



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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

to the

Labour Party Future of Work Commission

on the

Future of Work

P O Box 6645

Wellington

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1. Introduction

- 1.1. This submission is made on behalf of the 31 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 320,000 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. Unions exist because working people aspire to better lives. Our members have joined together to improve their lives, including their working lives. As is recognised in international conventions and the Employment Relations Act, they play a fundamental role in correcting the imbalance of power that exists between employers and working people in the workplace. They also provide countervailing influence in a society where the dangers of excessive corporate power are in the forefront of current debates.
- 1.4. The union movement has always had both a forward-looking and a defensive role: to seek better working conditions and the political environment that will enable that; and to defend the rights, wages and conditions of our members.
- 1.5. Our movement's role since its foundation – in agitating for better social conditions, in the founding of the Labour Party, in the active role of unions and unionists in other progressive parties and movements – reflect its historical orientation towards a future that improves the lives of working people: the people who with their families

make up the great majority of New Zealand's population. There are a host of social advances which unions have worked for which have been adopted by progressive Governments.

- 1.6. When the union movement is weakened, so is social progress. When the union movement is weak, reactionary social, income and power inequalities resurge. A wealth of recent research has confirmed this.
- 1.7. We therefore welcome this inquiry into the Future of Work. It is home territory for us. Unions must be an integral part of a future which improves the lives of working people. Otherwise the inherent power imbalances evident every day in the workplace and in economic relationships in society will lead to a wealthy few taking control of our future.
- 1.8. The CTU has addressed these issues in a number of publications, policies and actions over at least the last 15 years. The most recent include [*Te Huarahi Mo Nga Kaimahi: The CTU Vision for the Workplace of the Future*](#) (2007) and the [*Alternative Economic Strategy: Tetahi Atu Ōhanga Rautaki – An economy that works for everyone*](#) (2010), but it has also approached it from the position of creating an effective system of collective bargaining, of work-life balance ([*It's about time! A union guide to work-life balance*](#) (2004), and of productivity (for example [*The Workplace of the Future: A Union Source Book*](#) (2009)). The issues have also been addressed in a multitude of actions by affiliates.
- 1.9. *Te Huarahi Mo Nga Kaimahi: The CTU Vision for the Workplace of the Future* described what decent work and decent lives might look like. Suggesting we learn from countries such as Denmark, Finland, Sweden and Norway, it once again called for a tripartite approach to the changes that are needed to achieve this. Hope for this has all but disappeared since the change of Government in 2008.
- 1.10. It described “a decent workplace” as having five key features:
 1. It will be highly productive, add value to quality goods and services and reward workers with high wages and excellent conditions of work.
 2. It will be a centre of lifelong learning that invests in people, lifts transferable skills – not merely job-specific ones – and constantly strives to develop the workforce.

3. Workplace practices will be based on fairness and respect in a high trust environment that values participation, diversity and flexibility.
 4. It will have strong networks with others in the industry and the community and will recognise the value of public services and constructive social partnership with government and business.
 5. It will be healthy, safe and sustainable and its work will be engaging and rewarding, while recognising that people have lives outside of work.
- 1.11. The *Alternative Economic Strategy* was based on six principles: Fairness, Participation, Security, Improving living standards, Sustainability and Sovereignty. It described both the problem and a programme of policies which would be a coherent alternative to the failed economic policies and principles of the last 30 years. Most of it is directly relevant to this inquiry and we recommend it to the Commission.
- 1.12. It called for strategies to develop industry towards high value production and wages; flexicurity policies to assist people through job loss; a strengthened role of the state, including in infrastructure, social security, education and skill development; strengthened collective bargaining, particularly within the context of technological change; and specific policies in response to climate change. It described taxation, finance system and international economic policies that would support and strengthen these developments.
- 1.13. In this submission we do not respond point by point to the papers issued by the Commission, but take a more pro-active approach of laying out our view of the Future of Work, and then finally addressing a few points from the papers that we consider particularly important. We do not go into great detail in all areas because we anticipate further discussion with the Commission, but are happy to explain and provide evidence for our statements on request.
- 1.14. Neither do we enter deeply into the debate as to whether developments in technology mean dramatic changes to work, reducing the need for certain kinds of work and reducing the availability of jobs for unskilled workers leading (depending on the prophet) to hollowing out of the mid-skilled workforce or mass unemployment.
- 1.15. It has frequently been observed that if technology was having a radical effect in reducing employment, we should have seen marked increases in productivity. Instead, the concern is at the low productivity growth coming out of the drawn-out

recession caused by the Global Financial Crisis. In New Zealand according to Statistics New Zealand's latest statistics, labour productivity growth between 2008 and 2014 averaged only 1.0 percent a year in the market economy, compared to 1.5 percent over the period 1996 to 2014.

- 1.16. We have seen some hollowing out, and a period of high unemployment, but this has been much less about technology than about globalisation, the opening of the economy and the brutally inept policies accompanying it. Indeed the evidence is that these policies reduced the value-added content of New Zealand's production rather than increased it: Lattimore, Kowalski and Hawke (2009) and Lattimore, Le, Claus and Stroombergen (2009) found that "the value-added content of New Zealand's exports has been declining over the past 35 years". It is well documented that it led to a period of slower productivity growth than the rest of the OECD rather than rapid adoption of new technologies replacing labour.
- 1.17. Recent research in the US, while still being debated, suggests that the impact of technology on job loss was greater during the 1980s but has been superceded by the effect of trade (mainly with China). However technology continues to change the mixture of skills and occupations, moving from automation in manufacturing towards computerisation in service industries (for example, Acemoglu, Autor, Dorn, Hanson, & Price, 2014; Autor, Dorn, & Hanson, 2013a, 2013b).
- 1.18. While there is clearly a real risk of raised unemployment resulting from technological change including automation which must be addressed, permanent mass unemployment is an unlikely outcome. That is because firms serving the local economy need people to sell their products to, and working people are the largest group of their customers. Poor policies could create high unemployment and low paid jobs in these (and other) circumstances, but it should not be seen as inevitable.
- 1.19. The real question – as in the 1980s and 1990s – is whether good jobs or poor jobs will replace those that go, and what support is given to the people who are thrown out of work.
- 1.20. There is a greater risk that exporters lose interest in local demand for their products and try to force down wages to increase their international competitiveness. They may resist protection for the people who work for them against wanton layoffs and resist contributing to the support laid-off people need through the tax system.

- 1.21. Technology will certainly bring change, and we will give some examples of it, but the reality is that it is unpredictable what the change will be like: when, who it will affect, how extensive it will be, how difficult it will be to adapt to. We should not over-emphasise the forces of technology however. We will also experience change from other big forces: the continuing intensity of global integration, climate change, the ageing population, and others. We cannot design solutions to all of these, because we don't know what some of them will be, and for the ones we know there will be specific solutions too complex to deal with in this inquiry.
- 1.22. The most important task is to create a sound framework for dealing with change in a measured and positive way.
- 1.23. The submission first describes a framework for considering the Future of Work, and then explores the framework in more detail. It ends by addressing some specific points from Commission papers.

2. A framework for considering The Future of Work

- 2.1. There are two main overlapping areas that must be considered when considering the future of work.
- 2.2. Firstly, jobs must be good jobs: well paid, secure, safe, satisfying and offering work-life balance. This is not possible unless we also aim for full employment. New Zealand is in a rut with many people in jobs that fall far below these standards, and unemployment is still much too high. Independently of changes that affect the nature of work, we should be improving the quality of people's working lives.
- 2.3. Secondly we must be adaptable to change, whether brought about by ourselves or by factors beyond our control.
- 2.4. Changes in technology, the environment (especially climate change) and the international economy provide continual threats and opportunities as to the nature of jobs, and some say to the nature of work itself. Domestic changes such as the ageing of the population, urbanisation (and depopulation of regions), and natural disasters bring changes in jobs too.
- 2.5. These require specific responses but also require there to be an underlying strategy for **transition** in order to ensure that as far as possible it is **just**. That means that the costs do not fall on those who are unable to bear them, have little or no control over them, and do not substantially benefit from them. Such a strategy also prepares for

“what comes after”: in particular, it finds ways to replace jobs that are destroyed with ones that are at least as good.

- 2.6. It is imperative that we anticipate these changes and prepare for them as far as possible.
- 2.7. New Zealand has experienced very significant changes over the last 30 years. Those changes provide object lessons in badly managed change. Some of the changes were inevitable: among them, opening of the economy leading to the destruction of many industries, and technology change (such as containerisation of shipping and major advances in telecommunications and computers). But even though the changes were inevitable in some form, their speed and timing, the measures taken to protect people through the transition, and the consideration given to “what comes after” were policy choices.
- 2.8. The governments of the 1980s and 1990s made the decision to restructure the economy on neoliberal principles: the view that private interests acting through markets create optimal outcomes for society. As a direct result they failed to:
 - 2.8.1. Put in place policies to replace destroyed industries with high value, high productivity ones; instead it was “left to the market”, and investment went into financial and property speculation instead. The right to use policies needed to nurture new industry were signed away in international agreements starting with the WTO. Good jobs were too often replaced with poor jobs.
 - 2.8.2. Ensure working people shared in any gains that did occur. Instead employment rights were stripped bare in the Employment Contracts Act resulting in a small wealthy minority benefiting, creating the huge rise in inequality over the period. Ultimately the gains were few as demonstrated by New Zealand’s poor economic growth and productivity record.
 - 2.8.3. Protect people through the transition and help them into new jobs. Instead New Zealand’s world-leading social security system was turned into a creator of poverty, and retraining for new jobs and technology was “left to the market” along with apprenticeships and other employer-based training.
 - 2.8.4. Strengthen the role of the state to provide the structures needed for positive change such as better education, training, support for industrial development, strong infrastructure development and regulation of private monopolies, and

protection against unsafe workplaces and exploitation. Instead the capability of the state was steadily reduced through deregulation, privatisation, contracting out and underfunding.

- 2.8.5. Protect and strengthen social cohesion, including tripartism between government, unions and employers. Instead employers were given free rein to crush the union movement rather than work with us.
- 2.9. As in this case, change can be used by a powerful minority to take advantage of the rest of society. Automation could lead to even greater concentration of wealth, income and power than we have now. For good reason, this makes people more suspicious of change and resistant to it. As in this case too, the gains can be severely reduced.
- 2.10. In short, we know change will happen. It can have good outcomes for working people or it can have bad outcomes. Good outcomes will not come about unless we look ahead and plan for them. That requires working people organised through the union movement acting together with government and employers.
- 2.11. Learning from this, there are three key pillars to a framework that will both develop good jobs and enable us to adapt positively to change. All are necessary for success: it is a three-legged stool that will fall over if any leg is weak.
- **Industry policy** that supports investment and diversification of our economy into more productive, high value industry, replaces industries that are no longer viable due to change, and adapts to, or takes advantage of, developments like climate change;
 - **Employment law** that strengthens collective bargaining so that the benefits of change and productivity growth flow through into wages, better job security and conditions, and encourages productive, participatory, high-trust workplaces and tripartism; and
 - **A capable state** including a social security system that genuinely provides security of income plus training and support for those who lose their jobs due to change or due to an increasingly insecure job market; education and training systems that prepare people for life and work; strong infrastructure and regulatory capacity.

- 2.12. Other policies (such as taxation and international economic arrangements) must be consistent with these elements.
- 2.13. These matters have a gender dimension. For example the services industries dominate the economy and are expected to continue to grow as a proportion of the economy. In 2015, 72 percent of employment was in the sector. The majority of its employees are women (over 56 percent in 2015) and 86 percent of women are employed in the services sector¹. Thus changes in the services sector will disproportionately affect women. Many of them are in low paid, insecure work, and some of the areas of strongest growth, such as hospitality, cleaning, care for the elderly and people with disabilities, and a large number of jobs in education, are of this nature. The existing lack of gender equity must be recognised and not allowed to recur in future. This requires a concentrated focus on redressing the undervaluation of women's work and ensuring access to training, qualifications, equal remuneration, access to collective bargaining and more decision making power in employment. Stronger maternity and parental employment protections that improve gender equity in work places and in society are essential. Gender equity also requires attention to factors that are employment-related such as the disproportionate level of unpaid work that women undertake and higher risks of violence in the home and at work.
- 2.14. There are also existing realities at work that disproportionately affect Māori which need specific attention, and the same is likely of future changes if action is not taken. By way of example, the rapid opening of the economy starting in 1984 and into the 1990s hit Māori and Pacific working people particularly hard. Unemployment for all working people rose steeply and didn't get back to its previous levels for 20 years, but for Māori and Pacific peoples the rise was enormous, doubling and quadrupling. Pacific peoples' rate of participation in the labour force is still below its mid-1980s levels, and Māori labour force participation only regained its previous levels in the early 2000s. Their incomes were also more badly affected.
- 2.15. We explain each of the three pillars in turn.

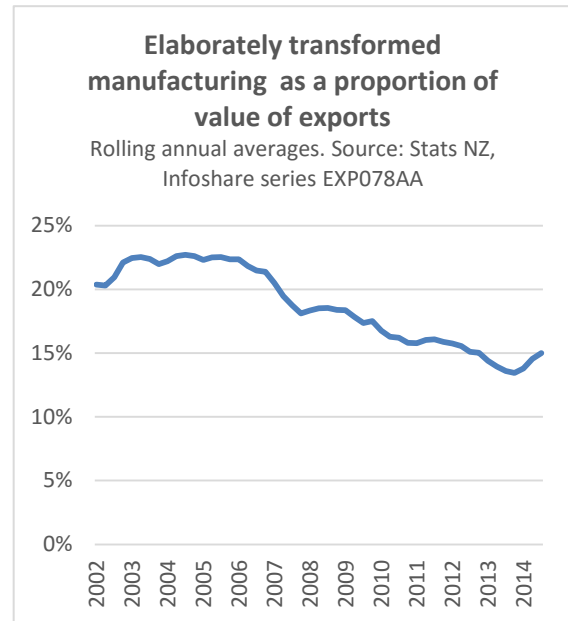
3. Industry policy

- 3.1. Industry policy – actually a package of policies that 'nudge' industry development in a desired direction – is essential in order to

¹ Data from the Household Labour Force Survey, release for December 2015 quarter.

- 3.1.1. Raise productivity and the value-added content of production so wages can rise in real terms, improving living standards;
 - 3.1.2. Ensure that industries which are threatened due to factors such as international competition or climate change are either helped to raise their performance or replaced by new industries providing good jobs;
 - 3.1.3. Take advantage of opportunities that arise as the result of change, such as 'green' industries, new technologies, and the expertise gained from responding to the Canterbury earthquakes;
 - 3.1.4. Diversify New Zealand's economy to reduce the risks of dependence on a relatively narrow range of products which could be hit by international developments (as manufacturing was hit during the Global Financial Crisis, and dairy is being hit by reduced demand from China and will be in future by increasingly export-oriented US production);
 - 3.1.5. Address regional development needs.
- 3.2. A government role in industry development is essential for success in attaining these objectives. Proctor (2011) and Roos among others have put this case strongly for New Zealand. Mazzukato (2015) in her book, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* shows that there has historically been and still is an essential role for the state in innovation.
- 3.3. Macmillan and Rodrik (2012) in a comparison of the development paths of many countries, showed that since 1990, "structural change has been growth reducing in both Africa and Latin America, with the most striking changes taking place in Latin America. The bulk of the difference between these regions' productivity performance and that of Asia is accounted for by differences in the pattern of structural change, with labor moving from low- to high-productivity sectors in Asia, but in the opposite direction in Latin America and Africa... Structural change, like economic growth itself, is not an automatic process. It needs a nudge in the appropriate direction, especially when a country has a strong comparative advantage in natural resources." While they are considering developing countries, we should not ignore the lesson: structural change such as that undergone during the 1980s and 1990s can be damaging to the economy (and society) unless deliberate action is taken to "nudge" it in the right direction – specifically towards higher productivity industries.

3.4. In New Zealand, the failure of industry policy has been seen in our increasing dependency for our exports on low-value commodities such as milk powder and unprocessed logs. With a few exceptions they produce mainly poor paying jobs with poor working conditions. It is a risk to the economy to be dependent on an increasingly narrow band of commodities and markets. It means we miss opportunities – such as products and services that enable the economy to move towards environmental sustainability – and are not able to respond decisively and positively to external change.



3.5. In an open economy we are, as famous labour economist Richard Freeman (2007) put it, exposing New Zealand workers to the “great doubling” of the global labour force, most of which is much lower paid than New Zealanders. The effect of the huge expansion of the effective labour force is transmitted primarily through imports that compete with New Zealand-made goods and services, the loss of competitiveness of our manufactured exports, and the outsourcing of production of New Zealand firms to low wage countries. We cannot compete with them on the basis of low wages and hope to maintain living standards in New Zealand. We can only compete on the basis of higher productivity which delivers higher wages to New Zealand workers – and so far we have failed to both build sufficient high productivity firms and transmit the benefits to more than a minority of workers. If we cannot succeed, the future of New Zealand is dire.

3.6. Success requires much more direct and strategic government support for promising sectors of industry. Examples of such policies given in our *Alternative Economic Strategy* include:

Priority being given to:

- Broadly defined sectors such as ICT, high level processing of agricultural products, or developing environmental products and services;

- Cross-sectoral themes such as being environmentally beneficial, or high productivity;
- National and regional Infrastructure Plans.

It proposed, among other actions:

- Financial support through tax credits; the injection of funds through purchase of shares; and development finance institutions or arrangements.
- Support for both industry and government research and development, and funding extension services staffed by people with deep industry and marketing experience who can form a knowledge bridge between researchers and firms to put both local and overseas developments into practice.
- Considering whether competition rules are sufficient to both ensure pricing and supply of basic infrastructure such as electricity serve social and economic development needs, and to enable development of larger size economic units needed for competitiveness for exporting and import competition.
- Use of government procurement to support promising firms, and support for local producers ('buy kiwi made').
- Strategies for Ports and for Shipping to ensure best use of our ports, survival of New Zealand coastal shipping services, and efficient transport to international markets.
- Development of public transport in cities including both bus and rail, and support for local suppliers of equipment such as Canterbury's DesignLine bus manufacturing and KiwiRail's Hillside and Woburn workshops.
- A "human infrastructure" fund to provide long term funding certainty to tertiary education and workplace training with encouragement for private contributions.
- Continued full government ownership of state owned enterprises and considering their role in industry development.
- Workplace productivity development incorporating increasing worker participation, making the most of new technology, and development of better management practices via programmes of mentoring and training through tertiary education programmes and employer organisations.

3.7. Assistance should not be open-ended or unconditional. It should be based on performance, and it should be temporary though not necessarily short term. While ensuring accountability it should recognise that firm development is not a short term

process of steady growth. Assistance must be sufficiently patient to take into account the fluctuations of markets and external forces.

- 3.8. It should integrate into better employment policies, with assistance conditional on industry collective agreements, keeping the focus on raising productivity through investment rather than holding down wages. It should also meet expectations of improving environmental management.
- 3.9. Industry development is assisted when it makes full use of the knowledge and expertise of the people who work in it: 'industry' includes the people who work in it and should not be conflated with 'business'. It therefore depends on good working relationships. Innovation is encouraged by trust and secure employment because it encourages the risk-taking that is needed to try new ways of doing things. For example Acharya, Baghai and Subramanian (2014) find that stronger protection against wrongful dismissal leads to greater innovation in firms.
- 3.10. Unions have been involved over the last decade in workplace productivity initiatives which emphasise the need for participation of workers in the processes needed to raise productivity. Worker participation can also contribute to innovation. There is good evidence that these practices are effective and should be encouraged and supported by government but they require a change in management approaches and increased trust in the workplace. The low quality of management in New Zealand has been documented in international surveys. Too often it is a command-and-control style that is bad for productive workplaces, lowers trust, and increases health and safety risks.
- 3.11. We recorded above the importance of the state in innovation. This begins with a strong capability in research, science and technology. New Zealand's capability has been weakened by a system excessively based on short term and competitive funding which does not encourage long-term research. In the long run, it is 'blue skies' research that leads to significant advances in technology (and social progress) but our research system does not encourage this sufficiently. It also needs to encourage the takeup of research results by industry, but the institutions which bridge research and industry are too few or too weak. Commercialisation must be done in a way that both protects researchers from commercial influence that would undermine their independence, and encourages communication between researchers and industry. The government should share in the proceeds of commercial development it has helped. We should consider new forms of

Intellectual Property ownership similar to ‘open source’ software and ‘creative commons’ licensing in order to enable sharing of their development by firms and in education, extracting the widest benefit rather than conferring limited monopolies.

- 3.12. The financial system is part of New Zealand’s industry development problem. Exporters and local producers competing with imports cannot thrive unless we bring down the high exchange rate which virtually all observers (among them the Reserve Bank) agree is chronically and unsustainably high, even with the recent depreciation. It is largely driven by high interest rates in New Zealand compared to rates in the main financial centres of the world, encouraging short term financial flows into New Zealand which drive up the exchange rate; and by our main commodity exports (e.g. Mabin, 2010; McDonald, 2012; Reddell, 2013).
- 3.13. New Zealand is suffering from an economy excessively driven by unproductive financial profit-seeking and the “Dutch disease”² – a few commodities driving the exchange rate to the detriment of the rest of the tradable sector such as manufacturing. This short term thinking causes problems in other ways: as noted above, industry development requires “patient” finance in contrast to the short-termism of many investors and executives.
- 3.14. Policies could include broadening the Reserve Bank’s objectives to include employment and the exchange rate, and the use of a wider range of policy tools such as controlling banks’ use of overseas funding for lending on mortgages in New Zealand. We also need policies to strengthen the financial system in order to make it more resistant to financial crises driven either externally (like the Global Financial Crisis) or domestically (like the collapse of the finance companies and the near-collapse of the BNZ) which cause lasting damage to the real economy. It needs to be accompanied by encouraging the growth of savings in New Zealand – and their investment in productive enterprises. Addressing the cost of housing is an important aspect of this.
- 3.15. Some short term policies and capabilities are also needed. New Zealand used “short-time” work – reducing to a four-day working week – during the early stages of the Global Financial Crisis to allow employers to lower their wage bill but keep employees on when orders for their products dried up. However it was not used as

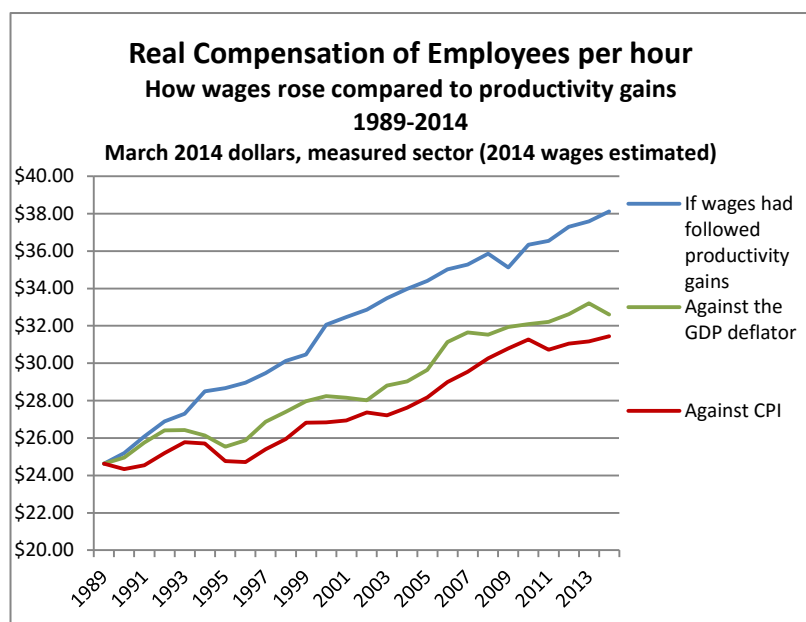
² The “Dutch disease” is an economists’ term referring to the problem that the Netherlands had when it found a large natural gas field in 1959. It applies to any situation when natural resource exports (in the Dutch case, gas) drive up the exchange rate, making it difficult for manufactured exports to compete.

much as in Germany where the national tripartite relationships between the government, business and unions allowed it to work effectively, including government subsidies to maintain the living standards of the employees affected and maintain demand for the firms' production in the economy. It is dependent for fairness and effectiveness on organisations representing workers in the workplaces where it occurs, and a willing, capable state which works closely with the 'social partners'.

- 3.16. When mass job loss occurs, such as in crises or firm closures, the state should also be prepared to put together rapid response teams to assist people to access the welfare benefits available, help them find new jobs or retrain, and provide rapid access to the other aspects of well-functioning active labour market policies. But it should also anticipate as well as possible changes in industries and be working to ensure jobs are replaced with good or better ones by assisting the development of replacement industries. It should be preparing for the future as well helping people through present difficulties.
- 3.17. Many of the policies we may need to use are hamstrung by international trade agreements like the proposed Transpacific Partnership Agreement which make control of the financial system, international financial flows and overseas investment more difficult, and severely weaken government procurement and state owned enterprises as industry development tools.

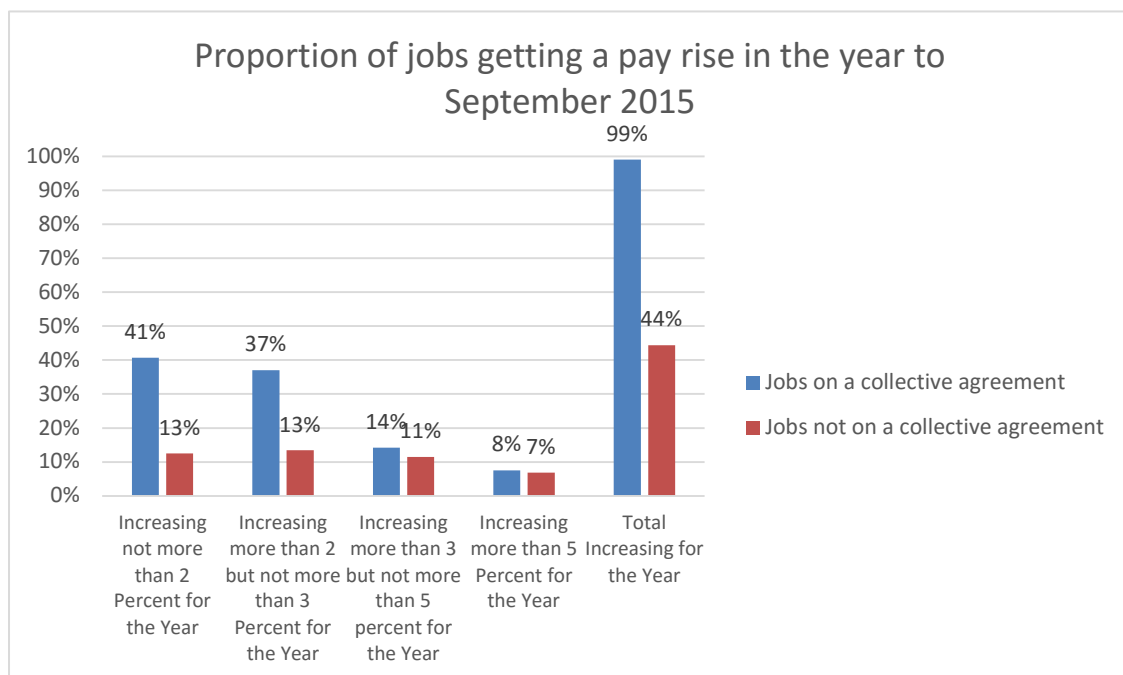
4. Employment law: raising wages and conditions

- 4.1. Raising productivity enables higher wages. But experience in New Zealand and internationally is that wages won't go up just because firms have higher productivity, unless there are mechanisms to ensure it happens.

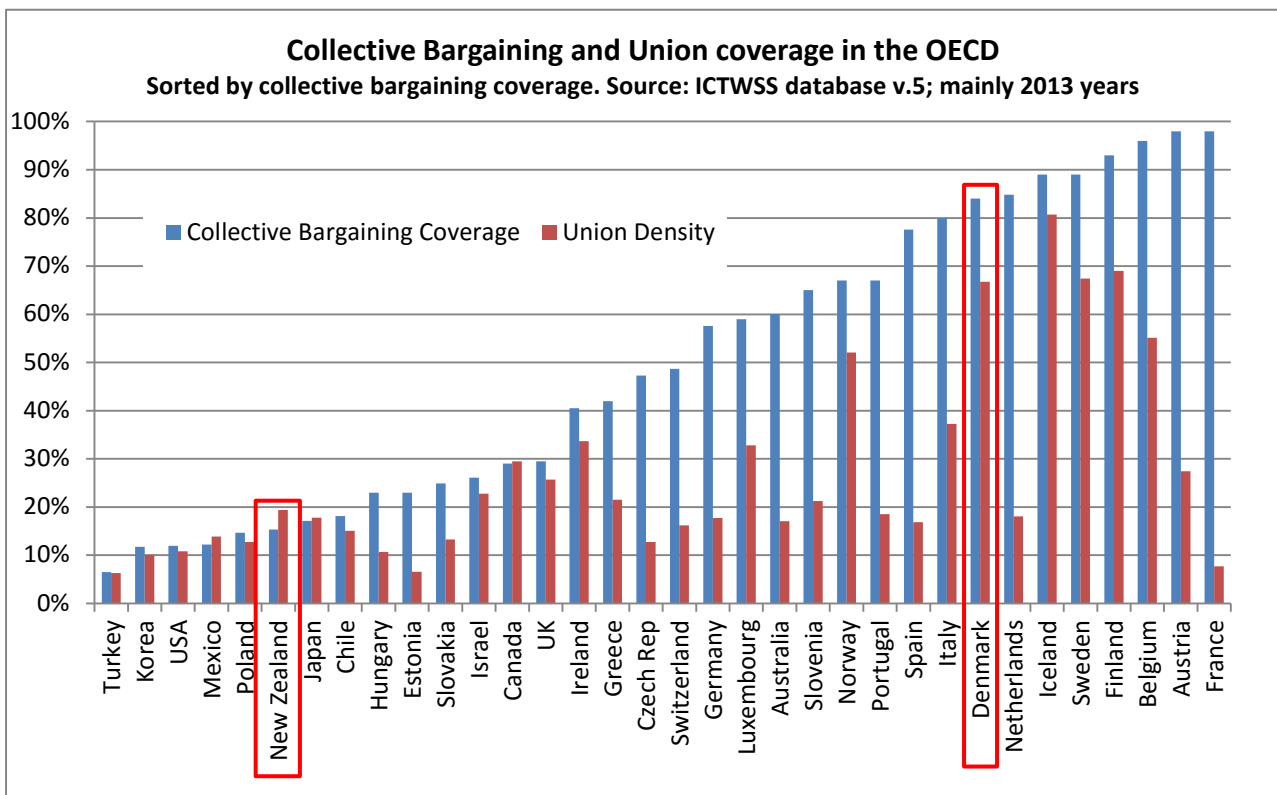


Since the early 1990s, real wage growth (that is, after inflation) has fallen well behind productivity growth. While this can be partly caused by capital deepening (more intensive use of capital compared to labour, including new technology,) that has not been a strong feature in New Zealand over this period, and even New Zealand Productivity Commission research acknowledges that low wage rises and the Employment Contracts Act as likely factors (Conway, Meehan, & Parham, 2015, p. 40).

- 4.2. As is recognised in our own law and international labour conventions, the unequal bargaining power between employers and workers allows that to happen. Recent IMF research (Jaumotte & Buitron, 2015) confirms studies from the ILO, OECD and independent researchers showing the major part which deunionisation has played in shifting income to the highest income earners, driving increased income inequality. The research identifies New Zealand as being at the extreme among the OECD countries studied. The research also shows that unions play a significant role in ensuring fair government policies that reduce income inequality, such as progressive taxation and social security.
- 4.3. The power imbalance also shows in the continuing widespread existence of gender pay inequality, where people doing work requiring similar levels of skills and responsibility are paid at very different rates. There are social, economic and human rights imperatives for correcting this.



- 4.4. The only effective way to address that imbalance is by strengthening and broadening the impact of collective bargaining independently negotiated by unions representing the people working in the industry concerned. As the above graph illustrates, data showing reasons for pay rises released with Statistics New Zealand's Labour Cost Index imply that jobs subject to collective employment agreements are more than twice as likely to get a pay rise compared to positions on individual agreements (Rosenberg, 2014a).
- 4.5. Unions also advocate for better training opportunities and for conditions which reduce insecurity and improve the way workers are treated if redundancy is threatened or becomes a reality. These are essential parts of just transition processes when change occurs.
- 4.6. We welcome the interest the Commission is showing in the Danish model of flexicurity and industry development, and strongly support adopting it in New Zealand. However the paper the Commission has published, *Education and Training – Lessons from Denmark*, by Kinley Salmon, has a glaring omission: the place of unions in the Danish industry and flexicurity system.



- 4.7. Denmark has one of the highest union densities in the world: 67 percent or 4th highest in 2012 according to the OECD, with Finland, Sweden, Belgium and Norway

at similar levels, compared to New Zealand's 18 percent. Collective bargaining coverage is even wider, at 84 percent in Denmark in 2013³, again with similar levels in northern European countries. By comparison it is 15 percent in New Zealand, 29th out of 34 in the OECD, and one of only four whose collective bargaining coverage is lower than its union density.

- 4.8. There is therefore a much stronger underpinning for good transmission of wages and conditions as a result of productivity improvements in the workplace, and less need for reliance on state support of income.
- 4.9. Further, in Denmark, unions administer the country's system of unemployment benefits under the "Ghent system". They therefore have a much more direct and active place in the flexicurity system.
- 4.10. Finally, as the Danish government notes⁴, "The Danish flexicurity model rests on a century-long tradition of social dialogue and negotiation among the social partners [that is unions, employers and the government]. The development of the labour market owes much to the Danish collective bargaining model, which has ensured extensive worker protection while taking changing production and market conditions into account."
- 4.11. While the Commission's paper quotes support for flexicurity from unions as if they were passive acceptors of the policy, in fact they are now, and historically have been, active participants in developing and adopting not only the flexicurity system itself but the industry policies and employment relationships which underlie it.
- 4.12. McLaughlin (2009) has compared New Zealand and Denmark with regard to the potential for productivity improvements to be driven by rising wages (in particular a rising minimum wage). He contrasts "liberal market economies" (LMEs) like New Zealand and "coordinated market economies" (CMEs) like Denmark (at p.331):

CMEs are known for their ability to deliver a range of public goods necessary for building a high-wage, high-productivity economy. One of these is an effective system of training. The high wage costs imposed through collective bargaining is certainly one element in forcing employers to compete on quality rather than simply on cost and to invest in training to ensure worker productivity matches labour costs. However, it is *only* one element. The institutional mechanisms for capital-labour and inter-firm

³ ICTWSS database, Version 5 – November 2015, available at <http://www.uva-aias.net/208>

⁴ <http://denmark.dk/en/society/welfare/flexicurity/>

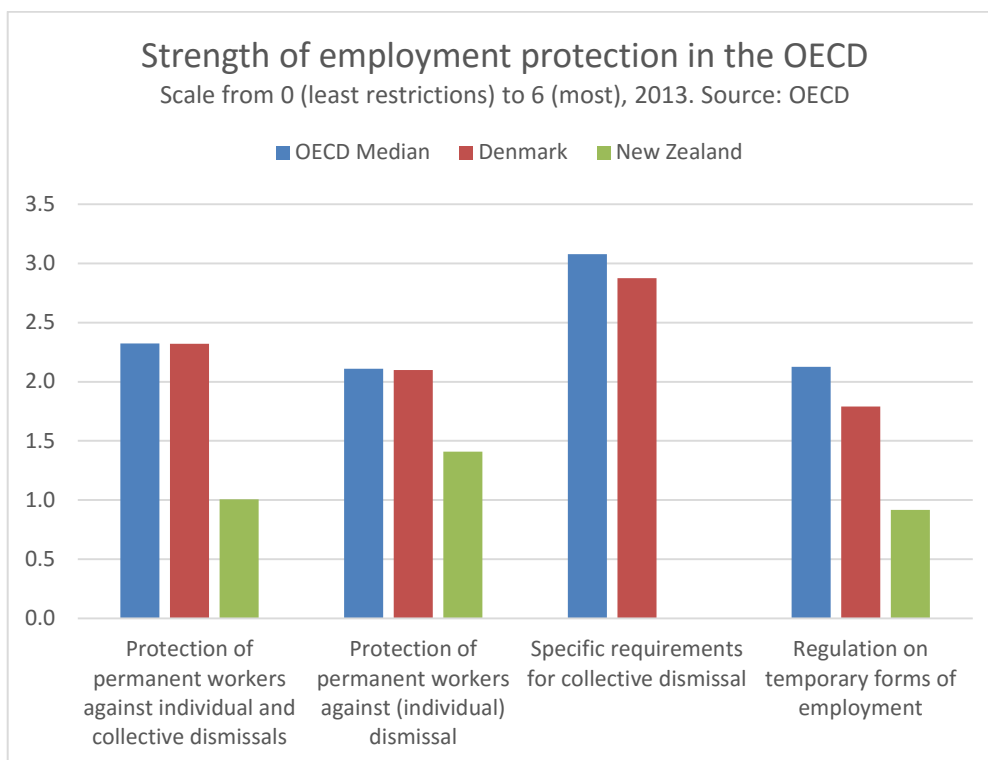
coordination are also crucial. The issue of employers 'poaching' trained employees is one generally associated with LMEs. It is the classic 'prisoners' dilemma'. By coordinating their actions, employers could achieve a more effective outcome, but in LMEs there are few coordinating mechanisms. Employers are encouraged to 'free-ride' rather than invest in training, with the end result being an economy-wide skills shortage. Thus, the economy is driven down the low-cost, low-wage, low-productivity route to competitiveness, to a 'low-skills equilibrium' (Finegold and Soskice 1988: 25). In CMEs, the wider institutional framework overcomes these limitations and provides the incentives to invest in training. Thus, there are strong links between the training systems and the wage bargaining systems. Union involvement also ensures that employers take a long-run approach. In addition, the inter-firm system of strong employers' associations places obligations on members to contribute financially to the training system (Hall and Soskice 2001; Streeck 1992, 1997; Thelen 2004). As Crouch *et al.* (1999) note, in LMEs, the training problem is one of market failure. Hence, it is not one that can be solved by individual firms but requires institutional solutions. This is why firms in LMEs that attempt a 'high road' strategy often find it difficult to sustain in an environment where cost-minimization strategies dominate (Locke and Kochan 1995: 374).

- 4.13. His conclusions echo this in the specific examples of Denmark and New Zealand with regard to training to raise skill levels and respond to job loss, even in low-paid occupations. Collective bargaining adds to the other coordinating structures in Denmark which encourage high levels of training for workers (at p.343):

In the Danish case, high levels of government funding for training are important, but this is only one element in a range of policy and institutional supports. The coordination mechanisms between employers and unions at various levels of the economy play a pivotal role in ensuring that the funding is used effectively through an ongoing process of developing, implementing and reviewing training programmes. They also enable unions to bargain for employer contributions to sectoral training funds, as well as for training leave entitlements for workers. Thus, unions play a 'beneficial constraint' role in ensuring firms contribute to a coordinated approach to training. In contrast, in New Zealand, there are inadequate levels of training in low-paid sectors, particularly among SMEs. In the context of severe skills shortages, industry associations are encouraging their members to raise productivity through investment in training and to raise wages to improve recruitment and retention of staff. However, poor profitability, combined with high staff turnover, makes this a difficult strategy for firms to pursue, and low wages just further exacerbates the staff turnover problem. Hence, many low-paid sectors are caught in a 'low-skills equilibrium'. Voluntarist responses are being developed, such as education campaigns by business associations about the benefits of training, but while

these approaches may be important, they do not overcome the 'prisoners' dilemma' issues that firms face, and as a result, their impact is clearly limited.

4.14. We also dispute a further aspect of the otherwise useful Commission paper on Denmark. We agree that both countries have a high job turnover and short tenure, though Denmark has a greater proportion of people who have been in a job over 10 years, indicating a more productive mixture of retaining experience while adjusting to change (New Zealand Council of Trade Unions Te Kauae Kaimahi, 2013, p. 13). However the paper goes on to assert that "New Zealand and Denmark have very similar strength of protection against individual dismissal". OECD comparisons for 2013 however place New Zealand at the lowest end of protection (between 31st and 34th out of 34) while Denmark is around the OECD median (between 18th and 21st out of 34) for the various forms of protection against dismissal and for temporary employment⁵.



4.15. New Zealand has the worst of all worlds: high job turnover, low retention of experience, impoverished training systems, poor employment protection and poor levels of assistance from the social security system once unemployed. There should be little wonder that our productivity and wages do not advance as fast as Denmark and other similar OECD countries. It also makes change more difficult.

⁵ See <http://www.oecd.org/employment/emp/EPL-data.xlsx>, accessed 7 December 2015.

- 4.16. The CTU is advocating for changes to employment law to strengthen collective bargaining as well as reverse the many steps backward taken by the present government. We will provide more detail later in the year, but essential ingredients, learning from both New Zealand's experience and that of northern Europe, must be:
- 4.16.1. It should make industry-level collective bargaining a practical reality. This allows industry-based problem-solving and strategies.
- 4.16.2. It should provide for the extension of collective bargaining results to working people not covered directly by collective agreements.
- 4.17. These steps would help to ensure that no-one is left behind in an industry. Industry strategies can then be based on adding value rather than forcing down wage costs.
- 4.18. More broadly, an employment rights and employment quality view needs to be applied to the impact of change on work. For example the effect of Uber on the taxi industry is well known. What is little discussed is the quality of the Uber jobs. Evidence in the US is that they are frequently short lived and that there, Uber has been steadily increasing its cut of the proceeds, reducing the returns to the drivers. In some US jurisdictions the drivers have been found by the courts to be employees with the rights of employees, which Uber has resisted. A progressive response to Uber would be to say: yes, it is an advance for customers and so should not be resisted, but the jobs should be good jobs, drivers should be entitled to normal employment rights, and customers should feel safe in the cars, so vehicle quality and the good character of the drivers (such as criminal and driving records) should be regulated. (See for example the useful discussion: Economic Policy Institute, the New America Foundation and the American Prospect, 2015)
- 4.19. Another example in which a similar approach should be taken is the growth of telehealth services, which could expand the reach of healthcare while raising issues around employment rights, quality of care and regulation of the health workforce.
- 4.20. The growing concern at the impact of insecurity in work also needs addressing in employment regulation, especially with growing emphasis on 'flexibility'. Flexibility can be beneficial to working people when it is under their control: they can decide when they want to work and what hours. However when it is totally or effectively under an employer's control, it can quickly become oppressive because people lose control of their lives. Their weak bargaining power, particularly when work is casualised or scarce, does not allow them to make free choices. Flexibility must be

anchored in a fair system of employment laws. Security is an essential part of good, people-centred jobs. Contracting out of employment (including dependent contracting which does not change the nature of the employment relationship but allows the employer to shed its responsibilities) is an extreme example of where lack of control and lack of statutory employment protections can easily lead to exploitation. New Zealand's employment law protection for temporary workers is very weak compared to other OECD countries, creating an additional incentive for employers to use temporary in preference to permanent work.

- 4.21. Recent examples illustrate this. Fast food industry employers have used casual, temporary and "zero hours" employment where it is quite clear that the majority of their work could be done by permanent workers, with temporary jobs used only to cover peaks. Union action has forced some employers away from the extremes they were using – in part as a way to exert control over their workers – but the advantage of temporary work remains. Home care workers have been underpaid and undervalued for many years by employing people part time, paid close to the minimum wage and unpaid for their travel between jobs, and training neglected. Unions have forced government action which will address the in-between travel payment and will also consider training and development needs. Again, with better management and union involvement, these could be recognised as the responsible jobs and occupation which they are.
- 4.22. Pacheco and Cochrane (2015) have shown there is a pay penalty of up to 20 percent suffered by temporary workers, even after factors such as education, age, sex, industry and occupation have been taken into account. In addition to that, employers do not have to pay a variety of costs including sick leave, bereavement leave, public holidays and other entitlements which we calculate add up to around 21 percent on top of the nominal rate. In Australia, casuals get a 25 percent loading to recognise this and level the playing field somewhat, but the basic pay rate remains penalised.
- 4.23. An essential aspect of employment is the right to a safe and healthy workplace. Our terrible record of injury, disease and deaths is further evidence of weak management skills that do not encourage worker participation. Worker health and safety representatives and representation by unions are established ways of improving health and safety, backed by international evidence.

4.24. Advances in employment law, health and safety law and addressing misplaced incentives to employers must be accompanied by advances in the skills and attitudes of owners and managers of business. Command-and-control management is too common in New Zealand. It is killing people, and is holding back our standard of living and ability to change.

5. A capable state: real social security

5.1. All of what has been said in the previous sections emphasises that the state has a leadership role to play. This is highlighted by its role in industry policy, innovation, the regulation of employment relationships, training, research and education. The state also has a crucial role in setting standards in people's work: it has a duty to be an exemplary employer and contractor, raising standards in job security, paying wages that allow people to live in dignity and participate fully in society, parental leave, health, safety, training, professional development, and other conditions that improve working peoples' lives.

Responsible contracting

The state should use its power as a contractor to raise employment standards by making them conditions of contracts. This should include above-minimum employment conditions, including the Living Wage, and health and safety practices exceeding legal requirements.

It should also require minimum standards of training and professionalism. For example, in the human services sector, contracted or subsidised providers should be required to retain a strong core workforce of regulated professionals in order to maintain standards of service delivery.

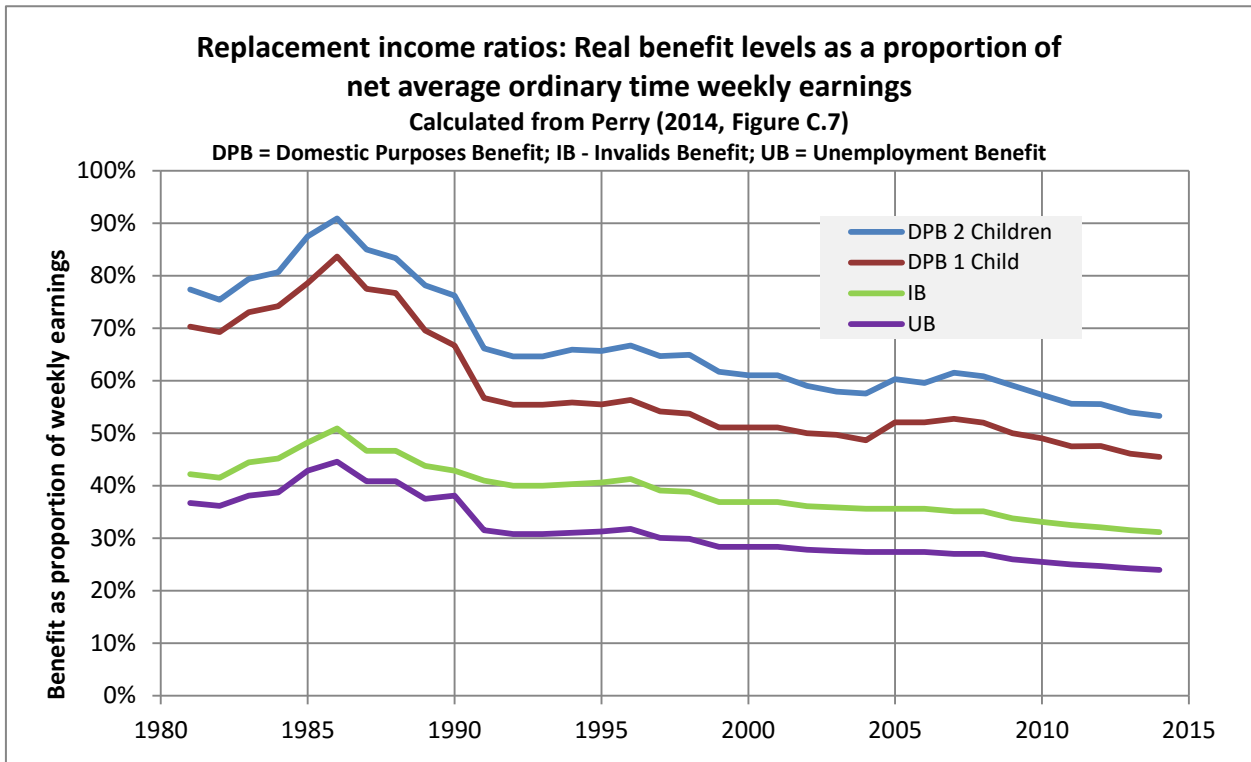
Environmental standards can be raised in a similar way.

5.2. Perhaps the state's most important role is in providing support to people in difficult times and to provide the infrastructure, education and health systems essential for a developing and humane society. The role of the state should return to one of collective support rather than the impoverished neoliberal view of it as a minimalist safety net. The comparison of Denmark with our own experience shows the minimalist role is wholly inadequate for a small open economy which wishes to improve the living standards of its people and respond positively to change. A larger government is consistent with a successful society and economy.

5.3. Consideration of the Danish 'flexicurity' system underlines the importance of social security provided by the state.

- 5.4. Our social security system should recognise that there is a collective responsibility to protect the security of worker people and their families when they lose their jobs in a highly insecure job market. ‘Flexibility’ in employment is positive if the employee has genuine control over it to improve his or her life. But much of it is out of working people’s control. So, to the extent that job insecurity becomes a reality on reasonable grounds, it should be replaced by “employment security”: an assurance that individual working people and their dependants should not suffer as a result of changes beyond their control, and should be assisted through change to find new employment in a good job.
- 5.5. We take the Danish system as a model. The government should provide unemployment benefits at least 80-90 percent of the worker’s previous wage for one to two years while they search for jobs. It should provide funding for serious training and retraining opportunities that give people new employment options (including change of occupation if some occupations disappear). It should provide advice and help with relocation if necessary. More broadly, there should be support for workers to improve their skills and take part in training during their working lives to reduce the likelihood of losing their jobs, and to improve their earning potential and productivity.
- 5.6. New Zealand recognises that such levels of income replacement are necessary for accident compensation. It is punitive not to do the same when the economy benefits from insecure work. New Zealand has among the lowest income replacement levels in the OECD⁶. For example, in 2013 during the initial stages of unemployment New Zealand ranked second to lowest (30th to 33rd out of 33 depending on level of income) for a two-earner couple with or without children in net terms after taking account of housing assistance and other “top-ups”. A single parent with two children in New Zealand was estimated by the OECD to receive 54 percent of the average wage whereas the OECD median is 71 percent of the country’s average wage. In Denmark it was 77 percent (for the first two years of unemployment) and Canada 85 percent.
- 5.7. As the following graph shows, benefit levels have steadily fallen relative to average wages because they have only been indexed to inflation. The increases announced in the 2014 Budget will have minimal effect, and then only for families with children. (See also Raven, 2015.)

⁶ See the spreadsheet for benefits “During the initial phase of unemployment, 2001-2013” at <http://www.oecd.org/els/benefits-and-wages-statistics.htm>.



- 5.8. Low income replacement levels and harsh conditions on benefits also hold down wages. The level and conditions on New Zealand’s unemployment (now “jobseeker”) benefit put working people under pressure to find *any* job, no matter what it pays nor how well it suits their skills, experience and home circumstances. That helps employers keep wages down.
- 5.9. Recent research by Engbom, Detragiache and Raei (2015) investigated changes to Germany’s social security system in the early 2000s (the Hartz reforms). The features of these reforms would be familiar to New Zealanders. They included drastic cuts in benefits for long-term unemployed workers and tighter job search and acceptance obligations while making it easier for employers to offer temporary employment. The research showed the reforms were associated with a 10 percent fall in earnings for workers returning to work. Card, Kluve and Weber (2010) in a meta-analysis of evaluations of active labour market policies show that allowing longer time on social security benefits with better support and opportunities for retraining and job search improves subsequent employment outcomes.
- 5.10. Similarly, continuing high levels of unemployment undermine job security and wage levels. An important objective must be to have full employment – but the employment must be in secure, decently paid jobs. It must be inclusive, providing equal opportunities and pay equity for all. It must take account of regional needs, in which the government itself can play an active part as an employer, doing more to

devolve the provision of services into the regions. Technology can help with this: call centres for example could be situated almost anywhere in New Zealand.

- 5.11. Our education and training system is a vital element of employment security and good jobs. It needs to connect with industry policy and it needs to reflect workers' viewpoints through a strong worker voice. Firms need to take a greater responsibility for training their own workers, particularly where they require firm-specific skills which no educational institution can reasonably be expected to include in its programmes. This requires a stronger worker voice through collective bargaining (recalling the Danish experience), more participatory and inclusive management to encourage professional development and training, and partial funding from the government to both incentivise training and overcome the coordination failure that occurs when firms are left to carry out training on their own. Firms may be reluctant to train because they think they can get the skills by hiring new staff (or immigration) and they are afraid that if they train staff their competitors will attract the staff away and benefit from the training.
- 5.12. We need, like Denmark, to be a 'Learning Nation' which values lifelong learning. The education system must fulfil the needs of all New Zealanders for a life time of social participation and work, and not just the next job. If work – paid and unpaid – is changing throughout a person's life, the role of a free public education system for young New Zealanders should be to provide them all with the core common competencies and skills they will need and to build their ability to learn throughout their lives. Some of these will become more specialised as they progress through the primary, secondary and tertiary system. However all should have the aim of enabling people to learn new skills as the need arises, whether in jobs or between jobs.
- 5.13. The Learning Representatives programme which the CTU ran until 2013 when government funding was withdrawn, aims to encourage people at work to think about their learning needs and helps them find the courses and development opportunities that are appropriate. Independent evaluations showed it was valued by both working people and employers. It should be reinstated, developed further and made sustainable. There is much we can learn from the U.K. experience.
- 5.14. The individual and collective benefits of ensuring all young New Zealanders have an equitable opportunity to develop their potential and reach some common baselines in educational achievement are significant. While there will be increased

specialisation as young people progress through the education system we should avoid locking young people into particular educational and vocational tracks at a young age. The priority of the compulsory education system should be on transferable and generic capabilities that allow life-long learning and participation. This should have the aim of enabling people to learn new skills as the need arises, whether in or between paid work.

- 5.15. If New Zealand and New Zealanders are to excel, there needs to be a consensus on the essential value learning contributes to society, whether it takes place in the formal education system or at work. This means a cultural shift in the status and priority given to all education and educators, from early learning right through to '3rd age' learning.
- 5.16. The 'social wage' – the services and benefits provided by government – are also important in maintaining living standards and security, particularly in the face of changing work. Workers depend on public services such as health, education, public transport, good health and safety regulation and environmental protection as part of their social wage. Without them working people and their families would risk bankruptcy from ill-health, loss of opportunity that education and training provides, and lowered quality of life for themselves, their children and future generations.
- 5.17. These services and benefits should be universally accessible. This can only be guaranteed by public provision. Core services must be provided by government because the infrastructure and regulation needed to support them are beyond the compass of most businesses and public provision is accountable to democratic processes.
- 5.18. The taxation system and "transfers" such as Working for Families tax credits are vital mechanisms for correcting at least some of the very high inequality in the incomes people receive from work and investments. Working for Families is partial recognition of the blow to wage and salary incomes that has occurred over the last 30 years. With weak collective bargaining it becomes a substitute for pay rises and hence a wage subsidy, and it is notable that the U.K. Conservative Government is raising the minimum wage in order to reduce the fiscal cost of its similar tax credit scheme. Working for Families is falling in real terms as a result of the National Government freezing thresholds, but even at \$2.5bn a year is small compared to the \$19bn annual loss in the wage and salary (labour) share of New Zealand's income since the early 1980s.

- 5.19. New Zealand must make a choice: if governments are not willing to restore a much greater degree of fairness to the wages system by strengthening collective bargaining then consideration must be given to underpinning the resulting low wages through a universal basic income. This should be at a level generous enough to ensure that all New Zealanders have a standard of living sufficient to allow them to participate fully in society and live in dignity, without the threat of poverty. Our preference is for a fair wages system.
- 5.20. The social wage and adequate benefits can only be maintained by raising sufficient taxation. It must be progressive taxation – that is, taxing those with higher incomes at a higher rate. Our income tax structure has lost a great deal of its progressive nature and is now one of the least effective for this purpose in the OECD. Making it more redistributive again, and using other forms of progressive taxation such as a capital gains tax exempting the family home (which would also encourage investment away from property and financial speculation), are essential not only to reduce inequality but to raise enough revenue to pay for the public services we need.
- 5.21. We can firmly reject self-interested views of business and the wealthy that more progressive taxation or higher government expenditure are bad for growth. Firstly, economic growth is not the only aim of government, and is a poor measure of human and environmental wellbeing. But in any case progressive taxation and higher government expenditure don't need to threaten economic growth. Senior researchers in the conservative International Monetary Fund (Berg & Ostry, 2011) state that on the contrary, “lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution... [R]edistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth.” Subsequent research from the IMF and the OECD (Cingano, 2014) reaches similar conclusions. Nor is there good evidence that higher government spending is bad for growth: it is the quality of the spending that counts.
- 5.22. Regulation is an important responsibility of the state. Workplace health and safety is an arena in which we see the need most starkly, but employment, corporate behaviour and food safety are just a few other areas in which good regulation is essential to protect New Zealanders. We strongly resist the proposal in *Future of Work Economic Development and Sustainability* working paper that regulation should be reduced if it “stifles economic growth” or placed an “unnecessary burden

on business, NGOs or even the public sector”. This would be a licence to weaken regulation with social and environmental objectives. Disasters such as our workplace health and safety record, leaky homes, the finance company collapses in the late 2000s and the support required for the Australian banks during the Global Financial Crisis are just some examples of New Zealand having *too little* regulation rather than too much. Our observation is that officials are in fact far too reluctant to regulate where it would be amply justified, because of institutional and political biases against regulation, and excessively onerous processes and political control around it.

5.23. The minimum wage is an essential part of employment regulation. It is important as a wage floor but it needs also to be recognised that it is in many ways a blunt instrument which doesn’t fully address employer reliance on low pay, low productivity ways of doing business. Effective collective bargaining is needed to do that.

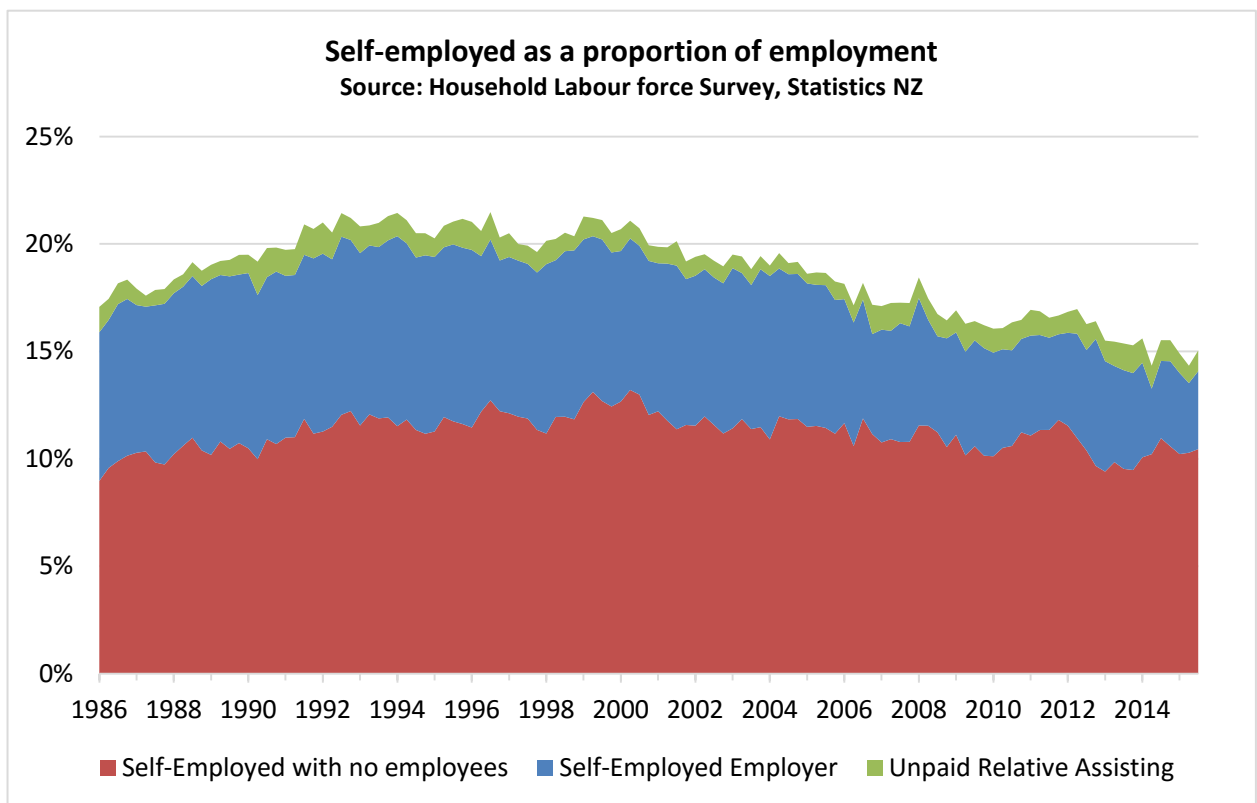
5.24. We cited above the research by the International Monetary Fund (Jaumotte & Buitron, 2015) which shows that deunionisation (with New Zealand the most extreme) is associated with half of the rise in inequality of net incomes since 1980 among the OECD countries studied. This adds to a substantial body of research that shows unions both improve distribution of gross incomes and fight for better social conditions such as progressive tax systems and social security benefits.

6. Specific issues in the working papers

6.1. The working papers have a strong emphasis on supporting **small business**. We acknowledge that many small businesses are subject to insecurity, evidenced by a high churn rate in their creation and disappearance. However their response is frequently that their employment, social and environmental obligations should be reduced in order to allow them to remain profitable. Backward steps in employment conditions such as 90-day trials and inadequate worker participation requirements in health and safety have been justified on these grounds. We strongly resist this approach which encourages poor management, poor working conditions and viewing employees as solely a cost. The reasons for supporting small business need to be clear. The evidence for them leading in innovation is not provided. They may well be a drag on productivity because of their size and frequently poor management. The *Economic Development and Sustainability* paper asserts without evidence that “small businesses tend to be the real innovators in the economy”, but

recent research (Cheung & Geoffrey Brooke, 2015) shows they are not leading employment creators: new firms are.

6.2. We are however sympathetic to a better deal for the self-employed who do not have employees (sometimes called “own account workers”) who constitute the great majority of small businesses and can experience the extremes of insecurity with few legal protections. Increasingly, employers (including small employers) are pushing workers out of employee status into self-employment in order to abandon their responsibility for the conditions their workers are employed under and shift risks and costs onto them. This is going back a hundred years in employment relationships. It is factually wrong to describe self-employment either as a status that people necessarily choose, or as a status that an increasing number of people are working in. In fact as the following graph shows, Statistics New Zealand data shows numbers have been falling since 2000 (for further detail see Rosenberg, 2014b).



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