

# Skills, Productivity & Wages

*Speech notes : Ross Wilson to the Mayors Taskforce for Jobs AGM*

*26 July 2005 in Christchurch*

Can I begin by congratulating you all for this initiative, and acknowledge the special relationship we have with the Memorandum of Understanding.

Leadership is very important and, in the present state of the New Zealand economy, crucial in raising the importance of skills and apprenticeships.

We cannot take for granted that there is general agreement that this is a national interest issue.

I recently participated in a National Radio debate with two economists, Roger Kerr and Andrew Gawith. Dr Gawith expressed the view that perhaps we should scrap our manufacturing sector completely. His future is one where we design products here but manufacture them offshore: and his rationalisation was that we can't afford as a country to have people tied up in factories on low wages.

I strongly disagree with that view, which is apparently shared by some business people and Government officials --- the view that our only response option to China is to shift our manufacturing offshore to China or some other cheap labour option such as Vietnam. And I am sure that the 300,000 workers who have jobs in the manufacturing sector do to.

It is therefore very encouraging that we share this common view of the importance of an active approach to economic and social development, and the role of a regional development focus as part of that.

And other symbolic steps you have taken, such as the graduation evenings for workers completing modern apprenticeships and industry training, is a tremendous recognition and celebration of the importance of skill development at that level.

I have been asked to talk about skills, productivity and wages.

There is a somewhat uneasy relationship between employment and productivity. This was shown in the late 1980s when manufacturing productivity surged at a time that 56,000 jobs were lost in that sector.

And in the last year, labour productivity growth has struggled to reach even 1% due to strong employment growth.

If labour productivity is output divided by hours worked, then we have to acknowledge that there are many factors that influence both the top and bottom line of that equation.

But why is the CTU so interested in productivity?

After all the term “productivity” is something of a four-letter word for most unionists who remember the restructuring, job losses, work intensification and so forth that has often accompanied management efforts to lift productivity. And of course the Employment Contracts Act was sold on the misrepresentation that it would improve productivity.

But for the CTU, it is clear that we must push very hard on issues that will increase productivity in the medium term – as well as our traditional concerns about distribution of income.

This was clear at the beginning of this year. We launched a “fair share” campaign – catalysed by the Engineers Union claim for 5% in '05. Our arguments were very simple. There simply had not been a wage increase dividend from 5 solid years of economic growth.

We were becoming increasingly concerned that a low wage economy had become embedded.

A recent Reserve Bank paper<sup>1</sup> shows we were right to be worried.

From 2000 to 2004, corporate profits increased by 44%. Wages went up by 8.3%.

But at the same time as we supported union campaigns for a fair share, we had committed ourselves to the Workplace Productivity Agenda.

That is because we want a high wage, high skill economy.

And we know that is more likely if productivity levels are high. So we are very much involved in the Workplace Productivity Agenda. As you know the focus for this tripartite work is across a number of areas:

- Building leadership and management capability;
- Creating productive workplace cultures;
- Encouraging innovation and the use of technology;
- Investing in people and skills;
- Organising work;
- Networking and collaborating;
- Measuring what matters.

The CTU is also launching a major adult education programme about productivity.

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<sup>1</sup> Goh, Khoon. “Developments in the New Zealand corporate sector” *Reserve Bank Bulletin*, Vol 68. No. 2.

This will confront head on the negative image of productivity and look at the sort of investments needed across the seven drivers to create high performance workplaces.

This education programme will complement health and safety education and another exciting new initiative which is to establish “learning representatives” in workplaces who can advocate for skill development, lifelong learning and assist workers with queries about training opportunities or barriers.

But we also know that alongside a workplace productivity agenda, there is a need for a larger debate about the sort of road we need to go along.

We say quite definitively that it needs to be the “high road”. In other words, if we are to compete in a global economy, we need the best education, the best skills, the best infrastructure and the best regional and industry development programmes.

We are therefore very concerned about the ground we lost in the eighties and nineties.

For instance, a recent Treasury paper<sup>2</sup> illustrates the long-term damage done by going down the “low road”.

In the period 1990 to 2002, the amount of capital per hour worked grew very modestly in New Zealand: in contrast capital per hour worked rose by about 25 percent in Australia. In 1978, New Zealand and Australian workers had about the same amount of capital per hour worked. By 2002, capital intensity in Australia was over 50 percent greater than in New Zealand.

In New Zealand the price of labour relative to Australia was very comparable in the late 1980s. By 2002 it had fallen to about 60% of the level in Australia. The paper says that “with labour relatively cheaper in relation to capital than in Australia, it appears that New Zealand firms have opted for a lower level of capital intensity”.

Between 1995 and 2002 some 70 percent of the difference in the growth of labour productivity is explained by a lower rate of growth of capital intensity in New Zealand.

Another Treasury paper<sup>3</sup> is more precise about how the damage was done.

Between 1992 and 1996 the relative price of labour to capital fell by 22%. The paper states that “this occurred shortly after the introduction of the Employment Contracts Act (1991) and welfare reform”.

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<sup>2</sup> Hall, Julia and Scobie, Grant. “Capital Shallowness: A Problem for New Zealand?” NZ Treasury Working Paper 05/05 June 2005.

<sup>3</sup> Melleny Black, Melody Guy and Nathan McLellan. “Productivity in New Zealand 1988 to 2002 New Zealand”. NZ Treasury Working Paper 03/06 June 2003.

We also know that the number of industry trainees in 1993 was 14,904 compared with 107,324 in March this year.

So we had low investment in capital. We had low investment in skills. And we had low productivity growth.

I also want to be quite clear in saying that the “high road” does not ignore the issues of compliance and cost.

Costs always matter. It is just that a short-term focus on costs and maximum return to shareholders and owners has ended up meaning that we have not maximised value. We have not made the optimal level of investments in skills, technology, workplace culture and so forth.

The CTU is saying that there is now a genuine opportunity to involve workers in a much better process.

But it has to be genuine. It has to be more than a tired old slogan about “trickle down”. It has to be a real agenda that invests in high performance workplaces.

It has to be a New Zealand model of worker participation.

Some American economists carried out some extensive research on the role of unions in relation to productivity.

Sandra Black and Lisa Lynch<sup>4</sup> found that establishment practices that encourage workers to think and interact in order to improve the production process are strongly associated with increased firm productivity.

Black and Lynch also found that unionisation combined with innovative work practices delivered higher levels of productivity growth (20%) than non-unionisation with low involvement (base), non-unionisation with high involvement (11%) and unionisation with low involvement (minus 15%).

This confirms an earlier study from 1984 (*What do unions do?*) by Freeman and Medoff also said that “unionism is neither a plus nor a minus to productivity. What matters is how unions and management interact at the workplace”.

So the CTU has made a positive start.

Unions are involved in regional development seminars. They are engaged in industry strategies such as the Food and Beverage Task Force, the Forest Industry Development Agenda and Textiles New Zealand.

Unions are involved in the Workplace Productivity Agenda, the Growth and Innovation Advisory Board, the Partnership Resource Centre.

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<sup>4</sup> Black, S. E. and L. M. Lynch (2001). "How To Compete: The Impact Of Workplace Practices And Information Technology On Productivity." *The Review of Economics and Statistics* 83(3): 434-445.

I have already mentioned the major adult education programmes we have on health and safety and the development of learning representatives.

The Workplace Productivity Education Programme is another new project getting ready to roll out.

We also are working on an initiative that examines productivity in the context of Maori economic development. That may also be another major education programme.

With unemployment down below 4%, some may think that our labour market is working fairly well.

Certainly things are a lot better than they were.

But we know that unemployment among young people is still far too high. We know that Maori and Pacific people unemployment is also relatively high. And we know that the actual number of those who are jobless is still a very significant number of people.

The CTU believes we need to keep our focus on employment issues at the same time as we lift our productivity performance.

We have started down a very positive path that involves lifting the levels of investment in people so that they have secure long-term employment and can work in high-performance workplaces.

The CTU would like to continue our partnership with the Mayors Taskforce for Jobs so that we can work together on these issues.

I say “would like to” because it appears that the the General Election will present New Zealanders with quite stark policy choices on the economic and social development initiatives we have been engaged in.

It is no exaggeration to say that the National Party industrial relations policies signal a return to where it left off in the 1990s.

Reinstating an Employment Contracts Act will again encourage employers to focus on reducing wage costs instead of building value and skill. This will inevitably accelerate the departure of more skilled workers to Australia and other countries. New Zealand already has more skilled workers employed abroad than any other country in the OECD.

We have an average 25% wage gap between Australia and here; a gap which was created during the 1990s. What is the effect of that? The effect is that if you want better wages for your skills you only have to cross the Tasman and you'll get a job that will pay 25% and more than you are paid here. Now that's the dilemma we have got. To improve our workplace productivity we must

make an investment in skills and education. If we make an investment in skills are we simply providing the training for the Australian labour market?

The National Party proposal to introduce a 90 day period during which a new worker can be sacked without reason, also sends the wrong signal to our workforce.

It is hard to see that stripping away all legal redress (bearing in mind that the common law action for wrongful dismissal has been abolished in New Zealand) for about 200,000 New Zealanders starting a new job each year will do anything to improve workplace relationships or productivity. And there is already a provision for probationary employment in the Employment Relations Act.

National has also signalled that it will gut the new Holidays Act and not only abolish extra pay for working public holidays, but also reduce holiday pay and sick pay below a workers normal earnings. Employers will also be permitted to pressure workers to trade away their 4<sup>th</sup> week of annual leave. Well, in my view they are more likely to push them across the Tasman where all workers have enjoyed a minimum of 4 weeks annual leave for more than a decade.

But perhaps the most puzzling part of the National Party industrial relations policy is the commitment to amend the health and safety laws to strip the 20,000+ workplace health and safety representatives of their important role in workplace health and safety.

The workplace fatality rate has fallen 60% since the HS Rep system was introduced two years ago and this participation is clearly and important contributor. But, more broadly, how can we talk about modern participative, and innovative workplaces, if a major political party doesn't even see a role for employee participation in activities to improve their own health and safety at work?

It appears that the choice we are being asked to make this year is between that more "hands on" approach to social and economic development being taken by the Labour Progressive Coalition Government, which is typified by some of the initiatives I have described, and a Brash led National Government which will offer tax cuts as the key policy solution along with a return to the rather harsh "market" approach of the 1990s.

It will be a pity if party politics mean that we lose the opportunity to build a national consensus around the current tripartite economic development initiatives. We need that consensus if we are to survive in the global economy. We can't beat China on labour costs, but we might just win on Kiwi skill and innovation.

Taking the high road means careful investment and applied strategies over a lengthy period of time. That has been the experience of other similar countries like Ireland and Finland. The Labour-led Governments of the past six years have started up that road with a fairly complex programme of investment in

both social and economic development. We have enjoyed a period of good economic growth but the real challenges are ahead of us.

I hope there will be many opportunities to debate these policies and the implications of them. We, as New Zealanders, will be making a vital choice about our economic and social future.