



NEW ZEALAND COUNCIL OF TRADE UNIONS

*Te Kauae Kaimahi*

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## *Commentary*

### **Business-facing Government: MOBIE Dick?**

#### **Summary**

“Business facing” is how the Government is describing the latest round of public service restructuring. The spin will be “more jobs, higher wages”, but can a “business-facing” organisation absorbing the Ministry of Economic Development, the Department of Labour, the Ministry of Science and Innovation, and the Department of Building and Housing really achieve this while maintaining the confidence and trust of the public?

The new ministry will be called MOBIE – the Ministry of Business, Innovation and Employment. Success for the government relies on integration of the large number of functions which the new organisation will have. The complexity of this task means that the Minister will have to be careful his creation does not become a MOBIE Dick saga.

But a more fundamental question is whether integration and “business facing” are appropriate for these government services. “Business” is not the same as “industry”. The people employed in an industry have just as valid a case to influence its development as “businesses” – their employers. In addition, many more people are affected by it, ranging from consumers of its products to communities affected by, for example, its pollution.

There are differing approaches to development of an industry. One path minimises costs relying on low wages and low investment; another adds value using higher productivity, investment, skills and wages. The fishing industry is a current example of the low path.

But the concerns go beyond economic development. The Department of Labour is responsible for employment legislation and its enforcement, workplace health and safety, immigration and ACC policy. Much more than business interests are involved in all of these. The Ministry for Economic Development has many responsibilities crucial to public safety, provision of important services at reasonable prices, development of infrastructure where the private sector fails, and enforcing rules governing corporate behaviour. The Department of Building and Housing plays a crucial role in building standards.

Many of these roles simply do not belong in a “business facing” department if the slogan has any meaning. Such important government functions cannot primarily serve business needs and at the same time maintain independence and act in the public interest when business misbehaves. There are real dangers in this ill-considered concept.

“Business facing” is how the Government is describing the latest round of public service restructuring. The spin will be “more jobs, higher wages”, but can a “business-facing” organisation absorbing the Ministry of Economic Development, the Department of Labour, the Ministry of Science and Innovation,

and the Department of Building and Housing really achieve this? Can such an organisation maintain the confidence and trust of the public in the services it provides?

The new ministry, the project of Steven Joyce, will be called MOBIE – the Ministry of Business, Innovation and Employment. It will come into existence as from 1 July and the act of creating a complex organisation in such a short timeframe will absorb huge energy. However the speed means that the re-organisation of the existing departments within the new ministry will have to occur after it has been established and will distract and disrupt the officials who work in affected agencies for many months and years. Yet the Department of Labour (DOL) has recently undertaken its own extensive internal restructuring. The Ministry of Science and Innovation only came into existence in February last year after another merger and is just finding its feet.

The Government has refused to quantify the costs and job losses resulting from the merger and has failed to quantify the expected gains. Success for the government relies on integration of the large number of functions which the new organisation will have. The complexity of this task means that the Minister will have to be careful his creation does not become a MOBIE Dick saga.

But there are more fundamental questions. How desirable is this integration? The answer to this depends on a further one: is “business facing” an appropriate stance for these government services?

The first point to make is that “business” is not the same as “industry”. We’ve fought this battle on many fronts over the years. The people employed in an industry are as much part of the industry and have just as valid a case to influence its development as “businesses” – their employers. There are common interests, centred around wanting the industry to thrive, and there are conflicting interests, such as around wages and working conditions. On top of the direct participants in an industry, many more people are usually affected by it, ranging from consumers of its products to communities affected by, for example, its pollution.

There are also differing approaches to development of an industry with different benefits and side effects. One path can focus on minimising costs, relying on low wages and low investment; another can focus on adding value using higher productivity, investment, skills and wages.

The fishing industry is a stark example of this which is currently in the news. Do we continue to develop the industry based on run-down foreign charter vessels with exploitation of its workers bordering on slave labour conditions and falling onshore processing? Or do we New Zealand flag the vessels – whether owned or chartered – providing good skilled jobs under New Zealand pay and working conditions, and develop an onshore processing industry that adds much more value to the catch, provides better paid and higher skilled land-based jobs and aims for high quality exports rather than slabs of frozen fish sent to China for processing? There are many businesses in the industry – including unfortunately some iwi – which are fighting to maintain the low value, short-sighted and exploitative status quo. Others, and the unions involved, take a more far-sighted view. There are also big and controversial conservation issues which affect not only the future of the industry but recreational fishing and the health of our marine environment. A “business-focussed” view could produce a very narrow-minded outcome which is bad for New Zealand as a whole and the industry in the long run.

But the concerns go beyond economic development. Look at some of the functions the complex new ministry will encompass. The Department of Labour (DOL) is responsible for employment legislation, its

development, implementation and enforcement, for health and safety in employment, for immigration, for international labour issues and for ACC policy.

DOL maintains labour inspectors, mediators, the Employment Relations Authority and a contact centre. Putting aside concerns about the adequacy and performance of these services, every one of these should be objective and neutral in the employment relationship. Labour inspectors must determine whether employment rules have been broken and if so take action against employers, mediators must work even-handedly between workers and employers, and so on. It is very hard to see how a “business-facing” government organisation would maintain that neutrality and be seen to do so. Similarly the health inspectors must be objective and willing to take employers to task. The evidence given to the Pike River Royal Commission rams home the potentially fatal dangers of a “business-facing” inspectorate. The Department must provide advice and develop and administer legislation, rules and regulations which address health and safety problems in the workplace. International experience is that that is impossible unless the process is at least as much “worker-facing” as “business-facing”. There are also much wider than business interests affected by immigration, international and ACC policy.

But it is not only in areas covered by the DOL that such problems arise. The Ministry for Economic Development (MED) not only supports the economic development portfolio but covers a large collection of regulatory functions. The Department’s December 2011 [“Guide to the Ministry of Economic Development”](#) which provides a short paragraph on each of its functions and lists the legislation it administers, covers 27 pages. It is the regulator of many important areas. To give just some examples: official registers for companies and incorporated societies; the Intellectual Property Office of New Zealand which grants and registers patents, plant variety rights and other – sometimes contentious – rights to exclusive use of knowledge; the Official Assignee which administers personal bankruptcies and provides liquidators in corporate insolvencies; radio spectrum management; prospecting, exploration and mining permits for mining oil and other minerals; the collection of mining royalties; and enforcement of consumer product safety and accuracy in weighing products. It provides advice on corporate law, competition, trade rules, the regulation of telecommunications (such as Telecom and broadband), energy markets (such as the electricity sector), and much more. In every area, there are far wider than business interests at stake. Public safety, provision of important services at reasonable prices, development of infrastructure where the private sector has failed to do so, and enforcing rules governing corporate behaviour are among them. The controversy in 2009 where the Government – going against MED advice – allowed debt-ridden MediaWorks to pay in instalments the \$43 million it owed for its broadcasting spectrum licences, effectively lending it the money, illustrates the pressures and perils. Controversies over off-shore oil drilling, and the creation of fast broadband services are further current examples.

The Department of Building and Housing similarly plays a crucial role in building standards and advice on adequacy and quality of housing. Irresponsible behaviour by businesses (among others) in the leaky buildings disaster [on some estimates could cost](#) the country as much as the Christchurch earthquakes. The Department also administers tenancy matters including bonds and disputes in which businesses (landlords) and tenants often have conflicting interests. It licenses building tradespeople and professions, and many other aspects of the construction industry.

The last of the four departments, the Ministry of Science and Innovation has important roles in supporting and funding basic research such as that done in universities and Crown Research Institutes,

as well as commercialising research discoveries. While commercialisation is certainly an important objective, imbalance between it and basic research which maintains and expands our current knowledge and develops research skills among research students and other new researchers could be very damaging in the longer run.

Many of these roles simply do not belong in a “business facing” department if the slogan has any meaning. Such important government functions cannot address themselves primarily to business needs and at the same time maintain independence and act in the public interest when business misbehaves. There are real dangers in this ill-considered concept.

Two last comments. I have to wonder whether the name “Ministry of Business, Innovation and Employment” is a deliberate step away from the concept of “economic development”. The MED was growing into a centre of expertise that was challenging the “hands-off – leave it to the market” view still favoured by Treasury. See for example [this piece](#) by its Chief Economist Roger Procter which quotes approvingly the statement “Historical evidence shows that all countries that have successfully transformed from agrarian economies to modern advanced economies – including the old industrial powers in Western Europe and North America, as well as the newly industrialised countries in East Asia – had governments that played a pro-active role...” It is to be hoped that this change does not signal the beginning of the kind of pogrom which occurred in the late 1980s and 1990s against alternative centres of economic advice that contested the official Government and Treasury neoliberal line.

While the new name puts “business” at the forefront, it gives little clue as to any direction. It is not even “innovative” – the U.K. counterpart is called “the Department for Business, Innovation and Skills”. “Business-facing” is a mode of operation, not a plan. The Government’s activities since the 2011 election have been intensely focused on government itself – not on getting the economy moving with some longer term direction. Of its 120 point economic development “action plan” list for the election, only 26 were new – the rest had been completed or were “in progress” – and also focussed heavily on government, regulatory changes, and infrastructure (though even some of these were business as usual, such as building new schools and roads).

Finally, the mergers and combining of backroom functions being carried out by National with great fanfare have a strong historical irony to them. It was, after all, the Rogernomes followed by the 1990s National Government which made a virtue of radically restructuring the public sector including privatisation, increased user pays and provision of public services on a commercial basis, and the fragmenting of government agencies to run under a private sector model. The model was based around an all-powerful chief executive with complete responsibility for running the agency subject only to the requirements of the responsible Minister and legislation. The fiction (which continues) is that the Minister “purchases outputs” from the agency and we thereby have a highly efficient model of contracting for public services (which not so coincidentally could be more easily contracted out to the private sector). Chief executives then have an incentive to find the most cost effective ways of providing those outputs (including, again, contracting them out if it were cheaper). Ministers would not interfere except to ensure the “outputs” were achieved. In fact, as National is discovering, the fragmentation of agencies led to huge duplication of costs as the “incentivised” chief executives maximised their autonomy by providing their administrative services themselves. They could convince themselves they were the cheapest on offer by going through the processes of tendering and regular restructurings. What they overlooked was the benefits of cooperation rather than operating individual fiefdoms. In

some areas that kind of autonomy is needed for the public good – such as some of the functions listed above – but it is ironic that National is now in effect railing against its own policies.

Come another generation, perhaps they will find a new theory which tells them that they should reverse this term’s changes all over again. Have some sympathy for your friendly public sector employee for whom being restructured has become an unpleasant way of life. We should all be concerned at the wastage of experience and institutional knowledge every time a restructuring occurs. We can only hope that the outcomes of the restructuring compensate for these costs. All too often that is not the case.

We have yet to see a reason for this latest restructuring rather than a dangerously faulty “business facing” slogan.

**Bill Rosenberg**

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## Forecast

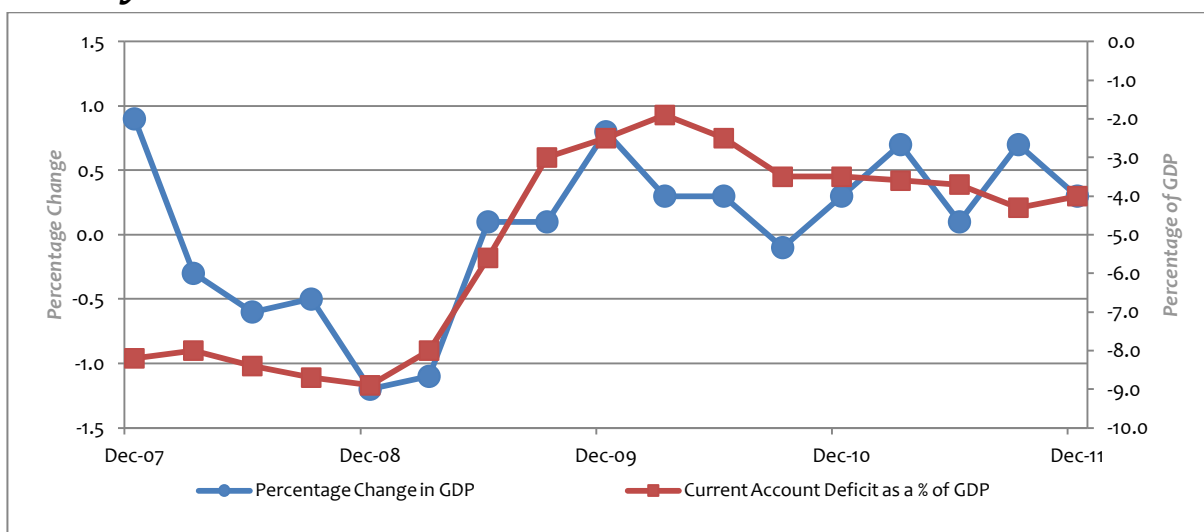
★ This [NZIER consensus forecast](#) was published on 19 March 2012.

| Annual Percentage Change (March Year) | 2011-12 | 2012-13 | 2013-14 |
|---------------------------------------|---------|---------|---------|
| GDP                                   | 1.8     | 2.7     | 3.2     |
| CPI                                   | 1.8     | 2.1     | 2.5     |
| Private Sector Wages                  | 3.1     | 3.0     | 3.4     |
| Employment                            | 0.8     | 1.8     | 2.1     |
| Unemployment                          | 6.3     | 5.9     | 5.2     |

A ★ indicates information that has been updated since the last bulletin.

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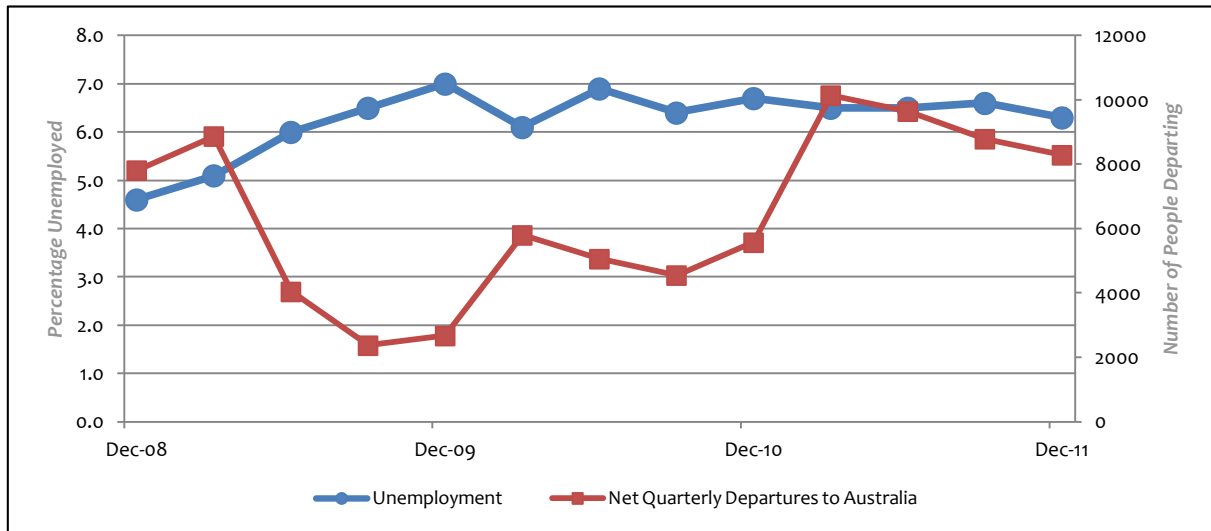
## Economy



- ★ [Gross Domestic Product](#) was up 0.3 percent in the December 2011 quarter, and GDP growth for the year to December 2011 was 1.4 percent. The largest contributor was finance, insurance, and business services which rose 1.3 percent in the quarter, with agriculture (up 3.5 percent) and retail, accommodation and restaurants (up 2.2 percent) also strong. However there were significant falls in manufacturing (down 2.5 percent), electricity, gas and water (down 2.4 percent) and government administration and defence (down 2.3 percent). Agriculture and retail, accommodation, and restaurants were both up 7.6 percent from the December quarter in 2010, while construction was down 8.0 percent for the year.
- ★ New Zealand recorded a [Current Account](#) deficit of \$2.8bn for the December 2011 quarter (\$2.0bn seasonally adjusted) and a deficit for the year to December of \$8.3bn (4.0 percent of GDP). This compares with a current account deficit of \$6.8bn (3.5 percent of GDP) for the year ended December 2010. The annual deficit is mainly due to profits and interest going to overseas investors (\$10.4bn deficit) plus a deficit in services trade (\$1.0bn) partially offset by a positive balance on goods trade (\$3.6bn), all of which worsened during the quarter.
- ★ The country's [Net International Liabilities](#) were \$147.0bn at the end of December 2011 – 71.9 percent of GDP compared with \$146.2bn or 72.0 percent of GDP in September and \$146.5bn in December 2010. Reinsurance claims owed but not yet paid for the Canterbury earthquakes totalled \$12.7bn at the end of December 2011. Without them, international liabilities would be \$159.7bn. In December, the Government for the first time since December 2005 became a contributor to the net international liabilities with net overseas liabilities of \$3.5bn despite \$4.5bn of unpaid reinsurance claims which are counted as an asset.
- ★ For the month of February 2012, [Overseas Merchandise Trade](#) recorded a seasonally adjusted \$89m deficit – 2.4 percent of the value of exports for the quarter. Exports fell by 6.9 percent or \$267 million in the month, which Statistics New Zealand says may have been affected by industrial disputes, along with imports. Crude oil exports fell \$107 million or 53 percent, but can be quite variable due to timing of shipments. Imports fell by \$244 million (6.6 percent). For the year to February 2012, New Zealand recorded a trade surplus of \$621 million (1.3 percent of exports).
- ★ The [Performance of Manufacturing Index](#) for February 2012 rose steeply to 57.7<sup>1</sup> off its fall to 50.8 in January. The employment sub-index also rose, but only slightly: to 51.3 from 51.1 in January.
- ★ The [Performance of Services Index](#) for February 2012 was 55.5<sup>1</sup>, a rise from 53.8 in January. The employment sub-index fell: to 51.8 from 54.1 in January.
- The [Retail Trade Survey](#) for December 2011 found retail sales were up 2.2 percent by volume and 2.0 percent by value between the September and December 2011 quarters. Volumes for core retailing, which excludes vehicle-related industries, rose 2.9 percent, the largest seasonally adjusted increase since the series began in 1995. Both the Rugby World Cup and the delayed timing of school holidays were likely influences. Retail sales were up 6.6 percent by volume and 8.0 percent by value compared to the December quarter in 2010.
- ★ On 8 March 2012 the Reserve Bank left the [Official Cash Rate](#) unchanged at 2.50 percent. The next review will be on 26 April 2012.

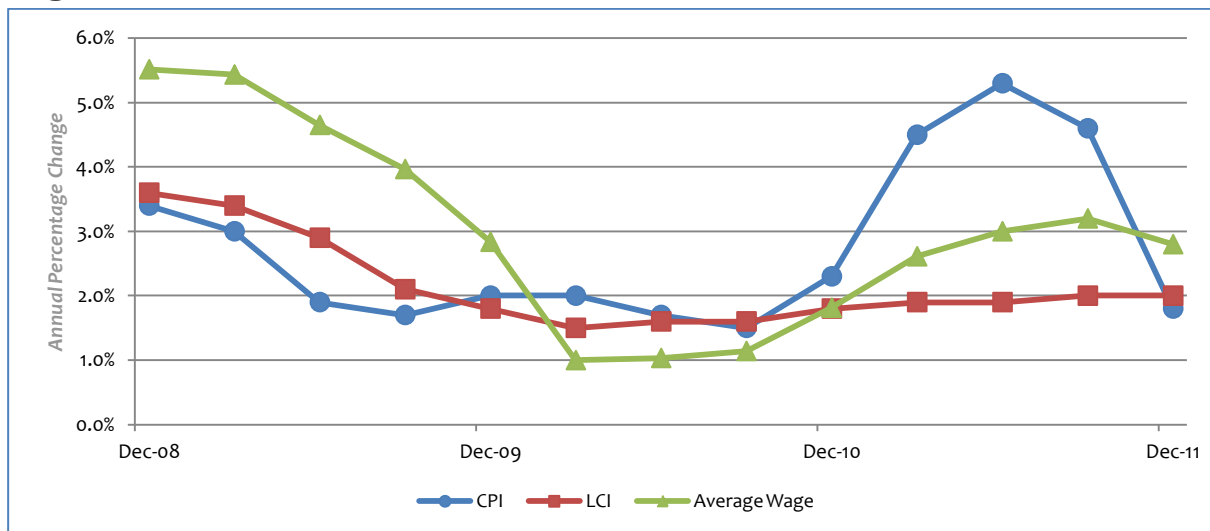
- ★ The [REINZ Housing Price Index](#) recorded an 0.8 percent rise in February 2012 after a 1.4 percent fall in house prices for the month of January, and the median house price was static at \$355,000 for the third month running. The House Price Index was up 2.7 percent for the year to January.

## Employment



- According to the [Household Labour Force Survey](#) the unemployment rate in the December 2011 quarter was 6.3 percent, down from 6.6 percent in the September quarter. The participation rate was 68.2 percent – down 0.2 percentage points on September. There are 150,000 people unemployed. Māori unemployment was 13.4 percent (up from a revised value of 13.1 percent), Pacific unemployment was 13.8 percent, Asian unemployment was 9.1 percent and European/Pakeha unemployment was 4.7 percent. Youth unemployment (15-19 year olds) was 24.2 percent (up from a revised 23.4 percent).
- ★ At the end of February 2011 there were 56,471 working age people on an Unemployment Benefit, a fall of 5,651, or 9.1 percent, from 62,122 in January. This reverses two months of increase. (Quarterly figures on [Unemployment Benefit](#) numbers are available from the MSD website.)
- ★ In February 2012, [Job Vacancies Online](#) rose by 6.8 percent for all vacancies and 6.0 percent for skilled jobs in seasonally adjusted terms.
- ★ [International Travel and Migration](#) figures show 7,160 permanent and long-term arrivals to New Zealand in February 2012 and 7,600 departures in seasonally adjusted terms. There was a net loss of 4,068 migrants in the year to February 2012. Net migration to Australia in the year to February was 39,112 departures. There was an increase of 13,491 permanent and long-term departures from New Zealand nationally for the year to February 2012 compared to the year to February 2011, the increase more than accounted for by Australia.

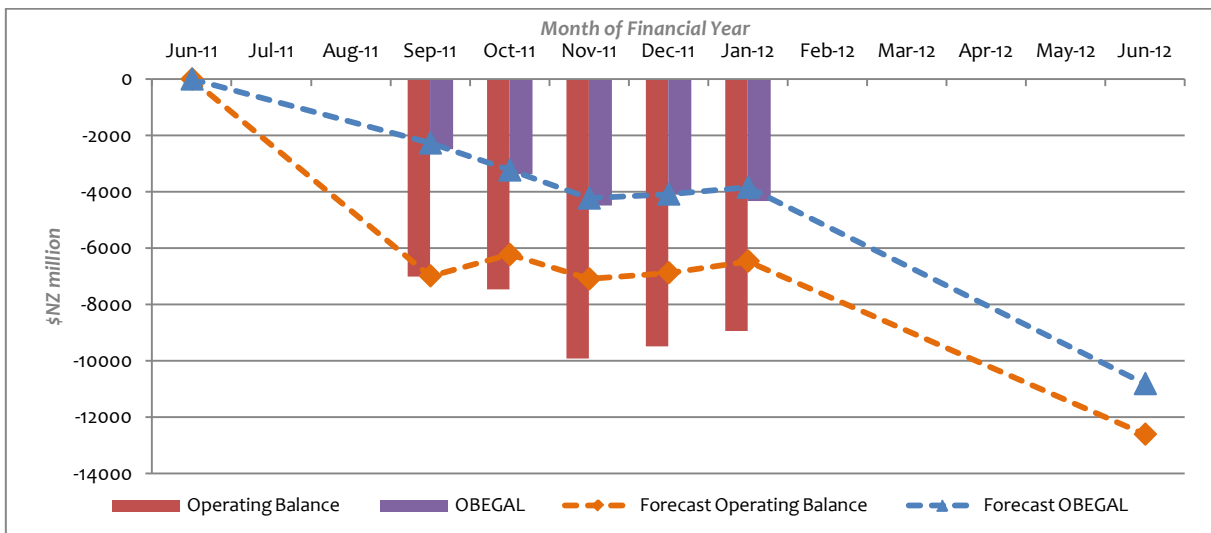
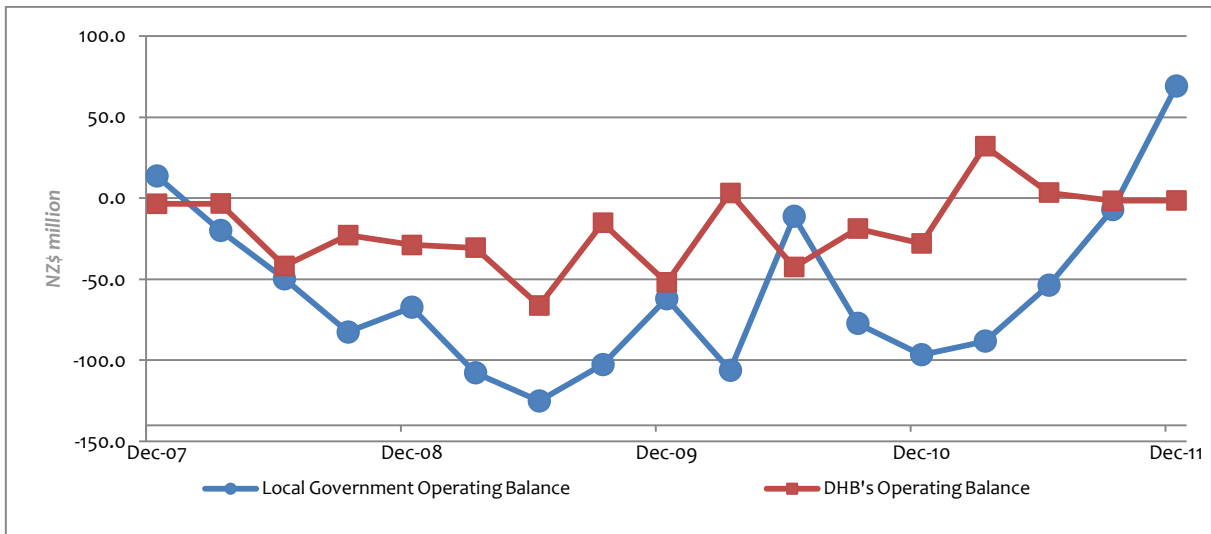
## Wages



- The [Labour Cost Index \(Wage and Salary Rates\)](#) (LCI) rose 2.0 percent for the year to December 2011 and 0.6 percent for the December quarter for salary and ordinary time rates. It rose 1.8 percent in the public sector and 2.0 percent in the private sector for the year. For the 57 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 3.0 percent.
- The December 2011 [Quarterly Employment Survey](#) found the average hourly earnings for ordinary-time work was \$26.56, up 0.1 percent on the September quarter and 2.8 percent over the year. The average ordinary-time wage was \$24.53 in the private sector (up 0.0 percent in the quarter and 2.8 percent in the year) and \$33.82 in the public sector (up 0.9 percent in the quarter and 3.4 percent in the year). Female workers (at \$24.60) earned 87.1 percent of what male workers earned (at \$28.24) for average ordinary time hourly earnings.
- The [Consumer Price Index](#) for the December 2011 quarter fell 0.3 percent, but rose 1.8 percent for the year to December. This is the first quarter since September 2010 which has not been affected by the October 2010 GST increase. For the quarter, food costs were down 2.2 percent, communication prices fell 3.5 percent, while transport costs rose 1.4 percent.
- ★ The [Food Price Index](#) rose by 0.6 percent in the month of February 2012 compared to January 2012, and there was a 1.5 percent increase in food prices between February 2011 and February 2012. Between January and February, Fruit and Vegetable prices fell 2.0 percent, Grocery food rose 0.6 percent, Meat, Poultry and Fish rose 1.7 percent, Non-alcoholic Beverages rose 3.0 percent, and Restaurant Meals and Ready-to-eat food prices fell 0.2 percent.



## Public Sector



- ★ According to Treasury's [Financial Statements of the Government of New Zealand](#) for the seven months ended January 2012, Government revenue was down \$1,388m (3.9 percent) on the forecast in the 2011 Pre-Election Economic and Fiscal Update (PREFU), mainly due to tax revenue being down a total of \$946m on forecast including \$383m in source deductions (PAYE) "reflecting weaker than forecast labour market conditions", \$345m in GST, and \$245m in corporate tax. Expenditure was down \$1,242m (3.1 percent) on forecast, mainly due to costs associated with child support penalties (\$243m) and a reduction in the carbon price relating to the Emissions Trading Scheme (\$280m). The operating balance before gains and losses (OBEGAL) was a deficit of \$4.3bn, \$473m worse than forecast. The operating deficit was \$8.9bn, \$2.5bn worse than forecast due to \$1.0bn in unforecast actuarial losses in the GSF, \$721m in actuarial losses on ACC's liability for outstanding claims due to a decrease in the discount rate, and \$205m higher than forecast net losses in investments, mainly held by ACC, the New Zealand Superannuation fund and EQC. The Government's net debt is 23.7 percent of GDP, 0.1 percentage points better than forecast in the PREFU.
- ★ [District Health Boards](#) recorded an operating deficit of \$1.4m for the December 2011 quarter compared to a deficit of \$1.6m for the September 2011 quarter. Employment costs were

\$1.25bn, up 2.3 percent for the December 2011 quarter, compared to total expenses of \$3.38bn, up 0.7 percent.

★ [Local Government](#) recorded a 1.8 percent increase in operating income and a 2.0 percent fall in operating expenditure for the December 2011 quarter compared to September, resulting in an operating surplus for the quarter of \$69.2m, compared to a deficit of \$7m in the September quarter, all in seasonally adjusted terms. Without seasonal adjustment, their surplus for the December 2011 quarter was \$11.0m, compared to a \$143.7m deficit in the December 2010 quarter.

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## **Notes**

- 1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

*This bulletin is available online at <http://www.union.org.nz/economicbulletin133>.*

*For further information contact [Bill Rosenberg](#).*