

**DRAFT**

**EMBARGOED UNTIL 10.00AM TUESDAY 31 JULY 1990**

**Managing Change in Industrial Relations Conference**  
**Institute for International Research**

**Where to Now in Labour Relations?**

**Douglas Myers**  
**VICE-CHAIRMAN**  
**NEW ZEALAND BUSINESS ROUNDTABLE**

**AUCKLAND**  
**31 JULY 1990**

## WHERE TO NOW IN LABOUR RELATIONS?

This conference is about change in labour relations, which is one of the absolute imperatives for an incoming government after the general election. Labour market reform ranks only with the need to reverse the blow-out in government spending and to fundamentally rethink policies in the areas of health, education and social welfare as the top priorities a new government will face.

New Zealand has implemented a partial set of economic reforms. Quite predictably, it has derived a partial set of benefits from them. We are experiencing the benefits of lower inflation, higher productivity in many public and private sector enterprises and a pattern of production which more closely reflects real economic costs and consumer demands.

But the economy is still only on a weak recovery path. We are still not competitive enough internationally. Our levels of debt are still extremely high, making us vulnerable to adverse external events.

The tragedy for New Zealand, not least for the 7 percent of the workforce now unemployed, is that the bold and courageous programme of economic reform initiated in 1984 has not been carried through. This is not just the analysis of the Business Roundtable, but of many groups and observers both here and abroad. The OECD, for example, recently told the government that:

"[S]low progress in improving the flexibility of labour markets, reducing protection, reforming the tax-benefit system and cutting Government expenditure may explain why the broader economic benefits of the comprehensive reforms adopted since 1984 have been slow to appear."

The government's failure to get its own house in order has been a central cause of the weak state of economic activity over the past two years. Despite the massive cutbacks in assistance to the private sector and subsidies to state-owned enterprises, government spending has continued to rise. The government's insatiable appetite for tax has starved the private sector of resources. The contrast with the Hawke government's record in Australia is striking. Through tough budgetary disciplines, particularly on welfare benefits, federal government spending has fallen from 30 percent of GDP in 1984/85 to 23.4 percent in 1989/90. In New Zealand the government's record has been much more like the big spending behaviour of the Whitlam and Kirk Labour governments of the 1970s.

To enable the private sector to play its role of generating growth and wealth, an incoming government must take action to decisively shrink the public sector. The Wellington Chamber of Commerce has recently argued that the government share in the economy should be reduced to 25-30 percent of GDP over the next 10 years. The National Party endorsed the concept of a smaller public sector in its Economic

Vision statement in March, but it has yet to back this up with specific policies. Indeed its plans for the single largest item of government spending, superannuation, involve additional costs of around half a billion dollars.

New Zealand's fiscal problems are closely linked to the failures in the areas of labour market and social policy reform. The slow progress in creating a more flexible labour market has meant that the restructuring and disinflation process has condemned many people to unemployment, and for longer periods. At the same time, welfare arrangements make benefits a rational choice for many. Consequently the cost of welfare benefit payments has mushroomed. Similarly the decision making structures in health and education have meant that large increases in funding have been dissipated with negligible improvements in performance. The extension of an unreformed accident compensation scheme to sickness, announced in the Budget, will only make this problem worse.

Instead of a vicious circle of a rigid labour market leading to increasing numbers of beneficiaries leading to higher spending and tax burdens, an incoming government must initiate a virtuous circle. In many respects labour market reform is now the most straightforward part of the task. Both developments over the last few years and shifts in the intellectual debate have prepared the ground for accelerated progress.

In fairness to the government, it has to be acknowledged that a great deal of change has occurred in New Zealand workplaces in recent years, and most of it has been positive. Many firms and their employees have cooperated in finding better ways of working. Not before time, managements have put more effort into employee relations. In the harsh business climate, workers have become more realistic, more conscious of firm profitability and job security, and more sceptical of militant union behaviour. A positive foundation is developing for much further progress in the 1990s.

The main factors that have brought this about have been the new competitive environment, the refusal by the government to validate soft wage settlements by loosening monetary policy, and the government's insistence that industrial disputes are a matter for the parties to resolve, not the government. These factors have greatly altered bargaining behaviour. It is an achievement that rates of nominal wage increase have fallen with falling inflation, contrary to experience in Australia, the United Kingdom and Sweden. If this progress is cemented in during the next wage round, in line with the performance of, say, Holland, where both inflation and wage increases are running at about 2.5 percent per annum, we shall have laid a basis for sustainably low inflation and improvements in competitiveness and employment growth.

Regrettably, the government has done little to facilitate these changes by consistent reforms of our labour laws. The changes have occurred despite the impediments of the current outdated system, not because of improvements to it. For every step forward the government has taken, it has taken another step back. In 1984 it brought in voluntary arbitration but reintroduced compulsory unionism. In the 1987 Labour

Relations Act it introduced limited mechanisms for moving from national awards to enterprise bargaining but imposed a minimum union size of 1000 members which made it harder to do so. This year, in recognition that bargaining reform under the Labour Relations Act has been disappointingly slow, it has proposed legislation aimed at speeding it up which involves a step back to compulsory arbitration. Its employment equity legislation would return us to bureaucratic wage-fixing. Basically, trapped by the vested interests in its ranks and the confused thinking of Ministers of Labour, the government has gone round in circles in this area.

Clinging to straws, ministers point to agreements in companies like Firestone, Nissan and Fortex, and in the dairy industry, as evidence that change is occurring. But agreements of this sort are not novel; they could and did occur under the previous legislation. As Lindsay Fergusson pointed out to this conference last year, the contention of advocates of greater change is not that nothing has happened. It is that not enough has been done, and done fast enough, to help New Zealand firms and workers cope with adjustment and global competition and to avoid the unnecessary unemployment costs associated with restructuring. The relevant bottom line is not a handful of constructive settlements; it is an uncompetitive economy with a large current account deficit and 150,000 New Zealanders who are not working.

My strong impression is that comprehensive labour market reform is an idea whose time has come. Public opinion surveys show majorities of around 70 percent or more – including among trade union members – in favour of enterprise bargaining, voluntary union membership and worker choice of union representation. A recent *Evening Post* editorial referred to the realisation that unions are about to lose their protected status: "more rapidly under a National Government but just as likely, if not as far-reaching, under Labour." It argued that the complex array of restrictive practices and other protections unions enjoy should be challenged, and pointed out that unions would have to demonstrate to members that they are meeting their needs in a modern economy "with its demand for more skills, the greater numbers of female workers and moves away from manufacturing into service industries."

There is still time for the government to rectify its mistakes in this area. The OECD said that further labour reforms should be an urgent priority. Employer groups have pointed out how the current amendments to the Labour Relations Act could be improved in a way that would assist progress in renegotiating forthcoming awards, and the government could put before the electorate some positive plans for the next parliamentary term. But I am not optimistic about such a change of heart. This is not because of attitudes among realistic union leaders. Colin Clark of the PSA recently acknowledged merit in the state sector reforms. Many senior labour politicians are talking openly about the inevitability of changes and the likelihood, as in the United Kingdom, that no future Labour government will turn the clock back.

Rather the resistance comes from the hard left in the party and caucus. At a time when socialism is being branded as "the economics of the lunatic asylum," Ruth Dyson describes herself as a socialist and calls for marches in the streets against voluntary unionism. Pat Kelly, who has always appeared uncomfortable

with the trend towards greater workplace cooperation and trust, is spoiling for a return to a world of confrontation. He will be disappointed. Further out on the ideological spectrum, CTU member Bill Andersen was last year praising corrupt and bankrupt East Germany as the ideal society. This year it will disappear from the map: not even Germans could make a collectivist regime work. What is to be done about such people? The answer, as one of my favourite columnists has pointed out, is nothing. Like the dinosaurs, they are part of a passing era, and we shall not mourn their passing.

In such quarters, there is still an abundance of Marxist rhetoric that the agenda of those calling for a more flexible labour market is downwards wage flexibility and the creation of wage slavery. The Minister of Labour seems to have adopted this mantra. It is understandable that many people remain prisoners of past habits of thought. As one participant in the recent Soviet Communist Party Congress put it:

"You have to remember that for seven decades our propaganda drummed home the message that market economics means fat capitalists exploiting starving workers and peasants. You can't change everyone's thinking overnight, but the terrible state we are in now is compelling many people to move away from the old stereotypes."

This is certainly the case in the New Zealand debate. Recently a Planning Council paper correctly defined labour market flexibility as a policy leading to sustainable full employment whilst maximising growth in real incomes. Self-evidently, these are outcomes which New Zealand has not had. Our unemployment rate is now above the OECD average. The Trade Development Board recently drew attention to the fact that while real wages had increased in our major trading partners by between 70 and 170 percent since 1960, real wages in New Zealand have not grown at all. This is a staggering indictment of our economic and labour market policies.

I believe New Zealanders have understood the meaning of these statistics. Developments in the real world are blowing away the myth-making about labour market deregulation. A highly visible case is the recent waterfront reforms. The abolition of the hyper-regulated port employment system from 1 October 1989 has led to extraordinary changes. The productivity improvements have been dramatic. Stevedoring charges have been reduced by between 20 and 50 percent. Ship turnaround times have been halved. Annual cost savings are already estimated at \$58 million. The 'them and us' attitude is going. Stevedores are quicker to question what they are told by their union. Casual staffing has been a great success. Women are being employed. And employees are earning more than ever before – around \$48,000 a year on average. There is still a long way to go on the waterfront, and the restrictions of the Labour Relations Act remain an obstacle to greater achievements. But it is a microcosm of what ought to be possible on a much larger scale in a freer environment.

Another rhetorical theme is that a labour relations system based on freedom of association and freedom of contract may be all right for larger employers and metropolitan workforces, but will work against the interests of 'unprotected' workers in small firms and small towns. Similarly it is argued that measures like voluntary unionism will weaken the position of workers in industries like retailing but do nothing to break down industrial power in problem areas like the meat industry or construction.

These propositions are so silly as to be almost incomprehensible. A case study released by the Business Roundtable last week gives the lie to both these myths. The study looked at a prototypical 'small firm in Otaki', in this case a meat processing works. Both the firm and its workforce wanted to break away from the conflict and inefficiency which brought the meat processing industry to its knees. They were prepared alternatively to operate a non-union site, to have a plant agreement, or to be covered by a union other than the Meatworkers Union. They were thwarted by the law and the union at every turn. Two years later the company is in receivership and many of the workers have lost their livelihood. It is a classic illustration of everything that is wrong with labour relations in New Zealand, and of the difficulties of starting a small business in this environment.

There is little support for the view that the relationship between employers and workers in small firms needs government nannying. One survey showed that there is no strong public belief that union coverage for workers is more necessary in small firms or small towns. Even amongst trade union members, half thought it made little difference. Not just large employers but 80 percent of employers covered in an Employers Federation survey wanted to move to enterprise bargaining. A poll last year showed that employees in the retail industry were more strongly in favour of voluntary unionism than most other occupational groups. When it is realised that around half the New Zealand workforce is already non-unionised, that most New Zealand enterprises are small, and that most of them are characterised by close and harmonious employee relations, it becomes clear that it is absurd to suggest that a freer regime would disadvantage workers in small firms. Politicians and journalists who cling to these ideas should get out into the real world, including the high growth, high employment economies in the Asia-Pacific region, to see what good employment relationships are all about.

I do not want to suggest there is no downside to moves towards a freer system of employment contracts. Union officials hitherto protected by compulsory membership rules and exclusive coverage will have to adjust and improve their performance, or they will lose members. If existing retail unions do not agree to modify rigid policies about penalty rates, for example, jobs and members will go to unions who will. Some unions whose members have won extravagant conditions at the expense of other workers will be threatened by new competition. Some employers who have coat-tailed on national awards, used them to impose costs on weaker competitors, or to avoid facing up to their own employee relations issues, will lose out to those who adopt more productive strategies. But it goes without saying that those interests should not be allowed to prevail over the interests of the majority of New Zealand workers and firms and the unemployed, as they do at present.

I said earlier that I believe comprehensive labour relations reform is an idea whose time has come. But much remains to be done to put it into effect. Clearly there will be vested interests who continue to oppose change. At the policy level, they will include the Department of Labour, which is a creature of the industrial conciliation and arbitration system and which fought against proposals for major reforms at the time of the debate on the Labour Relations Act. They will also include the Labour Court, which has progressively sought to extend its reach and has been delivering a series of extraordinary judgments which pose a huge threat to small business growth and job creation. Much thought needs to be given to the details of a legal regime based on contractual freedoms, including the statutory guidance needed to get the interpretation of the law back on track.

At the workplace level, I believe the task will be somewhat easier, particularly for those firms which have invested heavily in fostering employee involvement and building a sense of mutual interest and trust in recent years. A few unions, oblivious as always to their members' real interests, are said to be planning to offer employers minimal wage increases in the coming award round, on condition of preserving national awards. As soon as policy changes occur, however, I believe workers will quickly see where their best interests lie. Speculation that the changes will lead to conflict and disruption are likely to be wide of the mark. For most industries they will represent an extension of changes in employment and work practices that are already well underway, rather than a quantum leap. Some who have been holding back will be able to move quickly, while others will take their time. Not everyone will want to move to enterprise arrangements; some industry agreements and even a few national occupational awards are likely to survive. But the direction will be clear, and the rate of change towards more productive arrangements will be greatly accelerated.

The forces that are driving us away from a centrally planned bargaining system towards a free labour market are the irresistible forces of international competition. With all forms of centralism crumbling around the world, the 1990s may turn out to be the most dynamic decade of economic progress this century. An Australian visitor recently expressed the view that if New Zealand deregulated its labour market and brought it within the province of ordinary contractual law, our growth rates would leap to a minimum of 7 or 8 percent per annum. I don't know what the figure would be, and I suspect firm action will be needed in the other areas I mentioned before we could enjoy gains of that magnitude. But I have no doubt that the benefits of comprehensive labour market reform will be immense, and that the sooner we achieve them the better.