



PREFACE

The chief executives who comprise the New Zealand Business Roundtable have devoted a great deal of thought over the past two years to the New Zealand labour market and industrial relations system.

The issue of reform in this area is crucial to realising the full benefits of the economic changes our country is going through. If, despite these changes, we fail to adapt our labour market institutions and attitudes we will remain a low growth, low wage country. We can no longer afford such a senseless waste of our human resources.

Recently Parliament passed a new Labour Relations Act. The New Zealand Business Roundtable made detailed submissions to the Government and Parliament in favour of fundamental reforms. Unfortunately many key issues were not addressed in the Act. The prospects of change which it offers fall well short of the needs of a more competitive, rapidly adjusting economy.

The New Zealand Business Roundtable has therefore decided to communicate to a wider audience on the need for labour market reform. This booklet is a summary of our views. It is intended for the general reader rather than for specialists in the industrial relations field. The labour market has a profound impact on the living standards of every New Zealander and all sectors of the community stand to gain from labour relations reform.

A handwritten signature in black ink, appearing to read "R. R. Trotter".

Sir Ronald Trotter
Chairman
New Zealand Business Roundtable

June 1987

INTRODUCTION

- ▶ This booklet presents the case for major reform in the New Zealand labour market. Its central theme is that changes to our system of labour relations are an essential step in the movement towards a healthy, growing economy.
 - ▶ The need for fundamental economic change is explained in the first pages. For thirty years our economy has been slowly slipping. Finally we have adopted a new economic strategy — a new system of labour relations must be a part of this.
 - ▶ The booklet points out that reform of the labour market is in the interests of all New Zealanders. Together with the economic changes already occurring it will raise our standard of living and return us to full employment.
 - ▶ The key features of a new system of labour relations are explained in the central section. It must be based on cooperation between employers and employees. In general, bargaining should be decentralised to the level of the workplace and an employer should not have to deal with a multitude of unions and agreements. Unions and agreements should be organised along enterprise lines and employment contracts should be flexible enough to accommodate the varying requirements of different firms and workers. Incentives promoting productivity and cooperation should be built into all agreements.
 - ▶ The booklet analyses the lessons from Japanese and American labour relations and points out that New Zealand is now one of only a small number of OECD countries still maintaining compulsory unionism. It suggests that a worker should have the right to pick and choose among unions, that common law rather than a complicated body of labour legislation should in general govern employment contracts, and that a code of practice on labour relations should be established.
- The booklet ends by listing the key requirements for a new system of labour relations.

The End of Godzone

For many years New Zealand has been sliding down the economic slope. Our national myths — the quarter acre paradise, the social laboratory, the land of milk and honey — have insulated us from our own unimpressive economic performance.

But statistics tell the true story. Our position on the per capita income table has dropped from third to thirtieth in 30 years; our productivity growth rate has been 50% lower and our inflation rate 50% higher than our trading partners over the last decade; unemployment has risen to 6% of the workforce; there has been massive outward migration and our dollar is worth about one third of what it would buy in US currency in the early 1970s. In the decade to 1982 World Bank figures show that of 156 countries surveyed, 125 achieved higher rates of growth than New Zealand and only 30 — mostly in the Third World — had a worse performance.

Why has this decline occurred? The underlying reason is that New Zealand missed the post-war tide of economic liberalisation. While other countries were opening up their economies, New Zealand remained protected, increasingly inefficient and uncompetitive. We established incentives which encouraged people to stay in the wrong sort of business, or in the right job on rigid and inappropriate conditions. Activities with protection or special treatment expanded leading to a poor allocation of our productive resources.

Part and parcel of this economic decline was the inadequate and deteriorating performance of the labour market. As a result our rates of productivity and national income growth have been among the lowest in the world.

The Changing Economy

The accumulation of these problems has finally forced New Zealand to face up to the need to change. A new economic strategy is now taking hold. It is advancing on two fronts. The first is to fight inflation and live within our income by pursuing a firm monetary policy with action to reduce government spending

and the fiscal deficit. The second aspect is the promotion of more competition and flexibility in the various sectors of the economy so our resources can be employed in the most productive way.

The Government has actively promoted anti-inflation and economic liberalisation programmes. Businesses have been changing in response to the new competitive pressures — but the same standards must also be applied to the labour market. Unfortunately, the Labour Relations Act maintains the double standard.

▶ **Industrial Relations and the National Interest**

A healthy economy requires an efficient and flexible labour force. Reform of the labour market is therefore in the interests of all New Zealanders. It offers the prospect of higher standards of living, full employment and better opportunities for presently disadvantaged groups. Along with the economic reforms already taking place it will improve the competitiveness of the economy and thus help to reduce pressure on prices, interest rates and the exchange rate.

Our industrial relations system is incompatible with the new economic circumstances. Because large-scale adjustments are needed in industrial structure and production methods, maximum flexibility is required in labour relations. This is not achieved in the new Act. The system it creates will inexorably grind out conflict, unnecessary plant closures and higher rates of unemployment among teenagers, Maoris and provincial workforces.

The failure to apply the same standards of reform to the labour market as the financial and productive sectors have already accepted will risk substantial losses in output and employment, jeopardise financial and foreign exchange market confidence, increase uncertainty and inflationary expectations, and undermine the growth which the other economic changes will produce.

A New Approach to Employer- Employee Relations

The relationship between employers and employees should be based on cooperation and common interest rather than conflict. The old notions of a continual struggle between capital and labour are no longer relevant. The aim must be to establish a more harmonious system, effectively combining capital, labour and other resources to increase productivity and returns to all.

The key issue is the need to shift away from a centralised, craft- and occupation-based trade union structure with its national award bargaining to a decentralised system of voluntary contracting on a collective or individual basis.

Enterprise Bargaining

New Zealand's present industrial relations system is a highly centralised one. Unions are registered mainly on an occupational or craft basis and awards are usually negotiated at a national level.

Instead of bargaining with one union, most New Zealand employers are involved with several unions and a mixture of awards and agreements. This system is inefficient and disruptive. Effective reform must allow an employer to deal with a single bargaining unit, unless other arrangements are freely negotiated.

In September 1984 employers and unions formally agreed that more encouragement should be given to industry or enterprise based bargaining. But the key to such bargaining is a fundamental shift in union structures and an ability to negotiate outside of the blanket coverage straitjacket of national awards. The changes contained in the Labour Relations Act are only a token gesture in this direction.

National craft-based systems have been largely confined to Britain, Australia and New Zealand, all economies with undistinguished economic records. They are now diminishing in importance in Britain. Industrial relations organised along enterprise or industry lines are the norm elsewhere and enjoy broad support from employers, unions and governments.

Decentralisation

If we're to get more efficient, we've got to be able to develop better relationships between employers and workers and it's got to be done at the level of the firm rather than in some central way.

— Sir Ronald Trotter 1987

The New Zealand system of labour relations ignores the productivity of individual workers and firms and provides little incentive for good employer-employee relations because of the remoteness of the negotiations from the actual workplace. Uniform national awards are inconsistent with a rapidly changing industrial structure.

In many New Zealand businesses substantial improvements in productivity and wages could be achieved if closer relations were forged between employers and their own workforces and if both groups would agree to introduce practices which raise efficiency. These will not be achieved on any desirable scale under present arrangements contained in the Labour Relations Act, nor will 'outsiders' in the labour market get fair opportunities to gain jobs and incomes in the face of the heavy protection to unionised 'insiders'.

One of the features of national awards which is often mentioned is the role of providing a 'floor' to wages. But large numbers of economic studies have established that wage regulation typically has perverse effects on the very groups it is supposed to help. Far more frequently it acts as a 'fence' preventing others from competing for jobs, acquiring skills and starting to climb the income ladder. Those that are hurt most in the process are the unemployed, the young, the unskilled, women and the Maori and Polynesian community — a surefire recipe for social tension and racial division.

— Douglas Myers 1986

The national awards system fails to accommodate firms with different requirements and abilities to pay and workers with different job aspirations and locational preferences. Its inability to take into account the position of firms under pressure in regional areas and the different costs of living of workers in

provincial towns is a major reason for the rise in regional unemployment. A decentralised system will not only attract labour to expanding activities but also sustain businesses and employment in hard-pressed regions and industries.

Flexible labour relations will allow employers to establish employment contracts with incentive structures which promote cooperation and high productivity. The best rewarded and most secure arrangements for workers are those which sustain a highly productive enterprise. Bonuses, training allowances, part payment in shares and other incentive schemes are all inhibited in New Zealand by restrictions on our employment contracts.

► **Voluntary Unionism**

Any form of compulsion should raise doubts in the minds of citizens in a democracy, and compulsory unionism is no exception. New Zealand is now one of a very small number of OECD countries maintaining this form of compulsion.

Compulsory unionism makes little sense in a modern economy where individual incentives matter and work patterns and preferences are diverse.

This is not to deny that unions are valid labour market institutions and that in some industries they can facilitate negotiations and enforcement of contracts as well as provide other benefits to members.

But there is no justification for forcing a worker to join a union.

► **Choosing Union Representation**

Nor is there any justification for stopping a worker who wishes to be in a union from joining the union he or she wants to join.

Restrictions on the opportunity to change union membership and coverage severely impede progress towards the formation of enterprise unions and agreements.

The Labour Relations Act does allow existing unions to compete for coverage but the procedures for doing this are undemocratic and so cumbersome as to be almost unworkable. Workers currently belonging to a union cannot vote to form a new union.

Workers are the consumers of union services. Competition between unions for membership should not be restricted. Such a development can only improve the services and benefits provided by them to their members.

Nor should there be a minimum size for a union. Under the Labour Relations Act unions must have at least 1,000 members. But it is a mistake to assume that larger groupings are needed for effective representation. The success of a number of small unions in New Zealand and elsewhere (for example in Japan where the average union size is 170) shows that small size does not mean poor performance.

► Contracts

The sanctions against New Zealand unions to protect the agreements made with employers are not effective. Unions have too often been exempt from the legal and economic consequences of not honouring agreements to which they are parties.

The solution to this issue is straightforward. Negotiated contracts between employers and employees should be legally recognised and the normal opportunities under existing common law to enforce contracts should be allowed. Such contracts should take precedence over all existing awards and industrial relations law. Common law, rather than Arbitration Commissions and Labour Courts, would then govern arrangements for employment.

If we have a system like you have in America, when you make an award it becomes a contract. If workers take action to get more than is in that award, then the employer sues for breach of contract. And vice versa.

— Sir Tom Skinner 1987



A Code of Practice

A code of practice for employers and employees should be established to assist in developing and maintaining harmonious labour relations.

It would cover organisational behaviour, consultation and communication, samples of grievance handling procedures and disciplinary procedures, dispute resolution, and the role of union and management representatives.

It would act as a guide for employers and employees and would consist of useful, practical advice rather than a set of requirements.

The code could be developed through consultation between employer and employee organisations.



Lessons from Japan and the United States

Labour relations in the world's most successful economy, Japan, are flexible and decentralised. Unions are company-based and bonuses account for more than a quarter of annual earnings.

Workers and unions are keenly interested in their company's profitability and competitiveness.

We are in competition with societies in manufacturing which do not understand a them-and-us situation, in particular the Japanese, where by tradition there is complete and absolute unity between capital and labour in big manufacturing plants.

*Charlie Fitzgibbon,
former Senior Vice-President
Australian Council of Trade Unions*

The relatively good job creation record of the United States in comparison to Europe over the last decade owes much to a flexible labour market. American employment has grown most in the services sector and in small to medium sized businesses. One of the characteristics of these areas is that decisions on wages are decentralised and backed up by enforceable contracts.

CONCLUSIONS

Parliament has passed a new Labour Relations Act. Many businesses will seek to use its provisions to establish individual agreements with their own workforces.

Such arrangements are desired by many New Zealand workers. It is hoped that progressive union representatives will actively facilitate such initiatives.

However, it is clear that the scope for change is hampered by the restrictive and cumbersome procedures involved. Faster job creation and higher wages are dependent on more flexible adjustments to the opportunities created by an open and deregulated economy.

More comprehensive measures to liberalise labour market arrangements and introduce genuine freedom in employment are an urgent national priority. The case for greater flexibility in the labour market is compelling and the potential benefits are substantial. The costs of not achieving further changes, both in wage round practice and in labour relations law, could be the failure or reversal of the current economic developments which carry the hope of a better future for all New Zealanders.

RECOMMENDATIONS

There are a number of key requirements for a new system of labour relations in New Zealand.

The system should:

- promote the negotiation of wages and conditions at the level of the firm or workplace by one bargaining unit which would represent the employees
- facilitate moves by employers to offer incentive schemes in employment contracts to promote cooperation and higher productivity
- provide legal recognition of employment contracts with the normal opportunities for enforcement through existing common law
- end compulsory unionism
- change union registration rules to promote enterprise-based unions
- allow workers to join any union they want to
- permit open competition between unions for membership, thus improving the services offered by unions to their members
- provide the opportunity for individual contracts
- phase out the mediation and arbitration services and replace them with private services chosen by the parties concerned.
- transfer the functions of the Labour Court to the civil courts
- address low income problems by supplementing incomes through taxation and social welfare policies



Labour market flexibility serves not only processes of adjustment, but also innovation, equity and a higher quality of life. It should be seen as an active agent of a manpower policy which is supportive of an overall objective of increasing the levels of employment. In this sense labour market flexibility is a key to both economic efficiency and social progress.

OECD Report, Paris, 1986



New Zealand Business Roundtable

Statement of Purpose

Membership

The New Zealand Business Roundtable (NZBR) is an organisation of Chief Executives of major business firms who meet to discuss and develop points of view on matters of common interest, and particularly public policy issues.

Members represent most of the large business interests in New Zealand and are drawn from all parts of the business sector. Their organisations comprise listed and private companies and other types of business enterprise, both domestically and overseas owned, primarily in the private sector.

Objectives

NZBR is committed to contributing to the overall development of New Zealand and to promoting the interests of all New Zealanders concerned with achieving a more prosperous economy and fair society.

A healthy and dynamic business sector, generating an adequate flow of profits and investment, is seen as fundamental to the achievement of the economic, social and cultural aspirations of New Zealanders. In an open and free domestic and international market environment, the interests of the business sector are closely aligned with those of the community at large.

Perspectives

As a broadly-based organisation, NZBR's focus is the general economy rather than particular sectors or industries.

This requires it to take an objective, non-partisan and longer term view, rather than to operate for the benefit of any one group at the expense of others. In particular, it does not seek to limit competition between its members, nor act to the detriment of consumers in New Zealand or overseas.

Private and Public Sector Roles

NZBR believes the living standards and general prosperity of the New Zealand community are best served by a free enterprise system and market-oriented economy. It supports the concepts of competition, entrepreneurship and risk-taking as vital to achieving economic and social progress. These require a medium term policy framework which is neutral and consistent between sectors and organisations and is stable and predictable.



An important role for the government is seen in providing a sound framework of laws and a macroeconomic environment which facilitate private sector decision-making, and in undertaking certain activities which are best catered for within an efficient public sector. The government also has prime responsibility for necessary action to modify market outcomes in the distribution of wealth or income, and to pursue other social equity objectives in a well-considered and cost effective way.

Internal Business Values

NZBR endorses the concepts of corporate responsibility, integrity, self-reliance and open and fair conduct in business practices.

Its members aim to promote, at the enterprise level, a sense of co-operation and mutual respect between management and individual employees, effective use of human skills, equal opportunities and other social goals in order to maximise employee satisfaction and improve economic performance.

Priorities and Standards

NZBR's focus will be on major national issues. It will seek to engage the interest of the government and the community generally by the selection of issues it addresses and the standard adopted in its contributions to the development of national policies. The aim is to make a pro-active, professional and well-researched contribution to policy formation, rather than to adopt a traditional lobbying role. NZBR will work with all governments in pursuit of the national interest and is concerned to be, and be seen to be, party a-political.

As an organisation of larger businesses, NZBR does not represent all the interests of the New Zealand commercial community. It will avoid usurping the role of sectoral and other business and community organisations and will adopt independent views reflecting broader perspectives.

Method of Operation

NZBR is concerned to be open in its analysis and advocacy, but does not seek publicity. It believes sound policies are most likely to be developed through reasoned approaches characterised by logic, objectivity and dispassionate dialogue. It is prepared to speak out on matters of national importance where a publicly presented view is judged to be constructive and warranted. Such views would be limited to issues which have been subject to full internal analysis and discussion.