

# Employment Relations Reforms and New Zealand's 'Productivity Paradox'

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## Abstract

*In Australia, it has been debated whether the Fair Work Act (FWA) has a negative or positive impact on productivity growth. Likewise, in New Zealand, there has also been considerable interest and debate about that country's so-called 'productivity paradox', though this has yet to be linked to employment relations legislation in recent debates. This is surprising since it has been an explicit aim to raise productivity growth of the two last employment relations reforms. This paper will focus on how employment relations has been supposed to impact on productivity growth during the Employment Contracts Act 1991 and the Employment Relations Act 2000 periods. It will discuss why employment relations reforms have yet to shift the productivity growth and explanations of the 'productivity paradox' so far. This includes how employer attitudes and behaviours may be part of the productivity 'paradox' as well as a brief overview of the research and approaches of the Productivity Commission. The paper suggests that, while employment relations can play a part in lifting productivity levels, what is crucial are contextual factors and how employment relations and other policies combine to reinforce each other.*

JEL Classification Codes:

E24 Aggregate Labour Productivity

J24 Labour Productivity

J5 Labour-Management Relations, Trade Unions and Collective Bargaining

J8 Labour Standards

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## 1. Introduction

There is a current concern about productivity growth in several OECD countries (see, for example, Andrews, Criscuolo, & Gal, 2016; Askenazy, Bellmann, Bryson, & Galbis, 2016), including in Australia (Peetz, 2012; Productivity Commission, 2017). This is also the case in New Zealand but the difference is that New Zealand concerns over lack-lustre productivity growth have now existed for several decades. These concerns were part of the economic rationale for the so-called New Zealand 'experiment' with radical neo-liberal policies in the 1980s and 1990s (Castles et al., 1996; Kelsey, 1997) and yet neither that program nor the subsequent Labour Government's centre left policies resulted in any significant improvement in New Zealand's productivity growth rates.

This paper focuses on the New Zealand productivity debate and how employment relations has been supposed to impact on productivity growth during the 1991 – 1999 Employment Contracts Act (ECA) and the post-2000 Employment Relations Act (ERA) periods. It draws on employment relations analyses, official statistics, research on productivity and our own empirical research to discuss why employment relations reforms have yet to shift the productivity growth rate and what explanations have been provided for this 'paradox' so far. In particular, it addresses two issues. First, what is the influence of employers on public policy changes and to what extent are employer attitudes and behaviours part of the productivity 'paradox'? Second, it will briefly overview the research and approaches of the New Zealand Productivity Commission and how the Government has responded to its public policy suggestions (New Zealand Productivity Commission, 2016).

There has been a heated debate in Australia over the economic and productivity impact of the Fair Work Act (FWA) where there has been strong employer criticism of the FWA framework (see Bray & Stewart, 2013, pp. 20-22). While a review of the FWA by McCullum, Moore and Edwards (2012) came to a positive evaluation of the FWA's impact on Australia's prosperity it also stressed: "The exception has been productivity growth, which has been disappointing in the FW Act framework and in the two preceding frameworks over the last decade." (McCullum *et al.* 2012, p. 19). The Australian Productivity Commission has specifically considered the place of employment relations in contributing to productivity growth (Productivity Commission, 2015a, 2015b) and noted that the growth in multifactor productivity during the 1990s had been attributed to the reforms of the 1970s and 1980s including 'the shift away from centralised wage determination to enterprise bargaining' (Productivity Commission, 2017, p.11). Their conclusion in their 2015 enquiry into the Australian workplace relations framework, however, was that '[d]espite strong theoretical grounds for expecting productivity effects from [workplace relations] reform, Australian studies have found little evidence of such a relationship. The absence of evidence is attributable to limited data and, more fundamentally, the difficulty of disentangling the determinants of productivity growth' (Productivity Commission, 2015b, p.1134). Finally, Peetz (2012) has downplayed the FWA's possible productivity impact and raised doubt whether such legislative framework changes will have much productivity impact.

Unlike in Australia, there has been limited debate in New Zealand on the link between the ERA and productivity growth (though see Haworth, 2010). It is, for example, noticeable that the New Zealand Productivity Commission has yet to produce a detailed analysis of the possible links between employment relations and increased productivity growth. This is somewhat surprising given that, as we discuss below, employment relations reforms have been driven by productivity concerns, with employment relations changes expected to have a positive impact on productivity growth. The ECA period and the ERA period reflect rather different understandings of how employment relations change would facilitate such growth but a clear linkage was advocated by the political proponents in both cases. While the productivity effects of employment relations may have been overstated (Peetz, 2012) our analysis suggests that while employment relations can indeed play a part in lifting productivity levels, what is really crucial are the contextual factors and how employment relations and other policies are combined to reinforce each other.

## 2. New Zealand's productivity trends and its productivity 'paradox'

New Zealand's long-run productivity growth performance over the last three or four decades has been lack-lustre compared with other OECD countries (Conway & Meehan, 2013; de Serres, Yashiro, & Boulohol, 2014). Over the period 1978 to 2011, labour productivity growth in the measured sector has averaged only 1.9 per cent per annum (see Table 1) and GDP per capita has fallen from above the OECD average in the 1970s to 79 per cent of the mean by 2010 (see Figure 1) (Conway & Meehan, 2013).

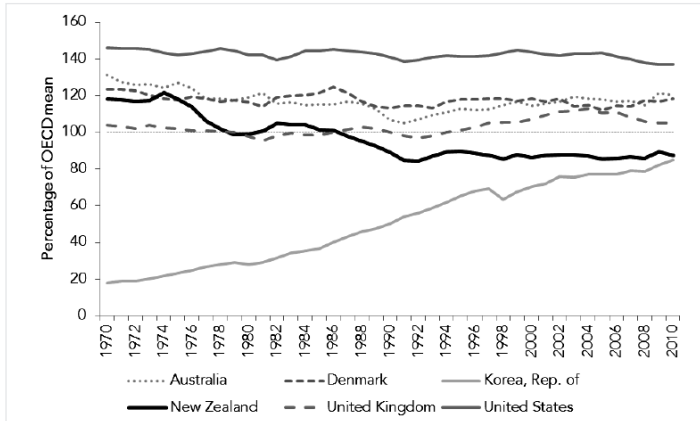
Table 1: Labour productivity growth by sector for selected time periods (annual average percentage growth rate)

<i>Period</i>	<i>Measured sector</i>	<i>Primary sector</i>	<i>Goods sector</i>	<i>Services sector</i>	<i>ICT-intensive industries</i>
1978-1985	1.8	2.3	2.2	0.6	2.5
1985-1990	2.7	6.8	1.8	1.5	0.5
1990-2000	2.6	4.6	1.5	2.1	3.3
2000-2008	1.3	1.3	0.6	1.7	2.0
2008-2011*	0.5	1.3	0.8	0.1	1.0
1978-2011	1.9	3.3	1.4	1.4	2.2

*Source:* Conway and Meehan, (2013, p. 13). \*2008-2011 is an incomplete productivity cycle.

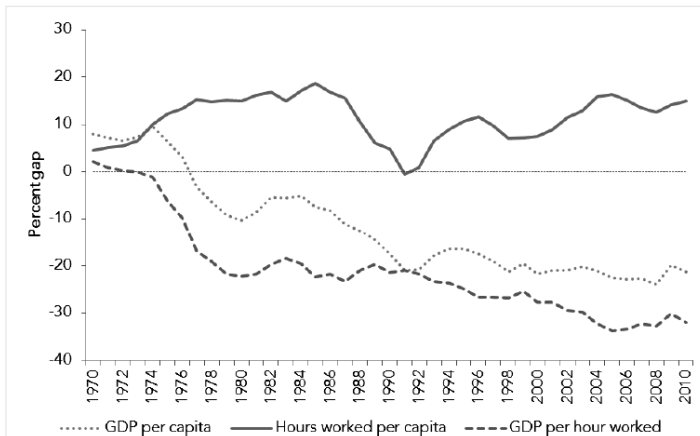
Output per capita, which had fallen substantially during the 1970s and 1980s, has remained more or less constant over the period since 2000, however, as Conway and Meehan (2013: 24) point out, this was due primarily to increased labour force participation and lower unemployment. Output per hour worked has continued to slip relative to the average across 19 other OECD countries (see Figure 2).

Figure 1: GDP per capita as a percentage of the OECD mean (US\$ PPPs)



Source: Conway and Meehan, 2013, p.23

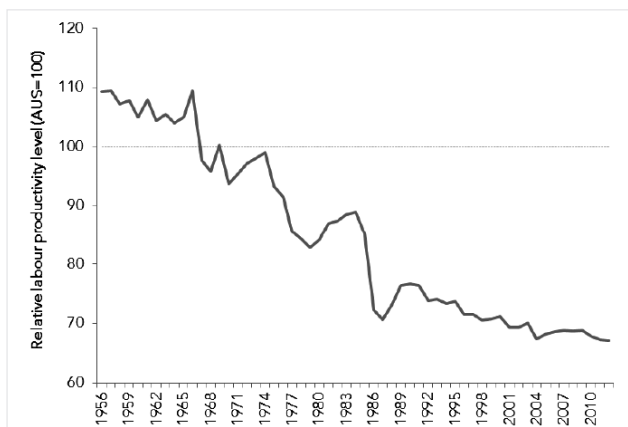
Figure 2: Productivity gaps expressed as percentage of the average of selected OECD countries



Source: Conway and Meehan, 2013, p.24

The same trend is observed in New Zealand's labour productivity performance relative to Australia's (see Figure 3). From a situation of higher GDP per hour worked at the beginning of the 1970s, New Zealand has declined dramatically to around two-thirds of Australia's output per hour. The sharpest falls were in the 1970s and 1980s, but the decline has continued since then. Figure 3 puts the current Australian concerns about labour productivity growth in a relative perspective: though neither country can be pleased about their productivity growth it is clear that New Zealand's productivity performance is at a different and much more concerning level.

Figure 3: GDP per hour worked in New Zealand relative to Australia



Source: The Conference Board data, cited in Conway and Meehan, 2013, p.27

New Zealand's poor productivity performance has been described as a 'paradox' (De Serres *et al.*, 2014). This paradox has two aspects. First, the supposedly favourable policy setting should have resulted in stronger average productivity growth rates. One OECD study puts the gap in New Zealand's GDP per capita compared to the OECD average at about 40 percentage points on this basis (Barnes, *et al.*, 2011). Second, and given the favourable policy settings, economic theory suggests a process of convergence should occur with New Zealand moving towards higher productivity countries as productivity enhancements are introduced into, and diffuse through, the New Zealand economy and labour market (Conway & Meehan, 2013, p. 33).

De Serres, *et al.* (2014) identify two main factors for New Zealand's productivity gap. Using different methods from Barnes *et al.*, they estimate that 'remote access to markets and suppliers, and low investment in innovation (as measured by R&D intensity) could together account for between 17 to 22 percentage points of the 27 per cent productivity gap vis-à-vis the average of 20 OECD countries' (de Serres *et al.*, 2014, p. iii). They note also that there is 'room for catch up' in managerial practices – as discussed further below - but do not identify employment relations as an issue. While these factors may help explain the productivity gap, remoteness cannot explain the deterioration in New Zealand's performance, given that its trading patterns have, if anything become geographically closer rather more remote over time.

The New Zealand Productivity Commission has published a series of reports, including *Achieving New Zealand's productivity potential* (Productivity Commission, 2016) but do not identify employment relations as a key issue. *Achieving New Zealand's productivity potential* focuses on five key areas – international connections, innovation and science, the labour market, competitive intensity and policy capability (Productivity Commission, 2016, p. 51). The labour market-related recommendations relate to three areas, skills, housing and migration. The discussion on skills emphasises improving the

education sector and on reducing skills mismatch. Employment relations, the potential productivity-enhancing role of employers in workplace training, and incentives on employers to improve their existing workforce's productivity (including the role of increased employee participation), are only indirectly mentioned. This is a surprising omission given the obvious fact that the great majority of the workforce of the next ten years are already in the workforce today. The analysis of migration notes that 'within industries, migrants tend to be relatively poorly paid and migrant employment has increased strongly in some lower-productivity industries such as hospitality and tourism, retail trade, support services, and primary' (New Zealand Productivity Commission, 2016, p. 66). The link is also made between inflows of low-skilled migrants possibly restricting wage growth and firms opting for a 'reliance on cheap labour' rather than investment and productivity improvements. This is an important point. In recent years, expansion of the supply of labour through immigration has acted to dampen wage growth pressure which, in turn, reduces the incentive on firms to invest in productivity-enhancing human and physical capital growth.

### 3. Employment relations reforms and productivity

The so-called 'New Zealand experiment', starting under a Labour Government in 1984, was driven by radical policy changes that sought to transform the economy towards being open, market-orientated and flexible. While it was a very comprehensive transformation (Castles *et al.*, 1996; Kelsey, 1997), the associated employment relations changes were more timid in the 1980s (Deeks, 1990; Walsh, 1989). There was ongoing pressure to adjust the century-old conciliation and arbitration system and there were some key adjustments such as compulsory arbitration being abolished in 1984, radical public sector reforms in 1986, 1988 and 1989, and the passage of the Labour Relations Act in 1987 (see Rasmussen, 2009, pp. 67-74). These adjustments and an economic downturn started to influence bargaining strategies and outcomes, especially in the public sectors, in the late 1980s but gathered momentum after the election of the centre-right National Government in 1990 and the passage of the Employment Contracts Act 1991.

The Employment Contracts Act 1991 was the result of sustained employer advocacy for radical change to decentralise and individualise bargaining and allow for 'more flexibility' (Harris & Twinaime, 1998). It was a minimalistic, non-prescriptive Act<sup>1</sup> which sought 'to promote an efficient labour market' through a *laissez faire* approach to bargaining. It abolished the conciliation and arbitration system, 'forgot' to mention unions and raised the significance and protection of individual employment contracts. This facilitated dramatic changes in collective bargaining, union membership and employment conditions during 1991-1995. At the time the ECA 1991 was introduced,

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<sup>1</sup> It is important for Australian readers to understand that the ECA 1991 was a very different type of legislation compared to the Work Choices Act (the Workplace Relations Amendment (Work Choices) Act 2005). For example, the ECA 1991 had very few legislative prescriptions and was only 90 pages long, compared to the 762 pages long Work Choices Act. The ECA 1991 also had an immediate effect by abolishing the award system, by making unions one of many possible 'bargaining agents', by covering both collective and individual employment contracts and by extending the personal grievance right to all employees.

unemployment levels were over ten per cent and drastic cuts in unemployment benefits and other social welfare payments had been implemented in the December 1990 mini-budget. Unsurprisingly, there were strong downward pressures on pay and employment conditions and many employers took the opportunity to reduce or abolish penal rates and overtime payments, and to change working times and other employment contractual arrangements (Conway, 1999; Harbridge, 1993; McLaughlin; 2000). In short, the ECA gave employers greater freedom to institute 'more flexibility' in their workplaces:

'The proponents of the Employment Contract Act clearly believed that, by introducing voluntary unionism and altering the collective bargaining principles, they would overcome the ingrained productivity problems. This expectation was shared by many opponents of the Act since the notion of union practices being a constraint on labour productivity had been accepted widely amongst New Zealand analysts.' (Rasmussen, 2009, p. 449).

However, by the mid-1990s studies were suggesting that the expected productivity effect had failed to occur (for an overview of estimates, see Rasmussen, 2009, p. 449).<sup>2</sup> This is the start of the so-called New Zealand 'productivity paradox'. It was so firmly expected that an open economy, reduction of competition barriers and in particular, decentralised bargaining and employer driven flexibility would deliver higher productivity growth that many researchers and commentators were puzzled. How could this rather disappointing level of productivity growth be explained? There were several possible explanations offered at the time. These ranged from advocacy of more radical free-market reforms by the Business Roundtable to a 'third way' approach to economic management and more state intervention by left-wing analysts. The lack of consensus, radically different public policy prescriptions and often profound bewilderment were key characteristics of the productivity debate in the late-1990s. For the purpose of this paper, it is interesting to highlight the explanatory factors which were prevalent in the 1990s debate (Douglas, 1993; Easton, 1996; Rasmussen, 2009):

- The reforms had their own detrimental effects where the sheer scale created their own turmoil and productivity barriers. This included a rise in transaction costs through the many new regulations, fragmentation of bargaining, and loss of organisational 'memory'. The notion that institutional change itself impairs subsequent economic performance has recently been given empirical support by Brandl and Ibsen (2017).
- There was a lack of positive synergy between the various reforms, with government strategies often at loggerheads (Kelsey, 1997). This was also an argument that prompted unhappiness with the radical state sector reforms (see Boston, 1999).

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2 Five out of seven studies published between 1996 and 1998 estimated annual average labour productivity growth of less than one per cent. Later analysis of the same period did, however, suggest a higher rate than this. Conway *et al.* (2015) for example estimate labour productivity growth averaged 2.9 per cent in the 1990s (compared to their estimate of 2.5 per cent average in the 1980s, although they attribute a part of the late-1980s and early-1990s growth to labour-shedding associated with the economic reforms and low economic growth (Conway *et al.*, 2015 p. 37).

- There had been inadequate investment in infrastructure, education and training, and business renewal (NZCTU, 1996). Besides the low level of public expenditures in the 1987-1995 crisis years, commentators arguing this view also pointed to the privatisation of publicly-owned assets and out-flows of business profits to overseas owners.
- Finally, some questioned whether collective bargaining and unions were ever such a constraint on efficient work practices and whether employer driven flexibility would raise productivity growth levels as expected (Easton, 1997).

These debates clearly influenced the very different economic and social policies of the incoming Labour-led government in 1999 and reinforced the new Government's commitment to a different employment relations framework introduced in the form of the Employment Relations Act 2000. As emphasised by the then Minister of Labour, Margaret Wilson the new ERA framework was explicitly intended to improve labour productivity:

'The policies of structural adjustment that dominated the New Zealand policy environment from 1984 to 1999 were premised on the withdrawal of government economic decision-making except at the highest level, and on market forces being the governor of economic activity. The application of this approach to the labour market and the workplace was seen in the Employment Contracts Act. The consequences of this form of regulation were a low-wage, low-skill and low-labour-productivity workforce. ...the Employment Relations Act was an attempt to improved labour productivity through an inclusive approach to employment relations.' (Wilson, 2004, p. 9).

In addition to the ERA framework, the Government also established a Workplace Productivity Working Group in 2004 to develop more information and awareness about productivity growth factors, including a number of detailed workplace case studies (Department of Labour, 2008a). Interestingly, survey research found that many employers had an understanding of practices that could support productivity growth: better workplace culture, embedded skill development, better-trained managers, and so on (Department of Labour, 2008b). However, the same research also found that some employers reported facing significant cost, time and support barriers that prevented them from introducing new productive work practices.

Another initiative was the Workplace Partnership Centre, which highlighted and supported innovative workplace practices (Rasmussen & Tedestedt, 2017). The Centre drew – as had the Productivity Working Group – on international debates and experiences as well as on positive New Zealand case studies. However, the Centre also had a much more hands-on approach in supporting new working practices in two respects. First, the partnership approach surfaced in several collective bargaining negotiations, particularly in the public sector as the major public sector union Public Service Association was a strong supporter of public sector partnerships (Scoping a Partnership Resource, 2004). Second, the Centre worked with number of 'change agents' or consultants who had experience in workplace change and were trained in partnership approaches and techniques. These 'change agents' were available to

support organisations interested in exploring or implementing such workplace changes.

Thus, there were survey indications that many employers were aware of employment practices that could drive productivity growth and there was considerable support available to employers seeking to implement new work practices. However, these practices had limited coverage across the economy and had – as highlighted in Figures 1, 2 and 3 – little effect on the official productivity statistics during the 2000-2008 period.

Low productivity growth was clearly still a major public policy issue in the mid-2000s. Again, there were different explanations though it was noticeable that strong employment growth (bringing low-productivity workers into the workforce) and inadequate managerial capabilities appeared more frequently in the debate (Rasmussen & Foster, 2011). There were also more focus on low-paying jobs (Haworth, 2010), including the inability to constrain inefficient employers and work practices (Foster *et al.*, 2011; McLaughlin, 2010) than there had been in the 1990s. These explanations continue to influence the current debate in New Zealand and we will return to them below.

Still, there were also a re-appearance of some of the explanations from the 1990s. In particular, lack of investment was often highlighted and came in two different versions. First, the overhang of insufficient infrastructure investments during the post-1987 period was frequently mentioned as an issue that would take many years to recover from. Second, inadequate investments in training and skills surfaced in broadly based skill shortages and a ‘greying’ of skilled workers; a problem further exacerbated by high staff turnover and the emigration of skilled workers.

A variant of the lack of synergy argument was also raised. Haworth (2010, p. 157) highlights that a clear policy focus and delivering effective outcomes was difficult to achieve when key interventions were spread over several ministries and ‘co-ordination became a challenge.’ As Haworth notes, the Labour Government established a high-powered tripartite Growth and Innovation Advisory Board intended to advise on and promote its growth strategy. However, this proved to have little impact, largely because it had little direct power, and was soon side-lined.

Finally, it is notable that there were few mentions in these more recent debates of unions’ negative impact on productivity. This was probably a reflection of their limited involvement in workplace decision-making, plus the fact that the ERA’s assumption that more collectivism and inclusiveness would benefit productivity was never really tested because bargaining processes and outcomes failed to diverge radically from the patterns of the 1990s (Foster *et al.*, 2011).

The National-led government elected in 2008 decided to keep the ERA in place. The employment relations changes they introduced between 2008 and 2017 supported more employer-driven flexibility by constraining union activities and reducing employee rights (for an overview, see Table 2 in Foster & Rasmussen, 2017 p. 102). As mentioned above, it also instituted the New Zealand Productivity Commission. Again, the level of productivity growth was disappointing during the 2008 - 2017 period and again, the search for explanations is underway. It looks likely that some of the same explanatory factors will surface: insufficient investment, lack of positive reform synergies and issues surrounding low-paying, inefficient employers. At the same time, as is discussed further below, the Productivity Commission itself highlights a somewhat different set of factors.

There has been a stronger focus on employer behaviour and employment standards in the new millennium (Foster *et al.*, 2011; Rasmussen *et al.*, 2016) and, as mentioned above, there is now less focus on productivity barriers associated with unions and collective employment agreements. Instead management capabilities are generally seen as being weak and there are especially issues in the areas of employee engagement and innovation facilitation (Birchfield, 2011). While the weakness of management capabilities has been tested through research by the New Zealand Institute of Management (for example, see Matheson, 2009) it remains unclear why this is the case. It has been argued that the smallness of the economy, the predominance of small- and medium-sized firms with limited budgets and resources, and a short-term culture could be part of the explanation.

Insufficient and unfair employment standards have also been blamed on employer strategies and actions, especially in some of the fast-growing service sectors. This forced the National-led government to constrain zero-hours agreements, intervene in favour of higher wages in the age-care sector, and develop new employment standards legislation (Foster & Rasmussen, 2017). Still, surveys have shown that employers have generally been in favour of the National-led Government's reductions of employee rights and constraining union activities in the post-2008 period (Rasmussen & Foster, 2011; Rasmussen *et al.*, 2016). Rasmussen *et al.*'s analysis showed that employers particularly favoured changes that reduced constraints on their management of employment relations, such as the introduction of trial employment periods, the requirement for union representatives to obtain employer consent before entering a workplace and the ability for workers to 'cash up' their fourth week of annual leave (see Table 2).

Table 2: Employers in favour of, or opposed to, employment legislation changes

Legislative changes	% Responses				
	VMF	SWF	N	SWO	VMO
90-day trial periods in firms with <20 employees	60.6	20.6	14.6	1.5	2.7
Union requires consent to enter workplace	58.5	18.7	16.9	2.7	3.1
Penalties re-enter workplace	37.1	29.5	28.7	2.5	2.2
Employers must keep copy of EA	64.0	24.7	9.9	0.5	0.9
Extension of trial period option to all employers	66.3	21.0	9.6	2.0	1.1
Test of justification fair & reasonable in PGs	30.5	45.0	15.7	6.5	2.3
Must consider substance of case in dismissals & PGs	68.1	24.1	5.8	0.8	1.2
Reinstatement made one possible remedy	5.4	19.2	26.0	29.3	20.1
Option to cash up one week's annual leave	47.4	28.6	13.8	6.1	4.1
Transfer of public holiday to another day	39.2	26.6	21.3	5.0	7.9
Can require proof of sick leave within 3 days	73.0	21.4	4.1	0.8	0.7

Note: N=765. The abbreviations used to describe responses are: very much in favour (VMF), somewhat in favour (SWF), neutral (N), somewhat opposed (SWO), very much opposed (VMO).

EA = Employment agreement. PG = personal grievance

Source: Rasmussen *et al.*, 2016, Table 5 (wording amended).

The empirical research of Rasmussen *et al.* (2016) also showed that despite these changes the majority of employers wanted *further* flexibility enhancements. Moreover, there is a firm-size effect, with small- to medium-sized firms most strongly in favour of greater flexibility. On the basis of these findings it must be questioned, therefore, whether the National-led government and mainstream employers are really that interested in fostering better employment standards across New Zealand workplaces and how the 2008-2017 employment relations policies could ever lead to a high-wage, high-productivity economy.

It is too early to say much with precision about the new Labour-led government's likely approach to productivity increases. The Employment Relations Amendment Bill recently introduced into the House focuses primarily on reversing some of the changes made by the previous government and on equity issues. While these changes were expected, they have also been described as being "largely focused on the margins" by the President of Council of Trade Unions, Richard Wagstaff (2018, p. B4): "These changes alone won't be enough to achieve the Government's vision of productive, safe and well-paid working lives for all New Zealanders."

It appears likely, however, that the new Government will continue the same productivity thinking as the previous 2000 – 2008 Clark Governments, though with a stronger emphasis on investment in 'hard and soft infrastructure', collective bargaining, and minimum employment standards. This will re-affirm that collective bargaining and unions have a positive role to play (as stated in the ERA's Object Clause), that stronger investments in infrastructure, education and vocational training will underpin productivity and that targeting low-paying, inefficient employers can bolster overall productivity growth.

Thus, implementation of election promises appears to be underway (see Foster & Rasmussen, 2017; Wagstaff, 2018). So far, that includes a willingness to put more emphasis on sectoral collective agreements through proposed 'Fair Pay Agreements', effective policing of employment standards (a doubling of the number of labour inspectors has been promised), a substantially higher statutory minimum wage, improved legislative protection of contractors and enhancing pay and employment equity (following on from the recent tripartite approach in the age-care sector). Whether this will actually eventuate and whether it will lift the level of productivity growth will need to be analysed at a later stage.

There are, however, a number of possible interventions that are missing from the Labour-led Government's interventions and election promises. As mentioned, the Workplace Productivity Working Group and the Partnership Resource Centre were seeking to highlight productivity workplaces and embed productivity-enhancing work practices in the 2000-2008 period. In 2017 the Labour Party's election policies included an emphasis on high engagement-high performance initiatives but that emphasis appears to have disappeared during coalition negotiations with the New Zealand First Party. Currently, there are no firm initiatives mentioned in the public debate and, in particular, it has yet to be discussed how such productivity-enhancing work practices could be disseminated across the economy. It is also noticeable that there appears to be no inclination towards driving productivity through increased employee participation (Rasmussen & Tedestedt, 2017). Health and safety committees

in organisations with more than 20 employees is the only statutory employee participation structure in New Zealand. These committees are clearly expected to play a major role in overcoming New Zealand's problematic accident and fatality record supported by stronger penalties of managers and board members (Pashorina-Nichols, 2016). The potential productivity impact is seldom mentioned (however, see Lamm, 2010). There appears to be no plans to enhance productivity growth through other statutory employee participation structures – for example, works councils or employee directors – or through government support of voluntary participation schemes.

#### **4. How might employment relations play a part in lifting productivity levels?**

The Australian Productivity Commission concluded that its inability to find the expected productivity impacts of employment relations reforms was due to 'limited data and, more fundamentally, the difficulty of disentangling the determinants of productivity growth' (Productivity Commission, 2015b, p. 1134). Peetz, in his review of employment relations and economic performance, concludes that it is not possible to say that 'if IR policy is altered at the national level, it is going to have a widespread or noticeable impact on productivity', arguing rather that it is what happens at the workplace that matters (Peetz, 2012, p. 286).

Are there, then, reasons for thinking that employment relations policy changes under the 2017 Labour-led Government may have more success in raising productivity growth in New Zealand? On their own, probably not. However, in the current economic and labour market context and in conjunction with other policies, there are grounds for a more optimistic view. This optimistic view is rather speculative since the low level of state intervention and fragmented workplace and individualised bargaining have dominated public policy for several decades (Blumenfeld & Donnelly, 2017). Fragmented bargaining patterns have continued under the Employment Relations Act – despite its objectives of further collectivism – and private sector employers can determine most employment conditions in their workplaces (Rasmussen *et al.*, 2016). Thus, although neo-liberalism may not have been the underpinning philosophy behind *new* policy initiatives for some time now, it may take years to unwind its presence in existing policy settings and for behaviours to change. We point to three important areas of change: contextual change, support of high-wage, high-skills strategies, and implementation of new forms of workplace partnerships.

Parts of the contextual change have already happened. Macroeconomic monetary and fiscal policies are on a steady course and with the new Labour-led Government signalling a more expansionary path. It is possible too that the high labour utilisation, low productivity settings, which have characterised much of the period since the early 1990s are over. During that period first high unemployment, then rising labour force participation followed by high net inward migration contributed downward pressure on wage growth, lessening incentives on employers to invest in productivity enhancements. It is possible that tighter labour market conditions and lower migration (especially of less highly skilled workers) will predispose businesses to productivity-enhancing investments in skills and training. There are already signs of this happening

in the fast-growing hospitality industry, with an increasing focus on industry training. Such policies are also expected to be coupled with increased government investment in infrastructure, research and development (R&D) subsidies and regional growth. The effectiveness of these investments would be further enhanced by some of the high-wage, high-skills interventions in employment relations.

In this productivity-enhancing context, employment relations policies that promote higher wage growth, such as higher minimum wages, industry-wide Fair Pay Agreements, and other support for collective bargaining may result in employers facing stronger incentives to increase output per hour worked. This is consistent with the Productivity Commission's point that the high cost of capital encourages labour-intensive production methods (New Zealand Productivity Commission, 2015). It is also in line with the OECD's findings that collective bargaining is associated with higher wages and higher productivity (OECD, 2018). As mentioned, the new Labour-led government appears set to take a much more forceful approach to collective bargaining and employee protection. Besides the proposed intervention to curtail contracting in the Film Production Industry, there have also been suggestions that contractors will be covered by minimum employment standards (aligned with previous regulatory intervention sought by the Labour Party – see Fenton, 2011) which would avoid an unanticipated rise on contracting. The development of higher skills will take the form of a strong expansion of vocational training and education where higher investment levels will be combined with more effective collaboration with industry training organisations and, maybe, the relevant employer associations. Under the 2000-2008 Labour-led governments there was a considerable push to enhance vocational training and education (Rasmussen, 2009, pp 257-259). This included the development of a tripartite approach to enhance skill levels – Skill Strategy for New Zealand – that was launched in January 2008. Whether there will be a return to such a tripartite approach to vocational training and education is still unclear. Likewise, suggestions that Fair Pay Agreements could contain skill-enhancing measures are yet to be confirmed. There have been similar attempts in the past where, for example, the multi-employer agreement in the plastics industry was partly driven by the industry's particular vocational training and education needs. There are also some academic discussions of how social welfare interventions can support a more flexible labour market and in particular, deal with the persistent high level of youth unemployment while also strengthening the social security safety net (Child Poverty Action Group, 2017; Fletcher, 2017). It remains to be seen whether the proposed welfare reform policy process will take a bold approach or simply tinker with existing policy settings.

As Peetz (2012) has highlighted the workplace plays a particularly important role in lifting productivity levels. However, this is an area, as mentioned above, where the Labour-led government has yet to make any announcements. The two major initiatives in the 2000-2008 period - the Workplace Productivity Working Group and the Partnership Resource Centre - established a platform to build on if the new Labour-led government wants to pursue a workplace-focused strategy. The two initiatives produced a number of organisational case studies that indicated what kinds of interventions were implemented and, in particular, how they facilitated higher levels of productivity (see Partnership Resource Centre, 2008). Besides a joint employer-union commitment to productivity-improving measures, they also benefited from the

access to a consultancy service that could present a number of different approaches and techniques to lift productivity levels. While the case studies presented employers and unions with information about the benefit of productivity-enhancing measures it became a major difficulty to disseminate such work practices across the economy in the relatively short period where the two initiatives existed. This is where either the Fair Pay Agreements or, potentially, the Industry Training Organisations may make a difference. The industry focus of the proposed Fair Pay Agreements and of the Industry Training Organisations make them suitable vehicles for establishing more broadly based productive work practices.

It is clear from recent statements of Prime Minister Jacinda Ardern that the Labour-led government envisages strong links between a modern economy, meeting the productivity challenge and enhancing skills (eg. Trevett, 2018). However, the prevalence of small and medium sized employers with limited ability and/or inclination to invest in vocational training and education presents a substantial barrier. Some of the ITOs have started to tackle this barrier by spreading apprenticeships and other upskilling measures across several employers as well as having stronger links between workplaces and polytechnic institutes. This has been successful in various trades where ITOs can boast of record numbers of apprenticeships (eg. BCITO, 2018). The Labour-led government's announcements about more funding, more direct interventions and a new strategy for polytechnic institutes also indicate that the current government intends to play a stronger role in aligning productivity measures and upskilling.

Finally, it has been highlighted that employee participation in managerial decision-making has witnessed limited progress in New Zealand (Rasmussen & Tedestedt 2017). This is clearly an area where new public policy thinking and research could contribute to lifting workplace productivity levels. Anderson (2017) in his support of increased employee participation also stresses that mandatory schemes need to be put in place: "What must be enshrined in law, however, is that effective participative and representational structures within employing entities are a matter of right, a condition of employing labour, and not a matter of employer benevolence." (Anderson, 2017, p. 107). However, it is an area where there appears to have been no policy debate within the Labour Party so far.

## 5. Conclusion

It is no longer questioned that New Zealand has had poor productivity growth for many decades. Legislative changes to employment relations have sought to enhance productivity growth but have had very little impact. Decentralised workplace, individualised bargaining and considerable employer-driven flexibility have dominated employment relations in nearly 30 years and the claims about the associated productivity growth benefits now seem unrealistic. On the other hand, the suggestions associated with the Employment Relations Act that collective bargaining and unions could be part of the solution – rather than being seen as the problem – have not been tested so far. Instead, the productivity debate has highlighted the complexity of the issues, the importance of contextual changes, and the necessity of state intervention. The debate has also emphasised the problematic nature of employer strategies and management capabilities.

In this paper we have speculated that the new Labour-led government could accelerate productivity growth through public policy and contextual changes, stronger support of high-wage, high-skills strategies, and implementing new forms of workplace partnerships. There are clearly some moves in the two first areas which sets this government apart from previous governments and which may give new impetus to the Employment Relations Act's aspiration of facilitating 'productive employment relationships'. There have not been, so far, initiatives in the areas of workplace partnerships and employee participation. Interestingly, most of the announced changes have been promoted on the grounds of fairness and equality, and the productivity-enhancing aspects have yet to feature strongly in the debate. Although it is possible that measures introduced to increase fairness and employee protections will flow through to an improvement in productivity by forcing inefficient firms and those relying on a low-wage, low-cost business model to rethink their approach.

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