



NEW ZEALAND COUNCIL OF TRADE UNIONS

The New Zealand Experiment
1984 - 1999

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A New Zealand Council of Trade Unions Perspective on the “New Zealand Experiment” by Peter Conway, Economist, NZCTU.

1. Introduction

- 1.1 For the last 15 years or so, New Zealand has been regarded by neo-liberals as something of a cause célèbre - a shining example of how bold free-market policies can create a high performing economy. But in recent years there has been more and more evidence accumulating that the experiment was a total failure, or at the very least was an extreme and misguided reaction to the so-called heavy-handed regulation existing prior to 1984.
- 1.2 In this paper I set out some of the background in relation to the New Zealand experiment, the particular policies that were implemented in the post 1984 period, the legacy of those policies, and the efforts by the current government to re establish a balanced set of social democratic policies.

2. Background

- 2.1 In the decades before economic rationalism came to dominate policy, the New Zealand economy had followed the ups and downs of the economic cycles experienced by the rest of the world - but with two qualifications. The commodity base of production and the dependence of such key imports as oil meant that New Zealand was more vulnerable than most other countries to external shocks and to commodity price shifts.
- 2.2 This meant that the loss of markets when Britain entered the EEC in 1968, and the oil price shocks of 1974/75 and 1979 caused greater adjustment in New Zealand than in many other countries. On the other hand, the commodity price boom of 1972/73 produced a more spectacular expansion than in many countries.
- 2.3 For fifty years after the election of its first Labour Government in November 1935, New Zealand's economic policy was based on strong State involvement either as a significant supplier or regulator in virtually every sector of the economy. This approach reached a peak during ‘the Muldoon years’ (1975-1984) when new government policies included a large expansion of the country's tax-funded superannuation scheme, price subsidies for agriculture, extended tax concessions for manufactured exports, several ‘Think Big’ construction projects in the energy sector, and a general freeze on all incomes and prices in June 1982 that lasted nearly two years.

- 2.4 There is still debate about the merits of such state involvement. But setting that debate aside, there were many other characteristics of the pre-1984 political economy of New Zealand that were worth retaining. This included elements of tripartism, industry structures, an economic development apparatus, and the role and value of the welfare state. In the reaction to the excesses of Muldoonism, we saw the classic case of the baby being discarded with the bathwater.
- 2.5 The process of economic restructuring was predicated on an assumption that short-term pain would produce massive gain. The reality is that the policy programme created neither stable conditions nor better growth rates. The restructuring period covered two business cycles. The reforms essentially “parked up” the New Zealand economy so we were outside the upward phase of the world business cycle in the late 1980s. More on this later.
- 2.6 At the end of this restructuring, New Zealand was still an unstable and vulnerable economy that has retained an unhealthy dependence on particular economic factors rather than a broad-based diversity of strengths. The dependence we had before the late 1960s was on preferential access to the British market. In the 1970s there was an unhealthy dependence on commodity prices. After the oil shocks it shifted to dependence on government subsidies to producers. For many years we had an unhealthy dependence on the expansion of private consumption as the primary growth engine. This was exacerbated by the acceptance of the theory of dead-weight losses through taxation. The resulting tax cuts boosted consumption. The reduced Government capacity constrained investment in infrastructure, skills and industry development. Our continued vulnerability was apparent during the NZ drought in 1997/8 combined with the Asian crisis although some ability was shown to switch markets.
- 2.7 In addition, the New Zealand of 1999 exhibited all the signs of a divided society – between rich and poor, employers and workers, even city and country. The experiment had failed, not only in a fundamental economic sense, but also in terms of social inclusion and welfare.

3. The Neo-liberal Prescription

- 3.1 The July 1984 election produced a new government committed to comprehensive economic and social reform. But it was not what the voters had supported at the election. During the next six years Muldoonism was swept away: interest rate controls were removed, agricultural subsidies were phased out, New Zealand moved to a floating exchange rate regime, monetary policy was given a single statutory objective of maintaining price stability, detailed industrial and occupational regulations were replaced by a generic commitment to competitive markets, import quotas and tariffs were eliminated or reduced, public sector management was reformed, trading departments were converted into State-owned enterprises with a clear

commercial focus, and a programme of selling State assets to the private sector was commenced.

- 3.2 In many ways the New Zealand experiment was similar in its elements to the structural adjustment programmes imposed on some countries by the IMF. It involved fiscal discipline, reductions in public expenditure, tax reform, deregulation, foreign direct investment, financial liberalisation, a floating exchange rate, trade liberalisation, privatisation and assertion of property rights.
- 3.3 One of the crucial reforms was to restructure the State. Not only was there widespread corporatisation and privatisation, but also there was major legislative change. A very significant change was the State Sector Act 1988. Under this Act CEOs were employed to run government departments on renewable performance-related contracts for up to five years. Eighteen months after the Act was passed two-thirds of departments had new CEOs. Three-quarters of those appointed since the act had worked outside the core public sector. Some were short-term change agents, moving from one agency to another.
- 3.4 As Jane Kelsey¹ has stated, the lack of knowledge of the subject area seemed of little consequence to those making the appointments - the restructuring formula and managerial skills required were the same. The CEOs were expected to enter into separate annual performance agreements with the Ministers, setting down the outputs to be supplied, financial performance to be achieved and management practices to be followed. Performance incentives were linked to specific outputs and budgetary targets.
- 3.5 Another major change in the state sector was the Public Finance Act 1989. Government accounts were placed on a private business basis. This commercialised approach involved funding of outputs, not inputs, and the charging of departments for the cost of the operations, including a capital charge, accrual accounting, incentives and penalties. Although the Public Finance Act was meant to improve the quality of service and responsiveness of government departments and increase the efficient and accountable use of resources, the prime concern seemed to be to keep operations and spending in line. This provoked constant restructuring and excessive compliance with stringent financial targets alongside the provision of quantified outputs.
- 3.6 By the late 1990s there had been a noticeable deterioration in the quality of public services, and an inability for a co-ordinated "whole of government" approach to policy implementation and delivery in this environment of departments with separate and specific contracts and lines of accountability.

¹ Kelsey, J. 1995. *The New Zealand Experiment: A World Model for Structural Adjustment*. Auckland University Press.

3.7 But there was more to come. A change of government in October 1990 gave a further impetus for neo-liberal reform: from 1 April 1991, social welfare income entitlements were cut by \$1.3 billion (1.7 per cent of gross domestic product); and on 15 May that year New Zealand's system of industrial relations was transformed by the Employment Contracts Act 1991, designed to promote an efficient labour market by preventing employers or employees from imposing a collective agreement without the other party's consent. The government's accounts—now required by law to adopt generally accepted accounting practice—moved into surplus from 1993/94, allowing the government to pay off all its overseas debt and introduce two rounds of significant tax cuts in 1996 and 1998.

3.8 Without doubt, these reforms amounted to one of the most radical market liberalisation programmes initiated anywhere in the world.

3.9 The corporatisation and privatisation programme was both massive and deceptive. Promises not to privatise were routinely broken. Since 1987, 40 state-owned commercial assets have been sold for a total of \$19.1 billion. This included the Bank of New Zealand, Petrocorp, New Zealand Steel, Postbank, Shipping Corporation, Air New Zealand, State Insurance, Tourist Hotel Corporation, Telecom, State Railways, and State forests. As at August 1999 these assets had an estimated value of \$35.7 billion, nearly double the original sale price. Remaining Government commercial assets are worth below \$5 billion. The privatisation has been a huge windfall for overseas investors. Just over 79%, or \$13.1 billion, of the increase in value has gone to offshore interests. The net gain to domestic investors has been just \$1.9 billion. Gaynor.² notes that:

“in the final analysis many of our best and biggest companies have been sold to offshore interests, yet New Zealand's total overseas debt has risen from \$46 billion in 1989 to \$102 billion”.

3.10 Some New Zealand politicians were incredibly naïve about the operation of international finance capital. New Zealand is not an example where investment was attracted in the form of new ventures. In fact it has been more a case of the key strategic economic assets being sold cheaply.

3.11 This has made New Zealand vulnerable to the negative effects of globalisation, while painfully slow at realising the benefits. We are in danger of being simply a “branch economy”. A major industrialist³ has commented that:

“Since NZ was opened up to the forces of globalisation, we have performed dismally, both economically and socially”.

² Gaynor, Brian. NZ Herald 02.10.99.

³ Fletcher, Hugh, Independent, 12 August, 1998.

- 3.12 Our trade policy has seen significant changes in the last 15 years. 95% of our imports are duty free, and the average weighted tariff is now 0.7%. Our Trade Ministers have been focussed on agricultural opportunities and have largely neglected the manufacturing sector.
- 3.13 Manufacturing was hit very hard by the post-1984 policies. Many reasonably competitive manufacturing industries making exportable and importable products were suddenly exposed to the full rigours of world competition, and have either closed down or emigrated to Australia. Now when we could well do with such industries to help, solve our current structural problems, they no longer exist.
- 3.14 The post-1984 programme included measures which significantly impacted on manufacturing: the removal of import licensing; removal of exchange regulations and deregulation of finance markets; reduced tariffs; removal of export incentives, and; repeal of the Economic Stabilisation Act. The effective rate of assistance for manufacturing fell from around 37% in 1985/86 to around 19% in 1989/90.
- 3.15 Under these circumstances it is no surprise that between 1986 and 1991 manufacturing sector employment fell by 20.2%. Lingered problems in the manufacturing sector have included: the dominance of simply transformed manufactures in the export mix; lack of penetration of northern hemisphere markets with elaborately transformed manufactures (ETMs), dependence on Australia for ETM sales. The sector has also been disadvantaged by the harsh monetary environment, uneven industry assistance and weak infrastructural supports.
- 3.16 Another major change in this period was in employment law with a key legislative change in the form of the Employment Contracts Act 1991. I will focus on this in some detail. It has however now been repealed.
- 3.17 The ECA removed the award system that provided minimum occupational or industry wages and conditions for many workers. The process for recognising and registering unions was abolished and unions were regarded as incorporated societies. The ECA introduced changes in the structure, process and content of employment contracts. The structure tended towards individual contracts. The process undermined the role of unions and indicated many of what we call "bad faith" elements of bargaining. The content changes were particularly evident in changes to hours of work, penal and overtime rates, service pay, and other allowances.
- 3.18 The damaging effects of the ECA have to be seen in the context of the overall policy mix that started in 1984. Many of the income studies show that major income disparities and growth in unemployment started from the late 1980's. More on this later.

- 3.19 The quality and spread of employment has also deteriorated. Although in 1999 and 2000 there was significant growth in full time compared with part time employment, statistics for the entire March 1991 to December 1999 period show there was a growth in full time employment of only 15.5% compared with 36% for part time jobs (a part time job is counted even if it is one hour a week). And, in the last 10 years there is increasing evidence that poor quality jobs have replaced better quality ones. The extent of casualisation, very part time hours, family-hostile rostering, and contracting out of work created a significant segment of the labour market in highly precarious employment circumstances. The growth in part-time and casual work was accompanied by the development of a range of income support and tax credit measures to supplement the incomes of those in paid work. The number of those on benefits went up by over 100,000 between 1991 and 1999.
- 3.20 There also has been a major churn effect. This has created instability in the labour market. For instance, one study⁴ shows that between February 1987 and February 1996 there was a net total of 58,700 FTE jobs created. But this was made up of 1,451,000 new jobs and the loss of 1,392,700 jobs. This is a similar trend to many other economies (e.g. USA).
- 3.21 Another effect was the decline in collectively negotiated minima. In 1990, there were approximately 720,000 workers having their minimum pay and conditions of employment determined by an award or a collective agreement. By 2000, the Victoria University contracts database identified contracts covering only 421,400 workers. Figures from the Department of Labour contracts database indicate similar levels of coverage of collective agreements. These figures mean that only about a quarter of the labour force have minimum entitlements defined in collective contracts. The proportion will be somewhat higher for paid employees (as distinct from employers and the self-employed), but it is still only about 30 percent of the total. A vast portion of the workforce has no collectivised wage protection, with the result that the basic burden of social policy in wage fixing has been loaded onto the statutory minimum wage.
- 3.22 There is a greater incidence of fixed term contracts, contracting out and other flexible work arrangements. These issues proved difficult for the Government to grapple with during the passage of the Employment Relations Bill. From the union perspective there is a need for employment laws to “move with the times” and recognise the changing character or working arrangements. There was considerable debate during the passage of the new law over a draft clause (which was not included in the end) on the issue of protection of workers’ wages and conditions during a business transfer or sale runs up against a business desire to be able to contract out labour at lower cost. World-

⁴ Peter Gorringer, *Business Directory Data Analysis*. 1997.

wide there are problems where the informal economy interacts with the formal economy but avoids the application of labour laws.

3.23 An emerging problem in the labour market is the existence of “sweatshops” operating illegally. Some of these are using illegal immigrants, confiscating passports, and avoiding minimum wage, tax and other liabilities. The Labour Department in 2000 was investigating 61 such sweatshops. This confirms once again the problems of a labour market driven almost entirely by wage competitiveness at the cost of innovation, investment in skill and training, and quality.

3.24 A publication from the Labour Market Policy Group⁵ reporting on research into the effects of employment regulation in the Accommodation, Winemaking and Brewing Industries, found that:

“the conditions for starting employees in low-skilled positions were often set as a minima and presented on a ‘take it or leave it’ basis”.

3.25 In the case of *Tucker Wool Processors Ltd v Harrison &Ors* [1999] workers at a wool processing plant that was being sold wanted their union to negotiate about their terms and conditions with the new employer. The employer did not negotiate with the union and offered contracts on a “take it or leave it” basis. To keep their jobs the workers had to agree to an inferior contract losing many of their old conditions and with many unreasonable new conditions.

3.26 The Court of Appeal.⁶ said that this was what the ECA is intended to do:

“The policy and wording of the 1991 Act make it clear that either party to the negotiation may, in general, proceed on a ‘take it or leave it’ basis”.

3.27 But there have been many other cases. The timber worker who in 1993 fell asleep while driving home after several consecutive 17 hour shifts. After his death, the Coroner criticised the employer for structuring shifts in such a way under the employment contract. The major retailer who had consistently refused to negotiate collective contracts, but in order to lock out commission workers initiated collective bargaining solely for that purpose. The employer who during a meeting between the union and senior management that while they were discussing union claims, staff in 82 branches were simultaneously being shown a video outlining their new contract written solely by the employer and being invited into the office one by one to sign it. The worker in an industrial cleaning company who had 23 years’ service and lost all service-related entitlements, and had to sign an inferior contract, when the business was sold to a new employer. The Government department where

⁵ New Zealand Department of Labour Occasional Paper Series by Labour Market Policy Group and Centre for Research on Work, Education, and Business Limited) 1999/4, December 1999.

⁶ *Tucker Wool Processors Ltd v Harrison &Ors* Unreported CA 260/98 at p 23

managers called staff and offered them a one-off payment on the basis of leaving the union and signing an individual contract. The home care employer who insists that every new client a worker takes care of is a new contract. To get the client, workers need to sign the contract.

- 3.28 A letter from a supermarket checkout supervisor to the Department of Labour spoke for many workers when it said that:

“As soon as the Employment Contracts Act came in everything changed in this place we were told – now he’d do it his way. First he got rid of the union, and some were threatened that if they belonged to the union they would be down the road. The contracts were never negotiated. We were called in one by one and given this printed document with a place to put your signature. Some of the young ones were not allowed to take their contracts home for their parents to read. The first year all of us who already worked there got penal rates. As people left or were sacked, the new ones went on to a flat rate with no set amount – they were all getting different wages. Within a year there was a 90% rollover of staff.”

- 3.29 The Government Statistician has noted that the impact of the Act has not been uniform. For most of the last 30 years, median incomes of wage and salary earners have increased faster than that of employers and the self-employed. The five years 1991 to 1996 however have seen median incomes for wage and salary earners increasing by less than 10% compared with nearly 16% for the self-employed and more than 20% for employers.

- 3.30 Although there is some debate over the impact of the ECA on wage dispersion, it is clear that the ECA has certainly not helped the position of more vulnerable groups and has continued a trend towards disparity of incomes that had already started.

- 3.31 In fact, these results are not a surprise. A Treasury Budget Report No 88, dated 30 June 1993 says:

"An increased dispersion in wages is expected over the next three years. Wages of professionals, managers, and other skilled people, especially those employed in the profitable and productive export sector, are likely to rise above the rate of inflation. On the other hand, the wages of the unskilled, especially part time and young workers (where turnover may be relatively high) will probably have no wage increases and new entrants may start on lower pay rates than existing workers".

- 3.32 Official statistics may not capture the total effect of the removal of allowances, and the impact on new employees. Statistics NZ does note that the ECA affected the level of wages through limiting the increases in rates for overtime and weekend pay and in many cases reducing

those rates with nominal overtime earnings growing slower than ordinary hourly earnings.

- 3.33 An in-depth study of a particular sector backs up this concern. A detailed time series data base of wage rates in the supermarket sector revealed a fall in real wage rates from 1987 to 1997 of 11% for those who worked Monday to Friday, with a 33% real pay cut for those with a proportion of weekend work. The cuts were even greater for students. Although there were significant “grandparenting effects” in that sector meaning there were intergenerational differences, it indicates that the experience of workers starting a new job in the labour market conditions imposed by the ECA, showed up a trend effect for all workers. New workers were the first affected, but the effects eventually flowed on to all workers.
- 3.34 A contributing factor to the deterioration in pay and conditions was the decline in union membership. The ECA only mentioned the union once (and that was in a transitional clause). The reduction in union membership in New Zealand in the 1990s has been the most extensive in the world. The table below indicates the fall.

UNION MEMBERSHIP IN NEW ZEALAND 1991 to 2000

	(1)	(2)
Dec 1991	35.4%	44.6%
Dec 1992	28.8%	36.7%
Dec 1993	26.8%	33.8%
Dec 1994	23.4%	29.3%
Dec 1995	21.7%	27.1%
Dec 1996	19.9%	24.4%
Dec 1997	18.8%	23.3%
Dec 1998	17.7%	22.2%
Dec 1999	17%	21.4%
Dec 2000	17.5%	22%
(peak Sep 1989	44.7%)	

- (1) by total labour force
 (2) by wage and salary earners

- 3.35 Supporters of the Employment Contracts Act contend that it produced great improvements in employment and productivity. Even if this were true, the link between the ECA and employment and productivity outcomes is hard to establish. For instance, between the mid 1950s and 1970s, NZ had industrial laws that involved ‘compulsory’ unionism, exclusive demarcations, fixed wage relativities, national awards, compulsory arbitration and many other features of a reasonably regulated regime. For most of that period, registered unemployment

was virtually zero. That compares with registered unemployment figures between 1988 and 1999 of a low of 6% and a high of 10.6%. Looking at actual numbers of people (acknowledging population growth) in 1975 the number of registered unemployed averaged 4166 people. By late 1999 it was around 120,000, with the jobless figure at 205,000.

- 3.36 So it could be argued that NZ could get nearly zero unemployment if there was a return to the more regulated labour market of the Industrial Conciliation and Arbitration Act. But this was not argued by the NZCTU as it was acknowledged by unions that many factors influenced employment levels, economic growth, and labour productivity in that period.
- 3.37 The OECD (Employment Outlook June 1999) found after a major survey that “consistent with prior studies, there appears to be little or no association between employment protection legislation and overall unemployment”. There is a business cycle effect that impacts on employment levels and GDP figures and mere coincidence with a particular law does not establish a causal relationship.
- 3.38 It is true that around 295,000 jobs were created from 1991 to 1999. It is also a fact that unemployment is much lower today than it was when the ECA was introduced, even if it has had some bumps along the way. (There has been very strong employment growth since the ECA was repealed). But unemployment was on average 5.9% for the 5 years before the ECA and 8.8% for the five years after the ECA. The number of jobless followed a similar trend averaging 228,500 in the 5 years after the ECA compared with 156,500 for the 5 years before the ECA. The number of jobless as at late 1999 was 205,200 up from 182,600 in the March 1996 year. The Government statistician has noted that the proportion of the working age population in employment dropped sharply between 1987 and 1992. Although the level of employment has recovered since 1993 it is still below that of 1987. The level of underemployment (those in part time work seeking full-time or more hours) trebled to 148,600 in 2000 compared with 48,800 in December 1990.
- 3.39 During the ECA period, the pattern of employment has tended to be low wage, and low productivity. The relationship between the ECA and productivity has been a matter of some debate. The NZCTU has noted that because labour productivity is a measure which divides output by hours worked, it naturally follows that any increase or decrease in output, or increases or decreases in employment will affect the statistic. Many factors influence growth and employment. One factor has been the compositional shift as there has been more employment in non-capital intensive service industries so labour productivity is lower.
- 3.40 But given that the ECA was intended to promote efficiency in the labour market, it must be disappointing to its supporters that aggregate

productivity statistics are so woeful. NZ is now 23rd out of 26 developed countries in overall productivity. Labour productivity growth in successive years from 1993 to 1998 was -0.9, 1.7, -0.4, -0.7, 1.1 and 2.4. This is an average of 0.5%. Australia managed an average of 3.2% from 1993 to 1998.

3.41 The NZCTU has attributed this decline to the ECA only to the extent that it delivered a collapse in social capital - trust, loyalty, and good faith in the workplace. That collapse resulted from employer attitude and an obsession with reducing unit labour costs at the expense of investing in good workplace relationships and skill development.⁷ Hazledine argues that “the ECA is above all an instrument for destroying social cohesiveness”⁸ and in essence argues that what has been lost is that concept of a “fair day’s work for a fair day’s pay” which was part of the “social contract” between employers and labour. He also observed that, at the very least, the level of union density does not damage productivity. In fact one economist⁹ calculated that labour productivity was a third higher in the most unionised sectors of the economy.

3.42 In desperation for statistics to prove that labour productivity had been a success under the ECA, the NZ Employers’ Federation, National Party and ACT turned to a Treasury study of productivity by Denis Lawrence and Erwin Diewert which concentrated on “total factor productivity” (TFP).

3.43 Their TFP figures on New Zealand show that:

“Performance during the 1970s was generally poor. This was followed by relatively strong growth in productivity between 1980 and 1985 and a subsequent ‘plateauing’ of productivity through until 1993. After 1993 there was a productivity surge. This is likely to have been aided by the effects of the labour market reforms of the early 1990s, amongst other things”.

3.44 But, the Diewert and Lawrence figures actually show that TFP was stronger in the 1980-85 period than after 1993. This is in spite of the fact that, at that time, the Industrial Relations Act included national awards, compulsory unionism, exclusive union coverage etc etc. In other words, TFP was particularly high during a period of significant labour market regulation.

3.45 The report is also biased to the extent that it describes a 20.8% increase in TFP (3.5% a year on average) between 1980-85 as

⁷ Hazledine, T., 1998 *Taking New Zealand Seriously: The Economics of Decency*, Harper Collins, Auckland.

⁸ Ibid, p.111.

⁹ Maloney, T., *Five Years After; The New Zealand Labour Market and the Employment Contracts Act*, Wellington, Institute of Policy Studies, 1998 i-xiii+128pp., ISBN 0-908935-29-3

“relatively strong” and the post 1993 period as a “surge” even though TFP grew by 8.5% (1.7% a year on average) from 1993 to 1998.

3.46 I have focused in particular on the changes to the labour market. However, as I have also illustrated above this was one part only of a comprehensive neo-liberal programme which affected product markets, the state sector, trade, exchange rates, monetary policy, and so on. In the next section I discuss some more of the effects of these policies.

4. The Legacy of the Free Market Experiment

4.1 The post-1984 policy prescription has been misrepresented as a highly successful programme. In fact, it has been a failure. New Zealand at the end of this process was weaker economically, had high levels of debt, large income disparities, and massive infrastructural deficiencies.

4.2 There is no doubt that, although some elements of the post-1984 reforms have been popular (it would be difficult to reintroduce a ban on shop trading after 9 p.m. or on Sundays) many of the problems in our country evident by 1999 - poverty, disparity, low economic growth, low labour productivity – had strong origins in the neo-liberal reform programme.

4.3 It is not plausible to suggest that New Zealand would have engaged in *no* reforms had it not embraced the comprehensive programme adopted after 1984. Many other governments were following some sort of market-oriented policies. The decision to initiate reforms is not what marked New Zealand’s reform programme as unique, but rather its extent.

4.4 In no other OECD country has there been such a systematic attempt at the same time (1) to redefine and limit the role of government, and (2) to make public agencies and their operations more effective, more transparent, and more accountable. It is this important extra dimension, as well as the range and scope of reforms that have more obvious counterparts elsewhere, that gives the New Zealand programme its special character.

4.5 There was zero growth for about 6 years from 1986 to 1992. In terms of real gross domestic product per capita, New Zealand fell from being ranked 4th in the OECD in 1960 to 15th in 1993 and we have kept sliding. GNP per capita from 1984-99 was 0.2% per annum on average compared with 0.6% over the 1969-84 period. In 1984 per capita income stood at 95% of the OECD average – by 1992 it was down to 80.6% and by 1995-it rose to 87%. In addition, in 1960 labour’s share of GDP was around 60% whereas now it is closer to 50%. Real wages in 1997 were lower than in 1974.

4.6 The economy has been efficient at making sure the sun sets on unprofitable companies but ineffective at helping the sun rise for new

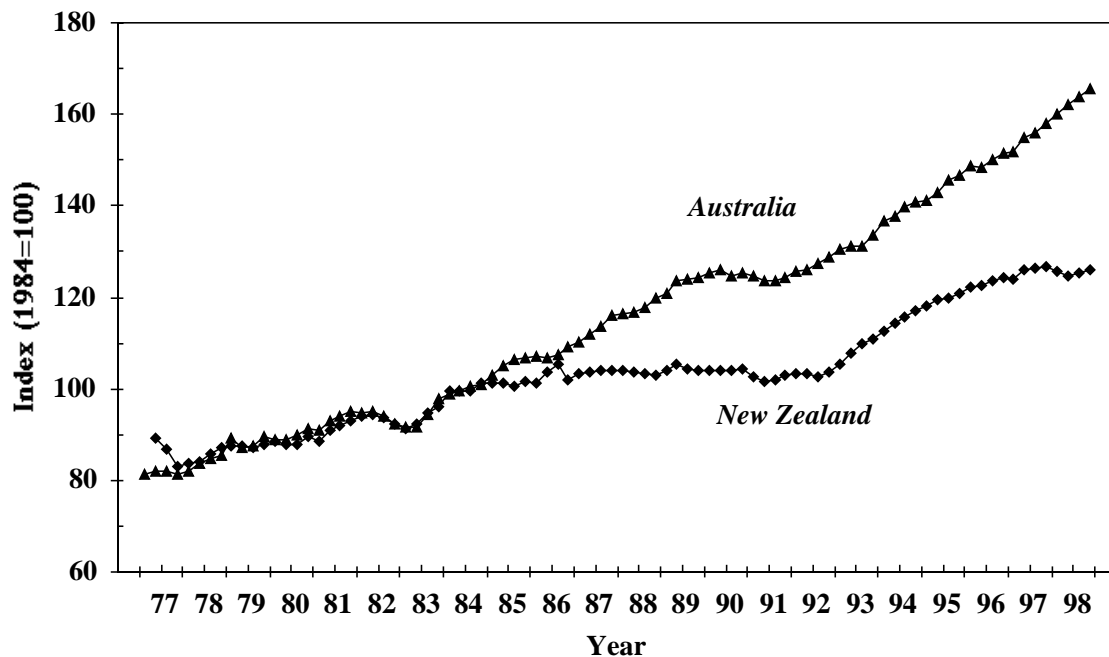
firms. There are structural economic problems that will take many years to reverse, and; there is a “lost generation” of workers including those laid off in the mass redundancies of the late 1980s, as well as those young unskilled workers of the late 1990s in highly casualised work on individual and sub-standard contracts.

- 4.7 A New Zealand economist, Paul Dalziel¹⁰ has looked at the reforms in New Zealand using Australia as a counterfactual. He compared the growth rates of New Zealand and Australia between 1978 and 1998. These data reveal a striking similarity between the two countries’ GDP paths (adjusted to a common scale) for the years before 1984, and an equally striking divergence after 1984 that shows no signs of closing fourteen years later. The cumulative gap after 1984 is enormous: if New Zealand had continued to grow at approximately the same rate as Australia (as it did between 1978 and 1984), it would have produced extra output between 1985 and 1998 amounting to more than NZ\$210 billion in 1995/96 prices, or well over *twice* New Zealand’s total GDP in 1998.
- 4.8 Figure 1 shows quarterly seasonally adjusted real Gross Domestic Product for Australia and New Zealand between 1977 and 1998, scaled so that the average value for the calendar year of 1984 equals 100.¹¹ Between 1978 and 1984, the GDP paths in Figure 1 are very close—the respective business cycles were very similar during this period, and overall the average annual growth rate of the two countries differed by only 0.2 percentage points.

¹⁰ Dalziel, P. 2000. *New Zealand’s Economic Reform Programme was a Failure*, Department of Economics and Marketing Canterbury, New Zealand. Dalzielp@lincoln.ac.nz

Both series are official data provided in seasonally adjusted form by the Australian Bureau of Statistics and Statistics New Zealand respectively. The Australian series begins in March 1977, but the New Zealand series does not begin until June that year—hence 1978 is adopted as the starting point for the comparison that follow.

**Figure 1: Real Gross Domestic Product, Seasonally Adjusted
Australia and New Zealand, 1977 - 1998**



Source: Australian Bureau of Statistics and Statistics New Zealand.

- 4.9 After 1984, the two series diverge. Apart from a short-lived stimulus to output provided by the introduction of the Goods and Services Tax (GST) in October 1986, New Zealand's real output remained virtually static until the end of 1992, at which point it was only 3.2 per cent higher than in 1984. The comparable figure for Australia was 26.9 per cent, although Australia also experienced recession in 1991. After 1992, both economies recovered, and for just over two years New Zealand grew more quickly than Australia (from December 1993 to December 1995). This turned out to be temporary, however. Australia continued to grow by between three and five per cent on an annual basis every quarter during the last three years of the sample, but New Zealand's growth rate slowed considerably and slipped into recession in the first half of 1998.
- 4.10 The growth data for the two countries is set out (see next page) in three periods. The first period is the six years immediately before the reforms (1978 to 1984). During this period the average annual growth rate for New Zealand (2.7 per cent) was comparable to that of Australia (2.9 per cent). The second period coincides with the transition stage of New Zealand's economic reform programme. Between 1984 and 1992, Australia maintained an average annual rate of 3.0 per cent, while New Zealand's rate was only 0.4 per cent (that is, less than one half of one per cent throughout these eight years). To emphasise the scale of the sacrifice implied by these data, it is possible to calculate how much

extra output New Zealand would have produced over this period if it had followed the same growth path as Australia: NZ\$89,282 million (measured in 1995/96 dollars). Further, its level of real GDP in 1992 would have been more than one-fifth higher than it was in fact.

**Average Growth Rates
Australia and New Zealand, 1978 - 1998**

Period	Australia	New Zealand
1978 – 1984	2.94	2.71
1984 – 1992	3.02	0.40
1992 – 1998	4.24	3.30

- 4.11 The third period coincides with New Zealand’s recovery. The architects of the reform programme recognised that there would be ‘short-term pain before long-term gain’ (see especially Economic Monitoring Group, 1989, pp. 25-28), and New Zealand’s economic growth rate did bounce back after 1992 to be 3.3 per cent on average between 1992 and 1998. This is well above the 2.7 per cent achieved in the six years before the reforms began, which perhaps explains why commentators have generally been optimistic about the final success of the reforms.
- 4.12 However, this improved growth performance was almost a full percentage point *lower* than Australia achieved during the same period, in part because New Zealand demonstrated considerably less resilience than Australia after its first major international shock in the post-reform period (the Asia currency crisis beginning in July 1997).¹² This means that the vertical gap between the two series in Figure 1 has increased further to reach 29.8 per cent by 1998. Summing up this gap over the entire post-reform period, it is possible to say that if New Zealand had followed the same growth path as Australia did after 1984 it would have produced extra output between 1985 and 1998 amounting to NZ\$214,695 million in 1995/96 dollars.
- 4.13 The point about this statistic, of course, is that it is enormous—equivalent to 2.25 times New Zealand’s total gross domestic product in the calendar year of 1998. It would be unreasonable to place all the blame for this dismal performance at the door of the reforms—but even if only half of this lost production was due to ‘the special character of

¹² This last observation has been the subject of critical comment in *The Economist* (6 March 1999, p. 78), which puts the blame on inappropriate monetary policy in New Zealand. Reform of the Reserve Bank of New Zealand to give it a sole statutory objective of maintaining price stability (in contrast to the Charter of the Reserve Bank of Australia which also allows an output stabilisation role) was, of course, one of the core components of New Zealand’s reform programme.

New Zealand's reform programme', it still amounts to more than a year's worth of income having been sacrificed.

- 4.14 So as has been observed, if the New Zealand economy had grown at its previous trend rate, or matched Australia over the same period, output would be a third higher than it is now. The previous CTU Economist Peter Harris noted in 1999 that:

“the amounts of personal and public income associated with this are staggering. At current tax rates the extra income would have generated an extra \$11 billion of tax revenue per annum – enough (at that time) to halve net government debt, or double spending on health and education”.

- 4.15 In fact, this scenario was made even worse by the National Government's programme of tax cuts which were not only damaging to state sector capacity, but also significantly weighted towards high incomes. One-third of the income gains from the tax cuts of 1996 and 1998 went to those in the highest income quintile.
- 4.16 But the reliance on private consumption fuelled by high levels of private debt persisted. Household savings were positive (e.g. 12% ratio in 1980) until 1998. The decline is largely attributed to post 1992 fluctuations in social assistance and investment income.¹³ Household debt as a proportion of household annual income has risen dramatically from 48% in 1990 to 92% by 1999.
- 4.17 By 2000, the debt was at \$109.1 billion which is 106% of GDP. The investment income deficit is still around \$7 billion as the most significant factor in our current account deficit.
- 4.18 Gaynor¹⁴ is also extremely critical of the Government for not using the proceeds from asset sales to either invest in new sunrise industries or for dedicated investment funds to finance future pension or superannuation liabilities.
- 4.19 Telecom is one example of a sale that was significantly underpriced. In June 1990 it was sold for \$4.25 billion. Since then Telecom has paid \$5.5 billion in dividends and its total value has risen to \$16.6 billion. In late 1989, there was 16,265 staff at Telecom. By 1998 this had reduced to 8,136.
- 4.20 In December 1986, many of New Zealand's largest companies were Government owned and the sharemarket was more than 95% owned by New Zealand based companies, managed funds and individuals. However, overseas ownership of the New Zealand stock market (NZSE40) rose from 19% in December 1989 to 61% in August 1997. In

¹³ Some caution is required with savings decline statistics as savings appeared higher in times of high inflation.

¹⁴ Gaynor, Brian. NZ Herald 02.10.99.

the last 2 years foreign ownership has declined to 55%, as international investors became impatient with New Zealand's poor economic performance.

- 4.21 Another key problem that has emerged is the relatively low level of R&D expenditure. Although such figures are notoriously difficult to assess because of the different way firms treat such expenditure for tax and other reasons, total R&D was 1.1% of GDP in 1997/98 compared with the OECD average of 2.1%. In particular, business R&D was only 0.32% compared with an OECD average of 1.5%. R&D expenditure as a proportion of sales of manufactured products was only 0.37% compared with an OECD average of 6.6%. This is no doubt due to a range of factors including tax treatment. However, it is also indicative of a "cost-cutting" rather than "innovation" perspective as a driver of economic growth.
- 4.22 At the end of 1989 retail investors had \$13.5 billion invested in the sharemarket, either directly or through managed funds, and less than \$15 billion borrowed on residential mortgages. But by the end of 1999, although individual investment in the sharemarket had increased to \$19.4 billion, housing loans had leapt up to \$57 billion. The NZSE Capital Index rose only 10.6% in the past decade.
- 4.23 It is also significant to note that the New Zealand sharemarket was subject to considerable deregulation in the post-1984 period. Many believe that this is a contributing reason for the more drastic impact in New Zealand (40% greater cut in value) compared with other countries of the 1987 crash and the slower recovery.
- 4.24 There have been some significant infrastructural and network issues that have emerged as a damaging legacy of the privatisation and reform programme. Tranzrail are now breaking up their company into various subsidiaries for sale. They have failed to invest in the rail network, have extracted millions of dollars in profits, and are now negotiating with Government over the rights to use the tracks. The electricity reforms are a shambles. Even Business New Zealand have said that the reforms need to be revisited with the full force of hindsight.
- 4.25 New Zealanders like to think of their country as one that has avoided the excesses of poverty and inequality that characterise some comparable countries elsewhere in the world. Up until the early 1970s, that belief might have had some validity. But over the last three decades – in particular, over the period since the reforms began in the mid 1980s, inequality in New Zealand has grown steadily and at a rapid rate. Several studies confirm this trend, and investigate the reasons behind the increase. Briefing Papers to the Minister of Youth Affairs (November 1999) indicated that median incomes for those in the 15-25 year age group had fallen from \$14,700 in 1986 to \$8,100 in 1996. A

study by Stephens, Waldegrave and Frater¹⁵ shows that from 1984 to 1998 the top 10% of households increased income by 43% and the bottom 50% of households decreased income by 14%.¹⁶ A Treasury Working Paper¹⁷ states that 90% of New Zealanders are worse off in 1996 than they were in 1981.

- 4.26 In the 1990s there were increasing signs of poverty and hardship. For instance, foodbanks in Auckland alone grew from 16 in 1990 to 130 in 1994. Another recent paper¹⁸ shows that the Gini coefficient has increased by 14% since 1986. Podder and Chatterjee found that the Gini coefficient of income inequality (which assigns a number from 0 to 1 to indicate the degree of inequality in a distribution; a value of zero indicating a given share of the population getting the same share of income, while a value of one indicates that all income goes to the richest group) increased from 0.353 to 0.404, an increase of 14 percent over a span of twelve years from 1983/84 to 1995/96, a very rapid increase by international standards. This study also found that, over the same period, the bottom eight deciles of the population suffered a *decline* in their relative shares of the total income paid out, the ninth decile's share remained unchanged, while the top decile had its income share rise by around 15 percent. The top 5 percent experienced an even more spectacular increase of around 25 percent in its share. A Statistics New Zealand study (SNZ 1998) also came out with similar findings.
- 4.27 The reaction of the National Government to these growing disparities (for instance as indicated by Podder and Chatterjee) was to assert that it was desirable as it provided evidence of reward for effort and qualification.¹⁹
- 4.28 Joanna Smith²⁰ notes that the increase in the prevalence and depth of low incomes between 1986 and 1996 can be divided roughly equally between a worsening of the income distribution and slow growth in average incomes. O'Dea finds that income inequality rose in the 80s and 90s but faster in the 80s. One significant contributing factor was the growing proportion of workers in their prime earning years and with higher educational qualifications. However, Dixon (1998) found that over the 1984-1997 period real median hourly earnings grew only slightly whereas median weekly earnings of full-time employees increased by around 10%. But she also suggests that earnings inequality was rising before 1991 and therefore the impact of the ECA is not particularly significant.

¹⁵ Ansley, B. "Human Values", N.Z. Listener, 25/3/00

¹⁶ See also Podder, N., and Chatterjee, S. "Sharing the National Cake in Post Reform New Zealand: Income Inequality Trends in Terms of Income Sources" NZAE Annual Conference Papers, 1998

¹⁷ O'Dea, Des, *Disparity in New Zealand*, Working Paper 13/00.

¹⁸ Smith, J. *The Changing Geography of Income Inequality in New Zealand*. NZAE Conference, 12 July 2000, Wellington.

¹⁹ Birch, B., New Zealand Herald, 24 July, 1998.

²⁰ Smith, J. *The Changing Geography of Income Inequality in New Zealand*. NZAE Conference, 12 July 2000, Wellington.

4.29 Dalziel has observed:

“There is a more general acceptance in New Zealand that income distribution widened over the course of the reform programme, and that this led to increased poverty among some low income households. The price of radical market liberalisation in New Zealand was very high and was generally paid by those least able to afford it. Global trends undoubtedly contributed to this, but again the extent of the gap is so great—and the outcome so contrary to the stated objectives of the reforms—that it is again clear that the reform programme has failed by its own criteria. The second part of this note shows that the bottom four deciles of the income distribution saw their average per capita income fall by more than three per cent in real terms between 1984 and 1996, with the poorest decile losing nearly nine per cent”.

4.30 An outline of the changes in average real per capita income is attached as Appendix 1.

4.31 Women are over-represented in the lower income quintiles. Moving from the lowest to highest quintile (1996 figures) the relative % of women and men (in brackets) shows a decline for women and an increase for men – 25%(15%), 24% (16%), 23% (17%), 12% (29%). So 29% of men are in the highest 20% income bracket, but only 12% of women. Wages for women are 83.4% of the male wage.²¹

4.32 But this does not mean that men had it easy in the post 1984 period. Callister²² has demonstrated that in the post-1984 period a significant gap opened up between work-rich and work-poor families. He argues that changes in labour demand between 1986 and 1991 had a profound effect on patterns of paid work for many individuals and families. One of the most significant changes was the loss of work for many prime-age men. Men who were used to manual work and with no formal qualifications were particularly disadvantaged by the combination of massive redundancies in many sectors where they worked, and the need for higher qualifications to access new employment opportunities. The participation rate for men aged 25 to 59 fell from 91.9% in 1986 to 81.5% in 1991. A significant part of the growth in participation of women has been among those couples in which the partner was in paid work. But there was of course wide variation in incomes accruing to work-rich households. Some could afford pay domestic help whereas other work-rich families found it very difficult to balance work and family commitments.

4.33 In addition, in some households, the complex interactions between different policies resulted in exacerbation of hardship. For instance, the policy of state housing rentals being set at market levels forced many

²¹ This is however an improvement from 1984 where the ratio was 0.73 (weekly) or 0.79 (hourly).

²² Callister, P. (1998) “Work-Rich and Work-Poor Individuals and Families: Changes in the Distribution of Paid Work from 1986 to 1996”. Social Policy Journal of New Zealand, 10, June 1998.

families to move from one house to another as they could not afford to stay in the house once the rent level was reassessed. This meant that young children could end up shifting from one school to another constantly. It has been clearly observed that the levels of literacy and numeracy of these children suffered appallingly under these circumstances. In this same period we witnessed the re-emergence of infectious diseases as a result of overcrowding and poor housing.

4.34 There was no doubt that by 1999, the country was ready for a change.

5. Reclaiming Social Democracy

5.1 A new Labour/Alliance Government was elected in November 1999. This led to a new policy framework. Underpinning the change in policy is a recognition that the neo-liberal reforms of the last 15 years have not produced a stronger economy nor improved labour productivity, but have instead created serious levels of disparity and dysfunction in New Zealand society. The experiment failed. The new set of policies are not, however, a return to the past. But there is a greater degree of government involvement in economic development, a renewed commitment to state sector capacity, and a clear social programme.

5.2 In the area of the labour market, the most significant change has been the introduction of the Employment Relations Act. It is generally accepted that the “sky did not fall in” when the Employment Contracts Act was repealed. Many critics of the new Employment Relations Act had predicted mayhem. This is partly because many of the criticisms were exaggerated, and partly because the new law is actually quite a moderate reform and not a return to the past. There are nevertheless high hopes that the new law will produce more harmonious workplace relationships, a higher level of collective bargaining, an opportunity for unions to conduct their affairs in a fairer climate with greater rights of recognition and ability to organise, and better pay and conditions for workers particularly those most disadvantaged in the labour market.

5.3 The purpose of the new employment law is to build productive employment relationships through mutual trust and confidence in all aspects of employment. The Act recognises the need for good faith behaviour, acknowledges that there is unequal bargaining power between employer and employees, encourages collective bargaining, provides for voluntary union membership, and promotes mediation as the best way to resolve problems.

5.4 The government has also re-nationalised workers compensation, which was privatised in 1999. Further reforms of laws relating to the workplace are planned. Health and safety legislation is one of the major initiatives in 2001, along with reform of accident compensation entitlements, including the reintroduction of limited lump-sum compensation.

- 5.5 Of particular significance is the renewed emphasis on apprenticeships and workplace training.
- 5.6 In 2000, the government increased minimum wages (and again in March 2001, and March 2002, along with a reduction of the age of application of the adult rate and an increase in the youth rate); increased pensions; reduced rents for state housing; increased funding for elective surgery; and reduced interest payments on tertiary student loans.
- 5.7 There is no doubt that in the 1999-2001 period the new Government enjoyed the benefit of particular economic factors that were partly cyclical and coincident with their policy implementation. Higher commodity prices, a more favourable exchange rate, a falling the current account deficit combined with a fiscal surplus, reasonable strong retail sales and tourism has meant that the economy was exhibiting the sort of balanced growth that had been elusive for many years.
- 5.8 In relation to trade, the general picture was that exports were up by 20% in the year to June 2001. This was mainly due to price effects and the exchange rate but there is volume increase also
- 5.9 So economic growth while not at a significant level, is reasonably broad-based. It is in the regions and starting to appear in Auckland also. It is in tourism, domestic sales, and exports. This is a change from the consumption-led growth we have seen in the past. In the last 2 years, GDP growth has been 4.6% and 2.5% compared with 1.9% and 0.4% in 1998/99.
- 5.10 It is also significant that although the Government can only take some of the credit for the economic situation, the circumstances we have now are a far cry from the predicted by the doom merchants who were so harshly critical of the changes to ACC, the repeal of the Employment Contracts Act, and increases in the minimum wage. The Government programme in relation to economic development, modern apprenticeships, and a more generally hands-on approach, has certainly been of assistance.
- 5.11 However there are still some major issues to address. First of all there are significant income disparities, and the continuation of grinding poverty for some sections of our society. The legacy already mentioned cannot be overcome quickly. A new Ministry of Social Policy report says the top 20% of household earners increased their income by 26% between 1982 and 1998. But the gap between rich and poor is widening as the bottom 20% of households, living on \$13,000 a year, increased their income over the same period by only 3%.
- 5.12 There are also significant challenges in relation to physical infrastructure. In addition there are growing fiscal pressures on the

government in relation to health and education expenditure in particular. There are problems in relation to literacy and numeracy. We still have relatively low economic growth, low real wages, a significant investment income deficit, and high levels of emigration to Australia.

- 5.13 There is a reasonably healthy fiscal situation in the sense that there are fairly strong surpluses. The Government front-loaded its expenditure in the first year of its 2000-2002 term. Also, the allocation of \$6.2 billion to superannuation prefunding over 4 years certainly has an opportunity cost. There are major pressures emerging in health and education, but there are broader issues of state sector capacity, recruitment and retention of staff, quality public services, and infrastructural issues (e.g. Rail).
- 5.14 Although the Government has started to direct greater resources towards skill-based training, there are still major concerns about retaining skilled workers and attracting similar migrants. A comprehensive analysis of migration trends affecting New Zealand would include tracking of immigration from UK, Pacific Islands, South Africa, China, India, Japan etc. There has been a recent turn around with increases in migration from a range of countries. However, there is still concern about large net migration to Australia. Although we have had peaks before in terms of net migration to Australia, we have had steady growth since 1991. This also appears to be a “vertical slice” of New Zealanders in respect of skill levels, rather than the so-called “brain drain” (see next page).
- 5.15 There has been a major change in the last 18 months in respect of economic development policy. The Government has established a number of programmes for regional, industry and enterprise assistance. There is no doubt that not only the resources of Industry New Zealand, but the emerging focus on key sectors and the multiplicity of agencies and activities centred on economic development concepts is developing a momentum.

Migration (NZ and Australia)

	To NZ	To OZ	Net
1980	13,292	42,910	-29,618
1984	15,771	14,097	1,674
1989	11,517	44,592	-33,075
1991	18,835	17,619	1,216
1996	12,993	22,149	-9,156
2000	10,559	35,376	-24,817

- 5.16 The Industry New Zealand Act 2000 states as an objective that it “will promote and encourage sustainable economic development ...by

establishing Industry New Zealand”. The functions of Industry New Zealand recognise the requirement to work closely with industry, central and local government, and relevant community groups to develop and implement industry strategies at sectoral and regional levels.

- 5.17 Sustainable development was defined²³ in a paper to Cabinet as:

“meeting the needs of the present generation without compromising the ability of future generations to meet their needs”

This implies reinforcing sustainability through the convergence of social, economic and environmental issues. Industry development and regional development are seen as key components of sustainable development. Key policies identified include those relating to human capability and employment, the regulation of business and human activity, provision of infrastructure services, and the protection and sustainable use of natural resources.

- 5.18 It was argued that the proposed direction of sustainable development was consistent with international best practice and referred to a World Bank report which suggested four key aspects underpinning successful programmes – the need for macroeconomic stability, an acknowledgement that growth does not trickle down so development must directly address human needs, no one policy will trigger development implying a comprehensive approach, and that institutions matter – meaning that socially inclusive processes are required.
- 5.19 Economic development policies and institutional arrangements in numerous areas have been examined including Ireland, Scotland, Sweden, Singapore, and parts of Australia. There are commonalities in relation to building a knowledge economy, but in New Zealand there is the particularity of exercising biotechnology leverage from our commodity base.
- 5.20 There is a determined focus on: a broader export base; a value-added approach; expanding market access; more paid employment at higher wages; greater equity; improved foreign direct investment, and; more major investment projects. The Government has also recently suggested ways of achieving greater commercial realisation of research advances. Also, economic transformation is considered to be as much about culture (in the sense of attitudes to business), and positioning as it is about capacity and competitiveness. Key goals are variably expressed in terms of export enhancement, and employment. Industry New Zealand aims to strengthen regions, industries, businesses, business culture, and attract investment.

²³ Office of the Minister for Economic Development, DEV (00) 20.

- 5.21 There are numerous aspects to the programme. Providing leverage for venture capital (a \$100 million Government venture capital fund), the formation of clusters, industry planning, workforce development, building international networks, incubators, “centres of excellence”, the regional partnership programme – are all examples of quite significant movement in the role of Government in relation to economic development. To this we could add modern apprenticeships, the Industry Training Review, R&D tax treatment, a reviewed Industrial Supplies Office, the continuation of BIZ, the development of more Enterprise Awards, E-commerce initiatives, the Investment Ready Scheme, Regional Partnerships Programme, the Major Investment Service, and the Business Growth Service and Fund.
- 5.22 The Government has also been spelling out industries that could lead the transformation of the economy. They have been identifying “job-rich, high-skill, high-value export industries with the potential for rapid growth”. There may be, in fact, be a number of considerations driving the selection of such industries. Those identified at this stage are: Wood processing; Fashion, apparel and textiles; Tourism; Creative arts, especially music and film; Knowledge industries such as ICT and bio-technology; Manufacturing, such as light alloys. The Minister has stated that the Ministry of Economic Development and Industry New Zealand will work in partnership with those industries.
- 5.23 The Wood Processing Strategy has been the first such sectoral initiative. While not a pilot as such, it has been keenly watched as a model of a partnership approach involving central and local government, employers, unions and community groups. The areas of strategic focus include: transport; Resource Management Act; employment, skill and training; biosecurity; research, science and technology; trade access; trade enhancement; national certification; investment promotion, and; climate change. The Strategy is also an interesting example of the intersection of regional and national initiatives. The manufacturing group has also met. The TCFC (textile, clothing, footwear and carpets) Strategy Group is perhaps the sole remnant of the link between industry development and tariff policy. This suggests that the Government is viewing industry development more as a series of sector initiatives that can take on their own character and pace.
- 5.24 Although the economic development budget is not huge, it represents a significant shift in policy direction.
- 5.25 There is increasing recognition that labour, education and employment issues are crucial to the development of a value-added economy. Knowledge is an infinitely renewable resource provided we invest in it. The importance of human capital to some extent has the potential to act as a counterweight to the pressures of finance capital. For unions there are opportunities to promote best practice workplaces, quality of working life solutions, remuneration systems, and other proposals

which mean that workers are able to use the knowledge they have in the workplace. Once again, this is not an easy issue as there are concerns about the knowledge divide, digital divide etc to add to already prevalent income disparities. But the terrain of life-long learning and best-practice workplaces is a crucial area for policy development and implementation.

- 5.26 The political economy of the post-neo-liberal period is reasonably fluid. Certainly there is a social democratic base. There are references to the “third way”. Terms such as economic transformation, inclusive economy, innovation economy, knowledge economy, knowledge society, social development, sustainable economic development, triple-bottom-line – represent a critique of the view that least-cost competitive conditions would create private profits and investment which would trickle down to and through society as a whole. There is some interesting analysis being done by Treasury and others. For instance, work on economic transformation considers the extent of disadvantage of size and location. Towards an Inclusive Economy puts wellbeing at the forefront. There will also be considerable scepticism if there are no concrete policies articulated on the basis of this shift in approach (although we have seen some already). But clearly there is a new and positive mood emerging creating a new form of social democracy but rooted in long-standing values.
- 5.27 Formal tripartite structures, centralised bargaining and industry structures/associations have been largely swept aside since the 1980s. But there is renewed interest in a National economic and Social Council, new forms of tripartism, and other forms of broader engagement. It is fair to say that there is some caution on all sides, but the fact that such ideas are being discussed indicates a shift to a much more co-operative atmosphere.
- 5.28 The trade liberalisation programme has continued however with a new NZ-Singapore Closer Economic Partnership and negotiations under way for a similar deal with Hong Kong. The new Government is committed to greater integration of labour and environmental issues in trade negotiations but there is much progress to be made. Latest indications are that the Hong Kong CEP negotiations have stalled over the “outward processing arrangements” where finishing in Mainland China can be counted as Hong Kong origin.
- 5.29 There is considerable unease in New Zealand as to how to reconcile the Government’s desire to signal an interest in greater access to Asian markets by such bilateral agreements, with concerns about rules of origin, domestic regulation, investment, trade in services, government procurement, anti-dumping measures, standards and licensing, intellectual property, sanitary and biosecurity issues, public awareness and participation during negotiations. There is also an interest in how the New Zealand Government position in the GATS negotiations and at

the WTO meeting in Qatar signals a different approach from the previous National-led government.

- 5.30 The union movement is in a stronger position than in 1999. Union membership has increased in absolute terms in both 2000 and 2001. Union density is however up only slightly to around 24% of wage and salary earners. The CTU has combined with the smaller Trade Union Federation and has grown from 19 to 33 affiliates in just over 2 years.

6. Latest Developments

- 6.1 In July 2002, the Labour-led Government was re-elected. Unfortunately the more left of centre Alliance Party which was the Labour coalition partner in Government had split. No Alliance MPs were returned to Parliament. Two ex-Alliance MPs returned as Progressive Coalition members and are in coalition with Labour. Labour and the Greens also attacked each other during the election campaign, and also the National Party was weakened considerably. This has allowed a right of centre party (United Future) to significantly increase its number of MPs. It has now signed a “confidence and supply” agreement with the Government effectively guaranteeing stable Government for 3 years. Although the cost of this agreement does not appear to be too high to Labour in terms of its policy programme, the symbolism is worrying the union movement which would have preferred a Labour-PCP-Green Government. However, the Greens will support Labour on many key issues.

- 6.2 Labour has committed itself to numerous employment-related reforms essentially the continuing the momentum since late-1999. These include a commitment to finetune the major Employment Relations Act and also to:

- (a) Introduce a new Holidays Act including separate sick and domestic leave, time and a half for work on public holidays and other changes
- (b) Introduce a law to protect workers when a business is sold or work is contracted out
- (c) Regularly increase the minimum wage
- (d) Upgrade paid parental leave to 14 weeks, extend to those who have had more than one employer in previous year, extend to self-employed
- (e) Review the adequacy of redundancy law by establishing a Ministerial Advisory Group
- (f) Introduce measures to offset the adverse effects of casualisation
- (g) Develop a programme to promote equal pay for work of equal value and introduce measures to address the gap between male and female wages
- (h) Introduce a minimum code of practice for state sector contractors
- (i) Improve insolvency law protection
- (j) Develop an integrated and balanced family-friendly work/life programme

6.3 The Government is also committing itself to a much greater investment in industry training and to engaging with employers and unions on productivity issues.

6.4 This represents a continuation of a social democratic agenda.

7. Conclusion

7.1 In the post-1984 period, New Zealand experimented with a radical neo-liberal policy programme. These policies failed to achieve economic and social progress. They left New Zealand weaker economically, and with large gaps between rich and poor. There was almost no economic growth for 6 years. If New Zealand had matched Australia in that period our economy would be one-third as large as it is today.

7.2 This experiment has left a costly legacy. It will take many years to recover. However the new Government elected in 1999 has made an impressive start with a solid social democratic programme in relation to state housing, superannuation, labour market reform, investment in skills and education and economic development.

7.3 But there remains much to be done to build a strong socially inclusive economy.

7.4 The Labour-led Government has been elected for a second term from July 2002 and has a significant policy agenda to continue with employment-relations reform and economic development. However there are concerns about lingering poverty, state sector capacity issues, and a sense of foreboding about the effects of falling export returns.

7.5 There is no doubt that the “NZ Experiment” failed. But implementing a sustainable policy programme to recover the lost ground and build a strong economy underpinning modern and progressive social services is no easy matter.

Appendix 1

Average Per Capita Real Income New Zealand, 1983/84 - 1995/96

Decile	1983/84, measured in 1995/96\$	1991/92, measured in 1995/96\$	Percentage change from 1983/84	1995/96, measured in 1995/96\$	Percentage change from 1983/84
Lowest	4,464	3,498	-21.64	4,075	-8.71
Second	9,256	8,306	-10.26	8,890	-3.95
Third	11,869	11,053	-6.88	11,487	-3.21
Fourth	14,286	13,457	-5.81	13,799	-3.41
Fifth	16,486	15,817	-4.06	16,397	-0.54
Sixth	19,273	18,350	-4.79	19,686	2.14
Seventh	22,976	22,084	-3.88	24,047	4.66
Eighth	28,181	27,578	-2.14	30,053	6.65
Ninth	35,193	35,670	1.35	39,253	11.54
Top 10%	55,795	58,784	5.36	70,569	26.48
Top 5%	66,553	72,841	9.45	90,756	36.37