are what the Economic Monitoring Group would nominate as the central issues in labour market policy presently facing us. In the next chapter we shall seek to carry forward the discussion on what choices should be made. But we would want it to be clear here that we are considering possible adjustments to the New Zealand labour market. We see at this point the possible desirability of a change of emphasis between centralised arbitration and decentralised bargaining in an orderly market; we do not see any wholesale leap from conciliation and arbitration to collective bargaining. In the Australian case, that has been described as carrying the danger of replacing a current situation, which includes some disadvantages, with the indiscipline of the British system which has even more problems.²⁰ We would make the same judgment about New Zealand.

20 R. Dornbusch & S. Fischer, 'The Australian Macroeconomy', in R.E. Caves & L.B. Krauss (eds.) *The Australian Economy: A View from the North* (Sydney: Allen & Unwin, 1984), p.50.

TOWARDS AN APPROPRIATE POLICY

THE NEED FOR CHANGES IN POLICY

Some recent public statements seem implicitly to argue that because policy changes have been unwelcome to some sections of the community, there should be policy changes unwelcome to all sections and therefore the labour market should be reformed. That is surely carrying 'fairness' considerations to absurd lengths, especially as those making such statements often also suggest that there is too much concern with relativities of remuneration levels. But there are more persuasive arguments for changes in policies.

It will be recalled that our concern with the labour market stems from two interrelated sources. The first is the general economic strategy adopted by the government which gives a central place to getting resources of all kinds into those activities where they are of most value to the community. Moves in this direction in the foreign exchange market, the financial sector, transport, and border protection might be frustrated if labour market institutions unnecessarily impose barriers. The more distorted corners there are in the economy, the greater the burden of adjustment that has to be carried elsewhere, and the more difficult is economic management. Secondly, the government is attempting to improve the efficiency with which resources are used by amending regulatory intervention. The labour market depends on a legislative framework whose scrutiny is an appropriate part of this process.

We have concluded in preceding chapters that the level of adjustment being experienced in the labour market is much greater than is often realised. People are moving from one employment to another. Industries with a capacity to expand are attracting labour while job losses are incurred in other industries or even in less successful firms in the same industry. Industries have been able to change their mix of employees with different levels of skill earning different wage rates. In comparison with the OECD, there is little ground for thinking that the New Zealand labour market is unusually inflexible. We have deduced from the evidence we have been able to gather that there is variability in the remuneration of different occupations, although probably less than in Australia.

Nevertheless, most of our evidence is about the combined effect of movements of wage-rates and people. It is not inconsistent with the many casual observations that firms are reluctant to offer high wages to attract particular occupations because of the implication that a move in one wage-rate has for the wage-rates which have to be paid for other occupations. We have also observed that secondary bargaining as presently conducted has some unsatisfactory features. Furthermore, unemployment remains unacceptably high in total and falls too heavily on particular groups of people within the labour force.²¹ Our analysis of the present institutional structure of the labour market concludes that people are more tightly constrained in the choice of bargaining patterns than is desirable. This suggests that a change of government intervention could indeed improve the outcome of wage bargaining from the point of view of our overall economic objectives.

²¹ See for example, *From Birth to Death: The first report of the Social Monitoring Group* (Wellington: N.Z. Planning Council, 1985).

We conclude therefore that there is a case for change in labour market policy. But we caution that not too much should be expected. The kind of reform of labour market policy which is desirable and feasible will not be an adequate substitute for measures which deal directly with problems elsewhere in the economy.²²

ECONOMIC AND SOCIAL POLICY

Both the efficiency with which resources are used, and the objectives of government intervention necessarily involve social as well as narrowly economic dimensions. A fundamental assumption on which our analysis rests is that it is possible to look at labour market policy as concerned primarily with issues of economic adjustment. That involves many social issues, such as the appropriate valuation of different kinds of work and the community's decision on minimum wage levels. But it does mean that matters of income distribution are primarily to be handled by taxes and benefits rather than through the wage system. This reverses a longstanding feature whereby Australia and New Zealand differ from most OECD countries in that our welfare systems have been little concerned with those in employment.²³

The argument for this is quite simply the social change which has occurred in New Zealand. It is no longer correct to think of most employees as men supporting families. It is not practicable to set wage rates with any particular family size in mind as was the policy of the Arbitration Court in earlier years. Wages have to be related to individuals and the value of the work they do. Income distribution remains a proper subject of debate, but it is better related to households than to individuals, and to the government's welfare policies than to employers.

There are problems with this approach. Trade unions have always been part of a movement, a movement with social objectives wider than negotiating with employers over wages. In the last wage round, our trade unions demonstrated more capacity to influence the incomes of relatively low-paid workers than most commentators expected. To increase the separation of wage negotiations and income distribution issues, unions may have to be given a more influential voice in the formulation of policies about the latter. Unions are also concerned that with greater reliance on welfare schemes, low-income households may suffer from an unsympathetic future government. But that is an argument for participation in political processes rather than against separation of labour market and income distribution policies. There are also arguments that welfare benefits are less dignified than employment incomes. But payment of wages above the value of the labour which produces them merely disguises the element of subsidy, and recent social change has already vastly reduced any stigma associated with welfare schemes as the reception of national superannuation showed. The Economic Monitoring Group therefore concludes that it is reasonable to look at labour market policy primarily in terms of economic adjustment.

22 This is also the implication of a modelling study which shows that if elasticities between different types of labour in N.Z. are similar to those found in Australia, very large relative wage changes would be required if they alone were to eliminate unemployment. Bryan Philpott and Adolf Stroombergen, *Analysing Flexible Labour Markets - A General Equilibrium Approach using 'Cresh' Production Functions* (VUW: PEP Occasional Paper 87, January 1986).

23 F.G. Castles, *The Working Class and Welfare* (Sydney: Allen & Unwin, 1985).

THE PACE OF CHANGE

In the case of general economic policy, the Economic Monitoring Group argued that a significant and sharp switch was needed to demonstrate that the rules of the game had changed and that people would be better occupied responding to a new situation than attempting to preserve existing assistance.²⁴ The government adopted the same position. Although there are still many newspaper speculations about a change of direction, there is not now the same need for a 'demonstration effect'. It is persistence with getting right the signals for the medium term rather than immediate change which is important now.

Furthermore, we have already noted the long history of the current system of industrial relations and the intimate involvement in it of many people. In the case of import licensing which had less direct implications for most people, it took many years to secure widespread support for a change of policy. Even though there is now more understanding of the need for New Zealand to adjust to changes in the world economy, the process is unlikely to be faster for the labour market. That too points towards the advantages of setting a path for change rather than attempting to include too much in the first step. There are arguments in the other direction. The preliminary stages of the next wage round are not far away and people intimately involved in the labour market will soon become too concerned with immediate issues to participate in discussion of longer-term policy and will reinforce existing practices. A gradual approach could become a series of political battles with negative implications, but that would not be the case with an agreed sense of direction and continuing discussion of successive steps. 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 the others unchanged. If it were possible to secure widespread agreement quickly, there would be advantages in an 'academic' approach on all fronts at once. The judgment of the Economic Monitoring Group is that such widespread and comprehensive agreement is unlikely.

A GRADUAL APPROACH

Our earlier analysis recognised the significance of registration, blanket coverage, conciliation and arbitration in the present organisation of the labour market, and identified a change to more emphasis on bargaining as the major possible improvement. It also noted linkages between the four major components of the labour market framework, linkages which make it difficult to secure changes in one of them without involving changes in others.

One suggestion is therefore to accept the basic framework but make secondary bargaining and award coverage mutually exclusive. That would have the advantage of preventing ratcheting between the two parts of the wage-setting system and, more fundamentally, of encouraging award negotiators to pay more attention to the value of work of different kinds and less to what was actually paid as a result of secondary bargaining (although no doubt actual payments would still be taken as a guide). But as we have seen in an earlier chapter, the term 'secondary bargaining' covers a wide range of wage setting procedures and there would be great difficulty in defining the kind of secondary agreements to be incompatible with award coverage. Limits would be needed

²⁴ *Strategy for Growth. Report No. 3 of the Economic Monitoring Group* (Wellington: NZ Planning Council, 1984)

since otherwise an over-award payment entirely at the discretion of the employer could render an award inoperative, or alternatively some unions could secure informal agreements in addition to award coverage and render the proposed reform ineffective.

It is better therefore to deal directly with the fundamental elements of the labour market framework. A first step would be to simply relax the criteria by which union coverage of particular workers could be amended. The test should not be whether an existing union can conveniently cover the group of employees concerned but whether it can be shown that the applicant group of workers have a genuine common interest, wish to be covered by a new or different union, and are not already bound by a registered voluntary collective agreement. That is, workers with a common interest, having decided by secret ballot that they wish to change their union representation at a point where any existing registered collective agreement is expiring, should be able to form a new union and negotiate separate awards. If employers are right that they would be able to offer better working conditions as a result of negotiating with their own employees, the mere availability of this possibility should make a significant difference in the way in which awards are negotiated. Where present unions are ineffective, they would be replaced by new or reorganised unions.

If employers and unions made use of this new provision, there would soon be need for reconsideration of the present blanket coverage rule. If the more enthusiastic supporters among unions and employers for new bargaining units are right, the blanket coverage rule may simply become redundant as all workers would be covered by other awards. But for some time, there would probably need to be two classes of awards, the existing ones and those negotiated by new unions or unions moving beyond their present coverage; those employees covered by the former would remain so unless they were covered by the latter. Whether this is a transitory phenomenon or not need not be decided in advance.

As bargaining became more important and union coverage more contestable, all restrictions on union finances should be removed (other than the need for approval by members, more or less akin to rules for company management) and at the same time mediation and conciliation services should begin to be self-supporting through charging their users. One would expect unions to recover some of their costs from employers, and efficient unions would be less costly to their members than inefficient ones. Efficiency would of course be judged in terms of the objectives of actual and potential union members. There would still be an argument in terms of externalities for state financing of training programmes for union delegates and secretaries.

Access to the Arbitration Court is already dependent on the agreement of both unions and employers and no immediate change is called for in this regard. Use of the court for settling wage disputes should eventually, if the process of change evolves smoothly, be charged for. Access to the court for interpretations and enforcement would remain unchanged, and its procedures for allocating costs should be considered in a manner entirely analogous with those of other parts of the judicial system.

SS Bill | In the public sector, there is a whole range of considerations to be explored further. An appropriate starting point, however, is the terms of reference of the Higher Salaries Commission. It should be required to place much less emphasis on traditional relativities among the most highly paid jobs in the public service. It should be possible for a deputy in one department to be paid more than the head of another. Furthermore, one would expect different groups of employees in particular departments to begin to negotiate separately on other than occupational relativities, giving impetus to a more decentralised management structure within the public sector.

QUALIFICATIONS?

In any major change, even one which is seen as setting a direction with plenty of time and opportunities for reconsideration of steps along the way, some element of faith is involved. The deregulation of the transport industry involved dangers of monopolization of road transport and waste of social assets in the railway system, but the judgment that those risks were justified by the potential returns in terms of better use of resources would now be widely endorsed. Similarly deregulation of the financial sector has not resulted in the disadvantages which some foresaw and has produced more efficient servicing of other sectors of the economy. Some will see mostly dangers in what is proposed here. Some will fear that militant unions will become more powerful and intensify our experience of strikes. Others will see even a slight diminution of the role of the national award system as removing a safety net for the relatively poor in our society or even as emasculation of the trade union movement by company 'sweetheart' unions. Our judgment is that none of these dangers is great, and that they are outweighed by the potential value of a broadly supported change in the labour market.

It may be that some changes will be needed to the rules for registered unions (beyond the removal of present limitations which would be inconsistent with reliance on their bargaining skills), akin to the rules which society prescribes for the takeover of one company by another. There is certainly no reason why this possibility should not be discussed now in the context of the Green Paper by those intimately involved with the administration of unions. But equally, the Economic Monitoring Group would be content to leave the issues to be considered in the light of experience with the first steps suggested here. This applies to many other issues too. For example, there are indeed points to be considered about the role of the Minister of Labour in industrial disputes. Over the years, there have been many suggestions that the Minister should be more remote from day to day negotiations, reserving the power and prestige of the office for important interventions and diminishing the political element in wage negotiations. Several ministers have tried to follow that advice. But a small community expects its ministers to be active; if there is a problem, the relevant minister is expected to do something about it, preferably effectively. We think that this is essentially a side-issue. If the labour framework is right, it matters little whether or not the Minister talks to parties in a dispute. If third-parties are involved, it is appropriate that the Minister and his or her colleagues should take whatever steps are possible to minimise the costs they incur, leaving the parties involved to sort out their own differences, using and paying for official aids if they so wish.

CONCLUSION

We conclude therefore that discussion of the future of labour market policy should proceed with a recognition that the New Zealand labour market is not as inflexible as is often alleged, but that we could probably achieve a more efficient and equitable use of our resources by enhancing the role of bargaining and providing for more freedom to choose different bargaining patterns. We recommend that there should be widespread consultation in the search for support for such a change. Implementation of it, should such agreement be forthcoming, should be gradual with the first step being a change in the criteria by which new unions and changed coverage by existing unions should be accepted by the registrar of industrial unions.

It is not easy to secure change in a labour market. Many people are involved and their behaviour is often governed by long held custom or convention and by deeply-felt beliefs. It is very easy for a public debate to get sidetracked on to essentially minor

peripheral matters. In Australia, the recent Hancock enquiry²⁵ suggested some significant changes to the existing situation which has many points of similarity with our own as well as some differences, but the media debate missed the broad thrust of the report. In Britain, most concentration has been on matters like secondary picketing rather than on fundamental change. Indeed, a recent study of the closed shop, one of the major issues in British labour market policy over the last ten years or so, concludes that its economic significance was much less than the political debate suggested, both in terms of the advantages of closed shops to managements and of the loss of freedom which closed shops can involve, and in terms of both the growth of closed shops in the 1970s when they were favoured by legislation and their subsequent decline.²⁶

It is likely that a similar conclusion would hold for recent debates about labour market policy in New Zealand. In the 1970s, most political discussion was about the provisions for penalties in the industrial relations legislation although there were more important efforts then to clarify the distinction between disputes of rights and disputes of interest - which approximate disputes about the interpretation of awards, especially their application to individuals, and disputes over wage-rates. In the last few years, there has been much debate about compulsory and voluntary unionism without a great deal of analysis of what was being sought from the operations of the labour market. It turns on a political judgment of the relative attractions of individual freedom and of the desirability of ensuring that those who benefit from some organisation should bear the costs of its operations. The balance of advantage can be debated, but in the approach adopted here, the issues of registration, blanket coverage, conciliation and arbitration are not immediately affected. It would be unfortunate if attention were diverted from these areas which promise economic and social benefit.

Widespread understanding and support is needed if changes of a fundamental kind are to be achieved. The government's Green Paper on Industrial Relations is an attempt to initiate a process leading to that objective. This report is intended as a further contribution to it.

25 *Report of the Committee of Enquiry into the Industrial Relations System* (Canberra:AGPO, 1985).

26 S. Dunn & J. Gerrard, *The Closed Shop in British History* (London:Macmillan, 1984).

APPENDIX 1

Disaggregation of Price and Quantity Changes

The Department of Statistics Prevailing Weekly Wage Rate Index is the only survey that strictly measures price changes. Using this index, base year Quarterly Employment Survey data were extrapolated to 1985. However using the Prevailing Wage Rate Index meant restricting the manufacturing industry groupings to 9 and the original movement seen with 12 and 77 industry groups was lost. The nine groups are shown in Infograms 21 and 22. Infogram 21 shows the actual wage rate paid at this level of aggregation, the data being analogous to that used earlier and therefore reflecting both price and quantity changes. Infogram 22 shows estimates of the average wages that would have prevailed had only the wage rate changed. They are calculated from the index of prevailing weekly wages as detailed in the footnotes to the table. The industries were then ranked and correlation coefficients calculated in the same manner as used earlier and the results are shown in Infogram 23.

This suggests that the movement of people has been more significant than changes of wage rates in promoting 'flexibility'. But the limitations of this exercise are great. The statistical basis of the prevailing wage index is not designed for this kind of exercise. The level of aggregation is much greater than is desirable with the variability in the ranking of industries by wages paid coming from changes in the order of non-metallic mineral products and the machinery and metal products while the variability in the ranking of industries by wage rates comes from changes in the ordering of those industries and of wood and wood products and other machinery. The result therefore cannot be regarded as at all a strong one.

**Infogram 21:
Quarterly Employment Survey Results**

Industry	April 1978	April 1979	Feb 1980	Feb 1981	Feb 1982	Feb 1983	Feb 1984	Feb 1985
Food, Beverages & Tobacco	4.077	4.857	5.69	6.74	7.81	8.52	8.61	9.55
Textiles, Apparel & Leather	3.050	3.499	4.01	4.79	5.53	5.77	5.82	6.39
Wood & Wood Products	3.295	3.796	4.28	5.14	6.17	6.51	6.62	7.13
Paper, Printing & Publishing	3.814	4.508	5.27	6.43	7.60	8.04	8.21	8.91
Chemicals, Petroleum & Plastics	3.754	4.276	5.05	6.11	7.26	7.61	7.63	8.43
Non-metallic Mineral Products	3.434	4.089	4.67	5.47	6.51	6.95	7.02	7.39
Basic Metals	4.320	4.889	6.04	7.25	8.50	8.90	8.99	9.95
Machinery & Metal Products	3.476	3.992	4.67	5.41	6.42	6.80	6.89	7.46
Other Manufacturing	3.122	3.571	4.09	4.85	5.86	6.00	6.11	6.77
Mean	3.59	4.16	4.86	5.80	6.85	7.23	7.32	8.00
Standard deviation	0.41	0.48	0.67	0.82	0.93	1.04	1.04	1.19

**Infogram 22:
Extrapolated Results (Using Index)**

Industry	Mar 1978	Mar 1979	Mar 1980	Mar 1981	Mar 1982	Mar 1983	Mar 1984	Mar 1985
Food, Beverages & Tobacco	4.077	5.06	6.07	6.74	7.89	8.06	8.03	8.87
Textiles, Apparel & Leather	3.050	3.53	4.18	4.93	5.75	5.80	5.78	6.31
Wood & Wood Products	3.295	3.76	4.30	5.11	6.09	6.32	6.34	6.78
Paper, Printing & Publishing	3.814	4.50	5.31	6.34	7.51	7.68	7.74	8.25
Chemicals, Petroleum & Plastics	3.754	4.36	5.17	6.13	7.14	7.27	7.31	7.89
Non-metallic Mineral Products	3.434	4.04	7.75	5.66	6.70	6.94	6.92	7.52
Basic Metals	4.320	5.15	6.14	7.32	8.60	8.60	8.60	9.20
Machinery & Metal Products	3.476	4.08	4.84	5.79	6.84	6.85	6.85	7.46
Other Manufacturing	3.122	3.59	4.29	5.04	6.06	6.38	6.38	6.80
Mean	3.59	4.23	5.01	5.90	6.95	7.10	7.11	7.68
Standard deviation	0.41	0.56	0.69	0.77	0.88	0.85	0.85	0.92

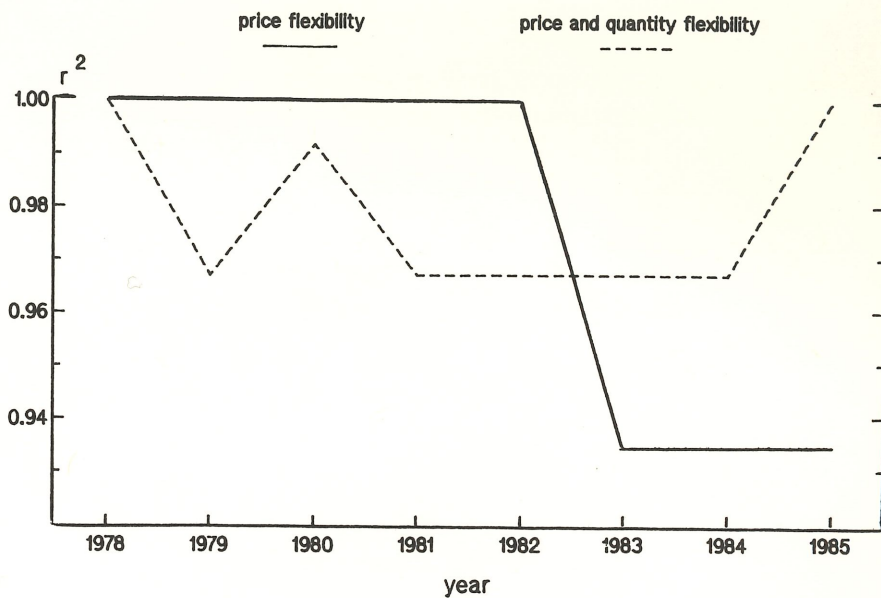
Note

The extrapolated results for Table 2 were derived in the following way. The actual wage rate paid in April 1978 was 4.077 (as measured by the QES). The prevailing weekly wage rate index in March 1978 was 1022 and in March 1979 was 1268. Therefore the wage rate figure for 1979 is $\frac{1268 \times 4.077}{1022} + 5.06$

In March 1980 the index was 1522 so the wage rate figure for 1980 = $\frac{1522 \times 4.077}{1022} = 6.07$

Infogram 23

**Stability of Industry Wage Structures
(9 Industry Data Set)**



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