NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi

to the

Productivity Commission

on the

Services Sector Inquiry

P O Box 6645

Wellington

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Contents

1. Introduction

1.1. This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 340,000 members, the CTU is one of the largest democratic organisations in New Zealand.

1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

1.3. Affiliates of the CTU have members in most services industries and so have a strong interest in the outcomes of this inquiry.

1.4. Our approach to this submission is to indicate our areas of interest rather than to make a substantive response in most cases. We would welcome on-going engagement as the inquiry progresses.

2. Scope of the inquiry

2.1. We agree that the public sector should be excluded from the inquiry. It is currently under intense scrutiny by the Government. Unions have taken an active interest in productivity in the public sector, participating in productivity initiatives in hospitals, and promoting productivity-improving methodologies in the core public services. However where outputs and outcomes are very difficult to measure and/or are intrinsically labour-intensive (a situation which is not confined to the public sector) the approach that must be taken needs to be very different to that in other industries. Nonetheless, if the Commission is interested we would be happy to discuss the kinds of initiatives that the CTU and its affiliates have been involved in.

2.2. The measurement of productivity among services is frequently problematic, and particularly so in the areas dominated by the public sector. This is not simply because there is no market price established for the services (prices need to be considered critically too), but because it is much more difficult to define what the service is and judge how much and to what quality it has been provided.

2.3. For example, a student or parent is not typically seeking student time in a room with a teacher when seeking education, yet that is essentially what is measured in the standard (e.g. Statistics New Zealand) productivity statistics. It matters to the student or parent whether there is one person in the classroom with the student, or one hundred. The quality of interaction with the teacher, the facilities available, and (just as importantly) what the student brings to the interaction and how he or she responds to it are all criteria that will be used to judge whether an education "service" has been received, and its quality. Some of these are very difficult judgements to make, whose validity may be evaluated only several years down the track, and then only very indirectly. Hence the debates over class sizes, teacher quality and so on. Education works by permanently changing the student him- or herself, and in ways that are difficult to observe directly. In addition there are recognised externalities such as benefits to other workers, to tolerance and the quality of civic interactions in society, and to economic development.

2.4. Health services are often similar. For these reasons, we are wary of placing much significance on the productivity statistics recently released by Statistics New Zealand in the education and health sectors. We also note that they do not cover all activities and assume the unmeasured activities (such as mental health and non-market residential care in the Health sector and research in the Education sector) change at the same rate as those covered.

2.5. To take one example which is pertinent to this inquiry because a substantial part of it is privately provided, Early Childhood Education (ECE). It is difficult to develop valid productivity measures for ECE because the outcomes have long-term value. One of the challenges faced by the early childhood education sector is that the real returns on investment in human capital are most often five, 10, or 15 years downstream – long after the initial investment. A growing body of research[1] recognises that early childhood education brings a wide range of benefits to the social and economic structure of New Zealand. These benefits include:

- better child well-being and learning outcomes as a foundation for lifelong learning
- more equitable child outcomes and reduction of poverty
- increased intergenerational social mobility
- more female labour market participation
- increased fertility rates
- better social and economic development for the society at large.[2]

2.6. All these benefits are conditional on the quality of the education provided. In the long run, expanding services or participation without attention to quality will not deliver good outcomes for children or the long-term productivity benefits for society. Furthermore, research has shown that if quality is low, it can have long-lasting detrimental effects on child development, instead of bringing positive effects[3].

1 Dalli, C., White, E.J., Rockel, J., Duhn, I. et al. (2011). Quality early childhood education for under-two-year-olds: What should it look like? A literature review. Retrieved April 16, 2013 from www.educationcounts.govt.nz/publications/ECE/quality-early-childhood-education-for-under-two-year-olds-what-should-it-look-like-a-literature-review/executive-summary

2 OECD (2012), Starting Strong III: A Quality Toolbox for Early Childhood Education and Care, OECD Publishing. Retrieved April 16, 2012 from http://www.oecd.org/document/0/0,3746,en_2649_39263231_49317504_1_1_1_1,00.htm

3 Ibid

2.7. In ECE it is difficult to define a quantity measure of output taking account of quality because:

- the defining characteristics of 'quality' outcomes are difficult to quantify
- the diverse nature of the sector makes quality adjustments difficult
- the outcomes of quality provision are for the most part long-term.

2.8. We therefore believe that early childhood education services should be out of scope for this review.

2.9. A growing area of Health which has a substantial market aspect is Residential Care (including Aged Care). However, much of it is at least partially regulated and publicly funded on standard regional formulas. Again, the quality of the service is vitally important and difficult to measure. The quality is affected by a number of factors including the skills of the staff, the compassion of the staff, and the comfort and equipment of the premises. We return to this subsector under Question 14.

2.10. The productivity of many core public services – such as policy analysis and advice, enforcement and inspection – is difficult to ascertain largely because of their externalities and public good nature. Services may be directly provided to an individual (such as a Minister) or a group or organisation, but the benefits of good service, and costs of poor service are spread much more widely. It is very difficult to completely define the service they are providing, and indeed defining it too rigidly may reduce its usefulness as the professional judgement of the people providing the service is often a crucial part of it. Quality and quantity become difficult to disentangle.

2.11. We point out that many market services have similar aspects. An architectural design impacts not only on the purchaser but on neighbours, the environment, and in the case of a public building, impacts on users socially and aesthetically as well as their health and safety. A well designed building may have long term benefits for the productivity of those working in it, even if the architect was apparently less productive in taking more time to consider its design. This is not necessarily reflected in the price as it may be very difficult to tell for some time whether the degree of care taken in the design with different purposes or competence delivers the same benefits, and the purchaser may not have an interest in encouraging the creation of externalities.

2.12. Even in apparently less skilled services such as road transport there can be externalities such as pollution, road safety, and (in the case of passenger transport) passenger safety and experience which may not be captured in price or volume information.

2.13. Given the lack of competition in the banking sector which dominates the Financial and Insurance Services industry, and its ability to generate activity of dubious social utility, we do not consider its measured productivity levels and changes should be taken at face value.

2.14. The Commission also acknowledges (p.15) that there is not necessarily a link between higher productivity and wellbeing, giving the example of longer retail opening hours which may reduce productivity but provide greater convenience to customers. While the example could be debated, that of reducing class sizes is another one we have already mentioned which makes a similar point.

3. Nature of services and their importance to the economy

3.1. Services are clearly a large and growing proportion of developed economies. In New Zealand the Commission estimates they account for 74 percent of all wages and salaries and 46 percent of export value-added including their use as inputs into the exports of other sectors.

3.2. However we are also very aware, as is pointed out (p.9 and 11) that some of that apparent growth is essentially redefinition of in-house services if they are outsourced, which appears to be a growing trend though very difficult to quantify. There is also commercialisation of services previously provided at home.

3.3. While we agree with the Commission that services do not necessarily have to be low productivity, with examples of subsectors such as information technology and communications to the contrary, there are problematic aspects to services from a skills and wages point of view.

3.4. By their nature, many services have a high labour content. This means that in those areas, wages are a larger part of the cost structure and cost reduction tends to focus on wages and other labour costs. The alternative is to increase productivity either by increasing skills or by investing in productivity-enhancing equipment, software or processes. The finding by the Commission that labour productivity levels in retail services are low compared to other OECD countries (p.5), the falling labour productivity in New Zealand's accommodation, bars and restaurants compared to rising productivity in the U.K., (p.11; and indeed the falling labour, capital and multi-factor productivity in the sector over a long period) suggests these alternatives have not been followed widely in some sectors.

3.5. We do not accept an explanation such as that given in the box looking at the retail trade (p.5) that low productivity levels are a result of "extensive regulation of critical inputs (e.g. planning, labour and trading regulations)". New Zealand's retail sector is not heavily regulated and international comparisons show New Zealand's labour to be very lightly regulated – indeed, as we will argue later in this submission, too lightly regulated. Further if, as is suggested in the commentary on p.16-17, New Zealand suffers from a lack of competition (which is likely in many sectors – especially those with economies of scale – given its size) then more extensive regulation may be appropriate. Certainly, "too extensive" regulation compared to other OECD countries cannot provide a persuasive explanation of poor productivity performance here.

3.6. While it is certainly not the only reason for this poor productivity performance, we are concerned that outsourcing, particularly when accompanied by low union density or used to avoid unionisation, is frequently used as a relatively simple way to force lowered labour costs and avoid employment responsibilities by competitive outsourcing. This not only can force reductions in pay and conditions, but can make investment in skills and capital by the contractors even less attractive because they cannot afford the (hopefully transitional) increase in their costs to hire more skilled labour, increase the skills of their workforce, or make the investment in equipment needed to increase productivity. They may not be able to afford it for a number of reasons: it would make them uncompetitive in winning contracts; the uncertainty in retaining contracts increases the risk of the investment; and if they are small firms (as is often the case – sometimes down to the level of individual contractor) the investment and expertise required may be beyond them. There are also significant negative externalities as a result of the lower pay and work conditions of these workers/contractors.

3.7. Outsourcing in these circumstances may provide short term cost advantages to the firm doing the outsourcing, but in the longer run may discourage capital and skill development. It also creates insecurity for employees who then have less incentive and resources to increase their skill levels.

3.8. We note that there appears to be a significant break in the trend in the growth in the services sector share of the economy in Figure 3, between about 1985 and 1989. This is confirmed from our own exploration of the National Accounts. Between 1972 and 1985, services gained just a 2.5 percentage point share of GDP. From 1985 to 2010 they gained 14.2 percentage points share, rising to 69.3 percent of GDP. Of the 14.2 percentage points, over half (8.3 percentage points) occurred between 1985 and 1989. The increase since 1985 is largely due to increases in share of Financial and Insurance Services, Rental Hiring and Real Estate Services, Professional, Scientific and Technical Services, and Administrative and Support Services among largely market segments (totalling 10.7 percentage points increase) and Health Care and Social Assistance and Education and Training among the largely non-market segments (totalling 4.0 percentage points increase).

3.9. Between 1985 and 1989, 2.1 percentage points of the increase in services was due to Owner-Occupied Property Operation, presumably reflecting an increase in home ownership rates during that period, but that has since been largely reversed, falling by 1.5 percentage points between 1989 and 2010.

3.10. It would be worth exploring the reasons for the rapid increase in Services share of GDP in the 1985-1989 period. It is partly due to significant destruction in the manufacturing sector but could also include a change towards outsourcing. All of the four market service industries identified above are beneficiaries of outsourcing in various forms, either directly or in financing it. They include cleaning services, various office services, call centres, employment services, labour hire, and leasing. Professional, Scientific and Technical Services includes the professions such as architecture, law and accountancy, as well as advertising, marketing, management consultancy and computer services.

3.11. Productivity increases in two of these four industries – Professional, Scientific and Technical Services, and Administrative and Support Services – were weak over the period available from Statistics New Zealand (since 1996), but apparently strong for the other two (Financial and Insurance Services, and Rental Hiring and Real Estate Services). We questioned the meaningfulness of financial sector productivity measurement above, but the general point is that a significant part of the increase in services has not been in industries with highly productive or strongly growing productivity.

3.12. A further area of interest is that Services have as large a proportion of firms with no employees (70.6 percent) as Agriculture, Forestry and Fishing (70.4 percent), according to Statistics New Zealand's Business demography statistics for 2012. With public sector dominated sectors excluded, it is even higher – 72.7 percent. The Goods sector has only 59.0 percent. These proportions are particularly high in the four market sectors identified as expanding their GDP share since 1985. By number of employees and self-employed (assuming there is approximately one self-employed person per "0 employee" firm) the primary sector is much more intensive in self-employed and small businesses (1-19 employees) because of the existence of some very big employers in the Services sector. However the absolute numbers of self-employed in the Services sector are much higher. This could be an indication of increased outsourcing to individual dependent or independent contractors, though of course there is a long history of self-employed professionals such as lawyers and accountants. Given that, as might be expected, small to medium enterprises economy-wide appear to be less productive than larger ones on a per worker basis (using MED's estimate of the GDP they generate[4]) the question arises whether these trends may be cost-cutting but not ultimately productivity-enhancing.

4. International trade in services

4.1. While recognising potential for "trade" in services (the term is problematic because of the nature of services and because the commercial transactions are frequently in the form of overseas investment or movement of people – i.e. factors of production), we have long been concerned at developments in this area. As we have pointed out above, very many services have significant direct or indirect impacts well beyond the commercial exchange that trade rules cover. They can impact on public services and encourage privatisation or hinder the reversal of unwanted privatisations. Services impacting social, cultural and environmental matters are particularly sensitive. Examples include health, education, welfare services, prison management, news media, broadcasting and other creative activities, essential services such as water and electricity, and many more.

4.2. Because many services can most easily (or only) be provided in situ, services "trade" frequently is simply overseas investment, over which there are particular sensitivities in areas such as land and fishing quota, but also concern that much overseas investment in New Zealand has been low quality, and the international services agreements further restrict our ability to filter investment.

4.3. In particular, finance is a highly contentious area because it impacts on systemic economic concerns such as control of the international flow of capital and income from investment which can have destabilising effects on the economy, and on control of risky practices and products of financial institutions. The world is much more aware of these following the Global

[4] See Small and medium sized enterprises, http://www.med.govt.nz/business/business-growth-internationalisation/small-and-medium-sized-enterprises, accessed 24 April 2013. We include an estimate of self-employed in number of workers.

Financial Crisis, and New Zealand has not been immune to them despite avoiding the worst of the disasters that other countries faced and continue to deal with.

4.4. The temporary entry of people for work purposes is a highly sensitive issue which is better dealt with in special purpose agreements rather than in the commercial context of trade and investment agreements.

4.5. Cross-border provision of services such as over the internet has obvious benefits, but also raises issues around taxation and the survival of some local industries (particularly in the cultural sphere) which cannot be ignored. Its application to financial services raises some very difficult questions regarding financial stability and protection of customers.

4.6. As noted, international agreements in services also extend into licensing, standards, occupational qualifications and many forms of regulation. To regard these as “barriers” completely misconstrues their importance. Trade and investment are issues that can be taken into account in these matters, but should not become, as the agreements increasingly demand, the primary test of whether a regulation or technical requirement is “necessary” or desirable. New Zealand is progressively working through numerous costly problems caused by deregulation in the financial sector, building standards, workplace health and safety, industry training, employment laws and many others. The kinds of “light-handed” or minimal regulation these agreements require invite further problems that could well outweigh any benefits from increased commercial activity.

4.7. As is stated (p.24) there is a “loss of independent policy making aimed at meeting local preferences”. We consider that New Zealand has already gone too far in this direction.

4.8. We have watched the development of the proposed Trans Pacific Partnership Agreement (to the degree that any observer can do without access to draft texts) with increasing concern. We have also submitted on the proposed Regional Comprehensive Economic Partnership, which raises some concerns though not at the same intensity as the TPPA. We refer the

Commission to the critical view of the Australian Productivity Commission on bilateral or regional agreements.

5. Productivity and wages

5.1. We welcome the discussion in the issues paper on this issue (p.26). We have previously made submissions on these issues, both to the Commission and in other contexts, such as in annual Minimum Wage Reviews. Here we sketch out some evidence but would like to engage further on the subject. In the appendix we provide a bibliography of some relevant research to support these remarks.

5.2. There is a strong case to be made for the concept of "efficiency wages", with increasing evidence from behavioural economics. The study of the impact of a minimum wage has provided a wealth of empirical evidence. It is also reinforced by evidence of monopsony power by employers with regard to their workers, enabling them to extract "rents" in the form of lower pay than is necessary to remain profitable.

5.3. The incentives for firms to invest in lifting productivity or to change work practices to raise productivity as a result of wage pressures also has extensive documentation in the context of the minimum wage. While the paper states the wage pressure can be "market-driven or mandated", the internationally recognised most effective mechanism is collective bargaining which allows both recognition of market issues through the bargaining process, and protection of the process and the deal reached (for both sides) through legislated means.

5.4. Australia has a much more extensive mandated wage structure than our minimum wage, in its Modern Awards. Even though most Australian workers are not on award wages, they cover 96 percent of private sector employment and the majority of public sector workers, underpinning the whole wage structure. The Award system has a surprisingly pervasive effect in wage determination, reaching about 80 percent of employees according to one study[5]. It is likely that it has played a significant, if indirect, role in maintaining wage levels in Australia through significant changes in the economy.

5.5. As of May 2012, 42.0 percent of Australian employees had pay set by collective employment agreement, and 16.1 percent by Award only, totalling 58.1 percent by some form of collective process[6]. By contrast, New Zealand has very weak collective wage setting. The Industrial Relations Centre at Victoria University estimates that approximately 19 percent of the workforce is covered by collective bargaining[7], and a recent international comparison showed New Zealand with one of the lowest rates of collective bargaining coverage in the OECD[8]. The impact of the collective bargaining is wider than the direct coverage, but it is still considerably lower than most other OECD countries, including, for example, the Nordic countries which have excellent productivity, economic growth and wellbeing records.

5.6. New Zealand's collective bargaining is also very limited in that what exists is principally single-employer rather than multi-employer or industry bargaining. Legislative changes brought in by the current government, and proposed changes will weaken that still further by withdrawing further layers of legislated support for it including removing the duty to conclude bargaining and removing any expectation on employers to enter into multi-employer bargaining. The importance of wider forms of bargaining in the current context is that single employer, or even limited multi-employer bargaining encourages the 1990s practices of using low wages as business model of choice.

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[5] "The significance of minimum wages for the broader wage-setting environment: understanding the role and reach of Australian awards", by John Buchanan and Gillian Considine, in: "2008 Minimum Wage Research Forum Proceedings, Volume 1", October 2008, Australian Fair Pay Commission.

[6] "Employee Earnings and Hours, Australia, May 2012", Australian Bureau of Statistics, 23 January 2013, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6306.0Main+Features1May%202012?OpenDocument#

[7] "Employment Agreements: Bargaining Trends and Employment Law Update 2011/2012", Stephen Blumenfeld, Sue Ryall and Peter Kiely, Industrial Relations Centre, Victoria University of Wellington, 2012. Calculated from data on p. 20, which the authors warn may underestimate coverage.

[8] International Trade Union Confederation. (2013). *ITUC Frontlines Report* (p. 55). Brussels, Belgium: International Trade Union Confederation. Retrieved from http://www.ituc-csi.org/new-report-ituc-frontlines-2012

5.7. It is very significant that a recent International Monetary Fund (IMF) paper by its chief economist Olivier Blanchard and others[9], recommended the "Nordic model – based on a medium to high degree of employment protection, on generous but conditional unemployment insurance, and on strong, active labor market policies – which allows for reallocation while maintaining low unemployment". While noting that detail is very important, it recommends on efficiency grounds a combination of national centralised bargaining and firm-level bargaining: "Firm-level agreements can adjust wages to the specific conditions faced by firms. National agreements can set floors and, when needed, help the adjustment of wages and prices in response to major macroeconomic shocks." There is much we would contest in the paper, and the recommendations are in stark contrast to labour market policy conditions in practice placed by the IMF on countries in difficulty in the EU (and in many other cases), but that such an institution is recognising the economic efficiency and welfare benefits of a much stronger collective bargaining structure than New Zealand has had for the last 20 years signifies a sea-change in thinking that cannot be ignored.

5.8. Evidence that firms relied on low wages rather than higher skill levels and productivity when wages were heavily constrained by the Employment Contracts Act in the 1990s include New Zealand's low capital intensity and Deardorff and Lattimore's finding in 1999 that:

> By 1986, the importable sector supported by trade barriers, was both more capital intensive than the exportable sector and more intensive in all categories of higher labour skills than exportables... This group had nearly halved by 1996 as the tradeable sector shed labour during the early phases of the economic reforms. ... The traded goods sector is not intensive in the use of employees, of either sex, with degrees or advanced tertiary training.[10]

[9]

[10] "Trade and Factor-Market Effects of New Zealand's Reforms", by Alan Deardorff and Ralph Lattimore, *New Zealand Economic Papers*, June 1999 v33 i1 p71.

5.9. It is of course possible for firms to use low wages as a business model. Professor Morris Altman (professor of economics at Victoria University of Wellington) who has studied the impact of higher wages on productivity, shows that two business models can exist side by side – one based on low wages and low productivity, the other on high wages and higher productivity. He gives the example of retail chains Walmart (low wage) and Costco (higher wage) in the US[11]. A useful approach for the Commission to take might be to seek similar comparators in New Zealand.

5.10. The advantage of high wage/high productivity should be obvious: among others, it addresses social issues such as New Zealand's high income inequality, it increases domestic demand, and it encourages people to stay in New Zealand.

5.11. The impact on aggregate demand of higher wages is a third, macro-level effect which can encourage productivity improvement. Strong domestic demand gives firms the confidence to invest in productivity enhancement and growth.

5.12. We do not pretend there are easy solutions here, but the existing path of a low wage economy has not produced economic, commercial or social success for New Zealand. Economies such as those of the Nordic countries have been successful based on a quite different model including high union density, widespread collective bargaining and high wages. The attractions of this alternative path are overwhelming.

5.13. Finally, Disability Support services is an example of a low wage service sector which is currently experiencing very difficult problems due to its low wage, constrained cost structure, under pressure from increasing demand. In many ways it is very similar to the situation in the Aged Care sector, documented by then Human Rights Commissioner Dr Judy McGregor in "Caring counts: Report of the Inquiry into the Aged Care Workforce"[12].

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[11] E.g. Altman, M. (2011). The Living Wage, Economic Efficiency, and Socio-Economic Wellbeing in a Competitive Market Economy. *Forum for Social Economics*, 1–17. doi:10.1007/s12143-011-9095-8

[12] May 2012, available at http://www.hrc.co.nz/eeo/caring-counts-report-of-the-inquiry-into-the-aged-care-workforce

Employers and unions are cooperating in seeking solutions. While higher wages must be part of the answer, that is not seen as the full response needed.

5.14. The current models of delivering disability support services are not sustainable, given they are based on a workforce largely under-valued by the community. Support workers are low paid, with poor conditions of employment and generally inadequate training. The workforce is also characterised by high turnover which acts as a disincentive for providers to invest in training.

5.15. There is increasing demand for disability support services, arising out of an ageing population and increasing incidence of disability, and new models of delivering those services. These changes mean that not only will there be a need for increasing numbers of disability support workers but the level of skills required will increase as the tasks expected of them will become more complex.

5.16. Two recent OECD reports[13] have recommended three avenues for meeting the increased demand for carers arising out of an ageing society:

- Increasing the supply of support workers by making their jobs more attractive to under-represented or unemployed groups in the population by addressing training, pay and conditions at work;
- Making better use of the available carer workforce by improving staff retention, again through training, pay and conditions at work, as well as supporting informal carers;
- Reducing the need for support workers through increased use of technologies and changing the skill mix required for different tasks.

[13] Schoot et.al 2003, cit. Columbo, F. *Help Wanted? Providing and Paying for Long-Term Care,* OECD Health Policy Studies, OECD, 2011 and Fujisawa, R. and Columbo, F. "The Long-Term Care Workforce: Overview and Strategies to Adapt Supply to a Growing Demand", *OECD Health Working Papers,* No. 44, OECD publishing 2009.

5.17. This provides a good framework for addressing the future of the disability support work workforce. The first two avenues are about creating a stable workforce through better recruitment and retention by addressing the current gaps in training, pay and conditions. On current funding levels and current funding and contracting mechanisms, this will be very difficult to achieve. Increased funding and different ways of delivering the funding are required.

5.18. The last is about productivity. There is not much more that can be achieved in disability support by increased use of technologies, and the growth of the support workforce reflects a shift from regulated to unregulated workers that has already taken place. If there is to be an increase in productivity it is more likely to come from a stable workforce operating in high trust, high performing workplaces, where the staff are respected and engaged. This requires investment in the training, pay and conditions referred to in the first two avenues.

5.19. For good reason, the sector is highly regulated, and is almost completely dependent on government funding. Both aspects reflect the nature and needs of the clients. The government is in a good position to assist the sector in achieving solutions along the lines described which respect the needs of clients and the support workers who care for them, and sustainably increase the productivity, efficiency and effectiveness of the sector. The principles could be used as a model for other similar sectors.

6. Regulation and other matters

6.1. Among the service industries there are numerous cases of natural monopolies, limited competition, externalities (sometimes very large with major social impacts), public good aspects and other deviations from perfect markets. In addition, many are non-tradeables, so regulation may assist in lowering costs for the tradeables sector. The question for debate is the best form of regulation, with government ownership one option, rather than deregulation which appears to be taken as the preferred direction in the issues paper.

6.2. We do not accept that there are significant effects on productivity from the Holidays Act which would outweigh the right of employees to decent working conditions. This has been well-canvassed in reviews of the Act over the last few years, the most recent amendments being in 2010. We would strongly oppose any further weakening of the Act. It would be misleading for firms to cast their wish to extend working hours and lower their labour costs as a productivity problem.

6.3. Regarding intangible assets (Q19), we recognise they exist, but also recognise that they can be and have been misused for tax avoidance and in the case of regulated industries to argue for higher profits. Caution is therefore appropriate.

6.4. Improving managerial skills (Q20) is an important issue, particularly with regard to the issues we raised in our Section 5 on productivity and wages. New Zealand desperately needs more managers, and leaders, who can see and respond positively to the wider issues of effective management of people. International business surveys regularly find this as a weakness in New Zealand management, though we may not always agree with the criteria the surveys use.

6.5. The quality of leadership and management sits alongside other aspects of multifactor productivity that are highly relevant. In general terms we are supportive of high performance work practices that involve high levels of engagement including with unions and cover issues such as health and safety, work organisation, workplace culture, and skill utilisation.

6.6. On other policy issues (Q21), the ability of firms to revalue their assets is an important issue (very current in the electricity sector) for regulated industries. As it stands, firms can capture excess profits as wealth transfers by revaluing their assets and thus appearing to lower their rate of profit, in turn justifying higher prices and another round of revaluations.

6.7. A capital gains tax would be useful to either reduce the incentives to hide profits in asset revaluations or share some of the profits with the public if other means to prevent the use of revaluations in this way failed.

Appendix: Bibliography on productivity and wages

This provides references to research indicating higher wages having a positive effect on productivity or efficiency. It also includes material on work organisation and employment relations conducive to a higher productivity strategy. It is not intended to be exhaustive, and more could be provided.

Addison, J. T., Blackburn, M. L., & Cotti, C. (2011a). *Minimum Wage Increases Under Straightened Circumstances* (Discussion Paper No. 6036) (p. 44). Bonn, Germany: Institute for the Study of Labor (IZA). Retrieved from http://www.iza.org/en/webcontent/research/ra4/publications/papers/viewAbstract?dp_id=6036

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