Collective Bargaining and the Labour Market Flexibility Debate in New Zealand: A Review

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Abstract

This paper reviews the empirical evidence of rigidity in the New Zealand labour market over the period 1984-1990, with particular reference to collective bargaining. It demonstrates that labour market institutions displayed an important degree of flexibility over this period. Despite this, labour markets were stigmatized as 'inflexible' in public debate and labour market policy has been driven by the assumption that more flexibility was required.

1. Introduction

Academics with an interest in New Zealand's industrial relations system have had plenty to write about over the last decade as politicians have implemented significant r eforms to a century old system. In 1984, a newly elected *Labour* Government embarked upon a programme of incremental reforms to the industrial relations system. Compulsory conciliation and arbitration had been the hallmarks of the New Zealand system for nearly a century, but Labour made arbitration voluntary, thereby threatening the viability of the multiemployer award system. Later, immed-

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iately following the 1990 election, a newly elected *National* Government abolished the process of conciliation and replaced it with a system of competitive individualised contracting through the Employment Contracts Act 1991. The industrial conciliation and arbitration framework, which had been the basis of industrial relations for almost a century, was completely dismantled and New Zealand had adopted its own Wagnerian model of labour relations (Boxall, 1990).

These legislative changes were driven by a worldwide debate the 'flexibility' debate concerning the effectiveness or otherwise of the country's labour market regulation. The primary focus of the debate was the claim that the institutions of the labour market were an important constraint on economic growth. The labour market was argued to be inefficient and unable to adjust to the changing economic climate. In this paper we review the flexibility debate in the New Zealand context and catalogue the reforms that were inspired by the debate. We review the empirical evidence of rigidity, particularly as it related to collective bargaining, over the period 1984-1990, and demonstrate that New Zealand's labour market institutions displayed an important degree of flexibility over that period. Such a showing was, however, insufficient to overcome the folklore of 'rigidity' and the employment contracts legislation was enacted with the aim of achieving even greater efficiency and flexibility within the labour market and the bargaining process.

2. The Labour Market, Flexibility and Collective Bargaining

The labour market comprises a complex set of institutions, customs, organizational rules and personal contacts. The function of the labour market is to assist workers and employers to find each other, and then to help them form productive employment relationships. Economists refer to these processes as "coordination". As we all know however, coordination is not always successful. Some examples: when we live in times of high unemployment such as we do currently, all workers seeking employment cannot find jobs; changing product markets or consumer demands may mean that employers need workers with different skills, or fewer workers; irrespective of the economic climate, some employers may not be able to find workers with the skills they require. When coordination is unsuccessful and fails, employers and workers try to find solutions to these problems. Economists refer to these efforts as "adjustment". Employers, for example, who find that their activities are constrained by being unable to recruit workers to fill specific vacancies can adopt a number of adjustment strategies. They may

retrain or redeploy their existing workers; they may increase wages on offer to attract job seekers; they may increase the hours of work of their existing workforce; or they may improve the efficiency of the production process (Blandy and Richardson, 1982). Adjustment strategies available to workers unable to find employment for example, could include retraining or relocation to a city where work is available. A wide range of possible behavioural responses is shown in Table 1.

Table 1. Adjustment strategies

	Workers	Employers
Quantity	labour force participation retirement age holidays normal hours of work geographic area and intensity of job search	recruitment rate dismissals policies hours of work leave policy attrition and redundancies
Quality	participation in formal education and training undertake training at work effort at work occupation willing to work in	design of jobs contractors 'skill' based entry requirements 'inhouse' training management system
Wages	wage rates that work for 'wagelike' payments (eg. promotion) piece rates that work for	wages paid overtime rates paid nonwage benefits promotion rates
Production	N/A	product innovation inventory changes technology of production

Labour market flexibility refers to the speed, extent and appropriate direction of adjustment. Flexibility therefore describes the efficiency of coordination, and hence the effective use of resources within the labour market (Standing, 1986). With fast and extensive adjustment in the appropriate direction, the labour market is able to rapidly adjust to external shocks, with a minimum amount of interference to productivity growth, and little increase in unemployment. Flexibility is therefore a desirable feature because it gives the labour market the capacity to adapt to change (Meulders and Wilkin, 1987).

While flexibility can be simply defined, it is a contentious theoretical issue. This is because there is considerable debate over the type of adjustment behaviour which predominates within actual labour markets. For example, neoclassical economists argue that changes in wages are the sole form of adjustment. Flexible wages automatically equilibrate the supply and demand for labour. Regrettably, the neoclassicist model of adjustment does not accord with the widespread empirical evidence of nominal wage rigidity (Beckerman, 1986). Wages are, as they say, "sticky" that is they adjust slowly for the reason that employers and workers face real costs in changing the level of wages.

A range of theoretical reasons for sticky wages have been identified. These include firm specific capital (Oi, 1962), internal labour markets (Doeringer and Piore, 1971), implicit contracts (Schultze, 1985), efficiency wages (Akerlof and Yellen, 1986) and transactions costs (Savage, 1989). The neoclassical model fails because wages are quite unlike the type of prices exhibited in auction markets for vegetables. While flexible wages are important, they are by no means the *sole* mechanism of adjustment. Actual labour market adjustment involves changes across quantity and quality, as well as wage dimensions (Joll *et al.*, 1983).

Because of the multitude of adjustment strategies available to both employers and workers, labour market flexibility has a number of components. These components are classified in different ways by various writers (Brunhes *et al.*, 1989; Boyer, 1988; Rubery *et al.*, 1987; Safarti and Kobrin, 1988). We use Brunhes taxonomy, as this has been widely adopted within the OECD literature. Brunhes offers five types of flexibility for consideration. The first, wage flexibility includes the actual wages paid, as well as overtime, rates of promotion and employer superannuation contributions. Flexibility here can be external comprising wages differentials between regions, industries, skills and youth wages, or internal for example, productivity incentives, performance based pay, or part payment in shares and bonuses. The second, external numerical flexibility, prescribes the ability or ease with which firms can adjust the number of workers they employ. Worker mobility and legal flexibility in the employment relationship are important factors. The third, internal numerical flexibility, prescribes the ability of the firm to adjust the hours of work according to the demands of production, while keeping the overall numbers of workers the same. Such flexibility includes holiday arrangements, shift work, flexitime and the use of permanent, casual and part time workers. Fourthly, functional flexibility prescribes the ease with which the contents of workers tasks can be changed. Factors include the type of production technology, the flexibility of the management system, the level of on-the-job training, and the degree of

multiskilling. Finally, Brunhes identifies externalization, the ability of the firm to contract work to individuals and firms not bound by a contract of employment.

Adjustment strategies available to workers and employers are heavily influenced by the institutions of the industrial relations system. However unfortunately, in many cases these institutions have not been well understood by writers investigating flexibility. Those writing in the economics tradition have often failed to acknowledge the role which the industrial relations system may play in facilitating flexibility and efficient adjustment. The peculiar nature of the employment relationship ensures that industrial relations actors experience difficulties in defining and monitoring property rights as we have said workers are unlike vegetables. Viewed from this perspective, industrial relations institutions may reduce rather than increase the costs of exchange within the labour market (Barker and Chapman, 1989).

By the mid 1980s New Zealand's industrial relations institutions had become the focus of much attention with a variety of groups arguing that the existing legal framework of the labour market was hindering beneficial and flexible adjustment of the types just outlined. Pressure for change was developing.

3. Institutional Change and the Flexibility Debate in New Zealand

The historical framework of private sector industrial relations in New Zealand had been created by the Industrial Conciliation and Arbitration Act 1894. It was based on four features:

(i) Awards which provided minimum terms and conditions of employment.

(ii) Subsequent party clauses which extended blanket coverage of awards over specified industries or occupations.

(iii) Procedures designed to make membership of trade unions compulsory.

(iv) Compulsory arbitration to settle disputes of interest (Woods, 1963).

Within this system, wages and conditions of employment were determined at four different levels. First, statutory protections (such as minimum wage and holiday entitlements) gave a significant number of workers a minimum floor of employment protections (Brosnan and Rea, 1991). Second, negotiated awards and determinations of the Arbitration Court gave

specified groups of workers minimum wage and workplace rules. Approximately 60 percent of the country's workforce were covered by the award system. The majority of those not covered were white collar workers (Brosnan et *al.*, 1990). Third, 'second tier' bargaining provided enterprise specific settlements over and above award provisions. This second tier had limited coverage, with a 1986 survey reporting that just 6 percent of workers covered by the award system were the beneficiaries of a second tier settlement (Harbridge, 1986). Finally, at the level of the individual worker and their employer, individual contracts (implicit or explicit) determined specific wages and other terms and conditions of employment. At this level, the 'discretionary' payments of wages above award minimum was a pervasive phenomena. A 1986 New Zealand Employers Federation survey indicated that 79 percent of respondents paid all or some of their workers above award rates (Easton, 1987). More recent evidence indicates that above award payments were even more significant. In a survey of Southern employers by McAndrew and Hursthouse (1991), 85 percent of employers were found to pay above award rates to some, or all of their employees, some or all of the time. The economy wide result of this phenomena was significant. Over the period 1977 to 1985, actual paid wages moved 4.7 percent a year more than award wages (Economic Monitoring Group, 1986). Because many employers paid wages above the legal minima, the labour market showed considerably more variation than that generated by awards.

This structure of industrial relations began to change in 1984 after the election of the Labour Party as Government. The new government embarked on a remarkable period of promarket reform of the New Zealand economy. Labour embarked on a deregulation frenzy, guided by a powerful cadre of New Right bureaucrats within Treasury (Jesson, 1989). In their briefing papers to Labour, the Treasury foreshadowed its views on labour market reform. It argued that the pre1984 system of labour market regulation was 'rigid' and restricted employment opportunities (Treasury 1984, p. 235). These sentiments were echoed by the OECD which identified the labour market as the area in which there had been least reform (OECD, 1985).

Labour responded quickly and within weeks of being elected they had removed compulsory arbitration for unsettled interest disputes, and abandoned wage relativities as a point of reference for the Arbitration Court. In doing this they openly threatened the viability of the award system.

These changes did little to appease the politically important promarket lobby. Yet Labour was reluctant, however, to further deregulate the labour market and used the bureaucracy to stall the process of reform. In 1985 the

Department of Labour was commissioned to undertake a Green Paper/White Paper exercise. This ultimately led to the abolition of the Industrial Relations Act 1973 and the implementation of the Labour Relations Act in July 1987 (Department of Labour, 1985, 1986). The LRA was presented as a radical 'permissive' change because it would allow bargaining structures to change, if both employers and unions agreed (Herbert, 1989; Rodger, 1987). However in reality, the only significant reform was a provision that each worker be covered by just one set of negotiations. The effect of this rather restrictive provision was that most unions shied away from enterprise bargaining and moved to protect the status of their multi-employer awards (Harbridge and McCaw, 1992).

It soon became clear that despite these changes, promarket groups were unhappy with the system of private sector regulation. The most vociferous critics were the New Zealand Business Roundtable (NZBR). Representing the chief executives of most of New Zealand's large enterprises, NZBR undertook a concerted campaign to convince politicians and the electorate that further labour market reform was needed (NZBR, 1988). The statements of the NZBR, and other promarket groups, can be characterised as a distinctive set of propositions which we have called the 'inflexibility thesis'. The labour market was characterised as rigid across all the dimensions of flexibility. It was argued these inflexibilities were created by the centralised nature of collective bargaining. The result was purported to be unemployment, low pay, economic stagnation and the concentration of disadvantaged groups within the poorer segments of the labour market (Brook, 1990; Treasury, 1990).

Wage inflexibility was generally presented as the most serious problem. The aggregate level of wages was argued to be too high. Furthermore, it was argued that the lack of downward flexibility in wages resulted in unemployment in the orthodox classical sense (NZBR, 1987). Relative wages were argued to be too inflexible with the labour market being characterized as hopelessly ossified by relativities. The authoritative 'folklore' was that in each wage round 90 percent of settlements would fall within 1 percent of the movement of the core fitters rate of the Metal Trades Award (OECD, 1989; Kiely, 1988; Grills, 1988). It was also claimed that employers were restrained from developing innovative pay systems such as performance related pay (NZBR, 1987).

At the same time the regulation of employment relationships was argued to stand in the road of internal numerical flexibility. A number of these constraints were identified. They included award restrictions on both hours of work, as well as the engagement of part time and temporary workers (Brash quoted in PierceDurance, 1988; Clark, 1990; NZBR, 1988; Treasury, 1990).

Industrial relations institutions were also said to restrict functional flexibility. Workplace rules (such as job demarcation) inhibited productivity improvements and the full utilisation of worker skills (Department of Labour, 1990). According to the NZBR, workers and employers needed to be forced to talk to each other so that workplace relations could be based on consensus rather than conflict (NZBR, 1987). Industrial relations institutions were presented as creating barriers between workers and employers. Their removal would enhance consensus.

4. The Evidence of Flexibility in the New Zealand Labour Market

In the runup to the 1990 election, the National Party made labour market regulation a significant election issue, accepting the inflexibility thesis. It came as no surprise that following their rout of Labour, they moved quickly to further deregulate the labour market. In accepting the inflexibility thesis, it is unclear to what extent National reviewed the evidence. There were by 1990 a small but important number of studies which examined the actual extent of flexibility within the labour market. These, as well as a number of subsequent studies are reviewed here. The first group of studies focuses on the outcomes of collective bargaining and reports a longitudinal study of settlements registered with the Arbitration Commission. The study was undertaken by the first author, the methodological details of which are set out in detail elsewhere (Harbridge, 1988; Harbridge and McCaw, 1989). The second group of studies focuses on the aggregate flexibility of the labour market (Economic Monitoring Group, 1986; Rose 1990). The third group of studies focuses on flexibility at the level of the individual enterprise (Anderson et *al.*, 1992; McAndrew and Hursthouse, 1990, 1991; Savage, 1989).

Our presentation here deals with flexibility according to Brunhes taxonomy. Specifically, we consider wage flexibility; (downward flexibility, relative wage flexibility by industry, and inflexibility of payment systems); external numerical flexibility (the constraints on changing the level of employment and the flexibility with which part time and casual work could be arranged); internal numerical flexibility (working time arrangements); and finally functional flexibility (examining skill issues, the fall in apprenticeships, and demarcation).

5. The Evidence of Wage Flexibility: Downward Flexibility

The system of industrial relations stood accused of generating an aggregate level of wages that was downwardly inflexible. This was certainly true of nominal wages but as we will show, the proposition was less certain with respect to real wages. We leave to one side the contentious issue of whether lower real wages would have been of any benefit to the ailing New Zealand economy (Easton, 1990), and focus only on the actual change in wages. The data in Table 2 represents the average change in nominal wages over the six wage rounds from 1984/5 to 1989/90. Three measures of wage increment are presented. The first two, the annualized percentage increase in award and nonaward wage settlements, describe the changes which resulted from collective bargaining. Calculating the annualized wage increment accounts for a number of factors, such as whether the settlement was fully backdated to the expiry of the predecessor settlement; whether the term of the settlement was for other than 12 months; and whether the settlement was increased again during its life (Ansell, Brosnan and Harbridge, 1990). The third measure of wage increments in Table 2 is the percentage increase in the prevailing wage index (PWI). This measures the movement in the actual normal time weekly wages of workers who were covered by settlements registered with the Arbitration Commission (Department of Statistics, 1989). The difference between the wage increments measured by the PWI and those of awards and nonawards represent payments to workers over and above those of formal settlements.

To review the extent of downward wage flexibility, data on wage increases is compared against two measures of the aggregate price level. The first, the consumer price index (CPI), measures the increase in prices of consumption commodities. CPI movements partly reflect the introduction and change to the Goods and Services Tax (GST). The second measure of price levels, the producer price index (PPI), records the price of nonlabour inputs to firms. PPI is calculated on an exGST basis, thus providing a useful statistic that can be compared with wage movements which were not intended to incorporate GST as other changes were made to the tax and benefit system (Dickson, 1989). Compared against nominal wages, these indices give an indication of real wages based on two different concepts. Using the CPI as a deflator we examine the real wage income of workers. By way of contrast, the PPI as a deflator gives a measure of the real wage costs of firms (Easton, 1986). Because collective bargaining strategies were primarily based on catching up for past inflation, both price indices are given for the year preceding the wage round in which they are presented. This enables a direct comparison between the actual level of wage increment agreed with the inflation for which it was compensating.

The award and non-award settlements in Table 2 represent some 8090 percent of all awards, and about 6575 percent of all other nonaward settlements. Other settlements have been excluded where comparisons with the previous years settlement has not been possible such in the case of new settlements registered for the first time.

The data shows that over the period from 1984/85 to 1989/90, the wage increments in awards increased by 56.8 percent. This was lower than the 62.9 percent increase contained in nonaward settlements (i.e. agreements, composite agreements and composite awards). However, both award and non-award settlements were lower than those that were actually paid. The prevailing wage index, which measures actual payments, moved by 67.8 percent. This seems to accord with the evidence of the widespread use of 'discretionary payments' over and above the minimum stipulated within awards (Economic Monitoring Group, 1986). Furthermore the data indicates that these discretionary payments added a considerable degree of flexibility into the labour market. Bargaining round by bargaining round, the annual increase in actual paid wages (PWI) fluctuates above, between and below the movement in award and non-award increases in wages.

Table 2. Percentage wage increments: 1984/5 —1989/90

	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	Cumulative 1984/5 1989/90
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Award settlements	8.5	15.8	6.9	7.5	4.0	4.4	56.8
Nonaward settlements	9.4	17.2	7.8	8.0	4.3	4.6	62.9
Prevailing wage index	8.6	20.0	7.5	7.3	3.3	4.6	67.8
Consumer price index	7.0	16.3	11.0	17.0	5.6	7.2	82.9
Producers price index	8.3	15.7	4.1	8.6	5.0	7.6	62.9

Over the total period, award increases in pay were below both the movement in consumer prices as measured by the CPI, as well as the prices of inputs to firms as measured by the PPI. From this we conclude that the award system generated some degree of downward flexibility in real wages. At the same time, nonaward wages, and most importantly actual wages (PWI), increased less than the CPI. However they increased slightly more than the PPI. This indicates that while the award system generated a declining real wage, actual real wages were maintained at a higher level by payments over and above awards.

In real terms, wages in collective bargains negotiated under the LRA (after 1986/7) fell behind inflation as measured by both PPI and CPI. Further, the PWI movement in the same period fell behind both measures of inflation. Employers were able to use the LRA to achieve lower real wages.

Overall our findings demonstrate considerable downwards flexibility in the formal award system and the general system. Moreover, much of the wage increase within the period was the result of voluntary 'discretionary' payments by employers.

6. The Evidence of Wage Flexibility: Relative Wage Flexibilities

While wages can be demonstrated to have exhibited considerable downwards flexibility, particularly under the operation of the LRA, they were regularly accused of being relatively inflexible. To examine the degree of relative flexible we present four measures of dispersion of award and nonaward settlements in the period 1984/51989/90. Wage dispersion is presented by the *standard deviation, interquartile range, skewness,* and the *"Bradford" statistic.* Some of these require explanation.

The interquartile range is the range in which the middle 50 percent of settlements fall. It is useful measure of dispersion in that it excludes the difficulties of comparison which occur when the tail of the distribution of wage settlements is extreme. Skewness is a useful measure of the shape of the distribution of settlements. A distribution is skewed if the wage settlements bunch to one side of the mean wage settlement extending a long tail to the other side. If the tail extends to the right, the distribution is said to be positively skewed negatively if the tail extends to the left.

The *"Bradford" statistic* is the percentage of settlements that fell within 1 percent either way of the percentage increment agreed in the NZ Metal Trades Award negotiations. This statistic is named after the former Director of Advocacy at the NZ Employers Federation, Max Bradford, who as a National Member of Parliament chaired the Parliamentary Select Committee that produced the employment contracts legislation. Bradford persistently claimed in the early 1980s that 90 percent of settlements fell within this band (for example, see Bradford 1982; 1983). The "1 percent either way" measure caught on (viz the OECD, Kiely etc) and it was felt appropriate to credit him for developing this measure of dispersion. These measures of dispersion of award and nonaward settlements are presented in Table 3.

Table 3. Dispersion of wage increments: 1984/5 —1989/90

	1984/5	1985/6	1986/7	1987/8	1988/9	1989/9
Awards						
Award settlements (N)	260	233	274	223	206	258
Standard deviation (%)	1.9	2.7	1.1	2.0	0.9	1.7
Semi inter-quartile range (%)	7.7–8.5	15.3–15.9	6.0 –7.4	7.0 –8.0	3.8 –4.1	3.9 –4.5
'Bradford' statistic (%)	84.2	74.4	89.0	69.1	89.3	79.1
Skewness (%)	6.3	3.0	3.7	2.9	0.5	4.5
Nonawards						
Nonawards settlements (N)	7	144	283	257	274	485
Standard deviation (%)	NA	5.3	2.8	3.7	1.4	2.4
Semi inter-quartile range (%)	NA	15.4 –17.4	6.9 –8.0	6.9 –8.2	3.9 –4.6	3.9 –4.9
'Bradford' statistic (%)	NA	53.5	68.2	60.6	81.8	78.1
Skewness (N)	NA	1.9	5.5	4.3	2..4	5.8

There are three important features of the data. First, there is greater dispersion of wage increases in nonaward settlements than in awards. In successive wage rounds the standard deviations are smaller for awards (with the exception of the 1986/7 wage round); the interquartile ranges are greater for nonaward settlements; and the Bradford statistic is smaller for nonaward settlements. Second, the dispersion was greater in those wage rounds where a comparatively larger wage increase applied. This occurred at times when inflation was also relatively high, suggesting that when there is high inflation the greatest flexibility and opportunity for adjustment occurs. In the 1985/6 bargaining round, for example, there was a bunching of settlements around the mean wage settlement, but an important number of settlements dispersed well away from the mean as is shown by a Bradford statistic (for awards) of 74.4 percent. Third the distribution of both award and nonaward settlements is always positively skewed, indicating considerable flexibility in the upper range of settlements. The three measures of flexibility presented demonstrate an important level of relative flexibility and in the case of the Bradford statistic, considerably more flexibility than Bradford and his successors were arguing was the case.

7. The Evidence of Wage Flexibility: Industry Flexibility

Those arguing the the New Zealand labour market was inflexible often asserted that the changes in wages were hopelessly restricted by relativities. Alleged rigidities were claimed to act as disincentives for workers to move to more profitable industries. All settlements registered with the Arbitration

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Commission between the 1984/5 and 1989/90 bargaining rounds were classified by industry at the 2 digit level (Harbridge and McCaw, 1990). Within each bargaining round there were no statistically significant differences between the mean levels of wage increase recorded. The accumulative wage increment in settlements, subindustry by subindustry, along with the PWI for the same period is presented in Table 4. The data shows a range of mean settlement ranging from 43.4 percent in agriculture to 61.8 percent in the personal and community services subindustry grouping, however overall, with the exception of the agriculture and forestry and logging groupings, there is little variation between the levels of settlements taken across subindustries. With just five exceptions, food and beverage manufacturing, chemical, petroleum and plastics manufacturing, "other" manufacturing, trade, restaurant and hotels and personal and community services, the mean award and nonaward settlement fell below the rate of increase for the PWI, indicating an important level of over-award payments in most industries. Multiindustry settlements (generally occupationally based awards) increased at a slower rate than all but three groups of sub-industry settlements indicating the price paid for the continuance of occupationally rather than industry based bargaining. The data presented in Table 4 indicates that while wage settlements were generally uniform across industries, employers were using above-award payments, and thus exhibiting upwards flexibility, where they chose to.

These conclusions concur with those in an earlier study (Economic Monitoring Group, 1986, pp. 40-43). Using a different measure of change in award wages, the Economic Monitoring Group reported that over the period 1977-1985, actual wages paid in each industry exceeded the award rate by an average of 4.7 percent. While there was marked variation between industries, this level of over-award payment was relatively stable from year to year.

The same study provided further evidence of the extent of wage flexibility by industry. Labour market flexibility within New Zealand was compared with other OECD countries. One method of comparison was the degree of dispersion in average earning between industries. Against this measure it was found that New Zealand developed from one of the worst performers in 1975, to one that was 'above or about the level of most OECD countries' in 1985 (*ibid*, p. 12). Another method of comparison was to rank industries by the level of wage increments. The degree of flexibility was determined by examining the variability of industry rankings. Using this measure New Zealand outperformed virtually all other OECD countries. The Economic Monitoring Groups conclusion from these, and other less robust measures, was that the New Zealand labour market was not particularly rigid in comparison with other developed countries (*ibid*, p. 24).

Table 4. Percentage wage increments by industry: 19841990

Industry Groupings	Award and non award settlements (percentage increase)	Prevailing Weekly Wage Index (percentage increase)
Agriculture	43.4	53.8
Fishing & Hunting	NA	64.2
Forestry & Logging	51.8	62.4
Mining & Quarrying	58.1	63.5
Food, Beverages & Tobacco Manufacturing	61.1	49.3
Wearing Apparel & Leather Manufacturing	57.8	64.4
Wood & Wood Products Manufacturing	NA	58.8
Paper, Printing & Publishing	60.5	61.5
Chemical, Petroleum & Plastics Manufacture	61.4	60.1
NonMetallic Mineral Products Manufacture	61.6	68.8
Basic Metals Manufacture	61.1	61.8
Machinery and Metal Products Manufacture	62.2	64.2
Other Manufacturing	54.2	49.8
Electricity, Gas & Water	64.3	71.7
Construction	56.5	68.3
Trade, Restaurants & Hotels	57.9	54.6
Transport & Storage	60.9	61.2
Communication	NA	70.9
Insurance, Finance & Real Estate	57.5	68.8
Personal & CommunityServices	61.8	59.7
Multi Industry settlements	55.6	NA

Notes: September quarters

Source: Department of Statistics (1992) *Infos*

We have already indicated that negotiated collective wage settlements exhibited downwards flexibility, falling behind inflation as measured by CPI and PPI particularly since 1987. The data on the flexibility of formal settlements by industry should be interpreted in that context. The flexibility of award and nonaward by industry was clearly limited yet the trend was one of improvement. However as with downwards flexibility, discretionary payments above award minima gave additional flexibility across industries.

8. The Evidence of Wage Flexibility: Rewards for Productivity

It was frequently argued that many employers were hindered in their ability to reward workers according to productivity. Evidence of the actual manner in which employees were paid was presented by Anderson *et al.* (1992). In a nationwide survey just prior to the introduction of the Employment Contracts Act, it was found that firms employed a variety of 'payment systems' to reward staff. The authors reported that significantly more firms used a payment system based on incentives (performance related, bonuses, profit related, share ownership and skill based) than used the traditional norm of pay based on length of service. Indeed it was indicated that pay based on performance was used in approximately the same proportion as pay based on length of service. The survey also indicated considerable change in the type of payment system used. Since 1985 there was a clear trend towards incentive based payment systems.

It is not surprising that firms were relatively unconstrained in developing innovative payment systems. For workers not covered by awards, employers were not restricted at all. Many of this group, for example real estate agents, were paid according to 'performance'. Furthermore, for workers covered by awards, employers were only constrained by minimum pay rates. There was no legal constraint on payments above these rates and the development of payment systems which rewarded productivity.

9. The Evidence of External Numerical Flexibility: Changing Employment

With wage flexibility being the focus of the flexibility debate, there was relatively little discussion regarding the speed and magnitude of actual employment changes within enterprises and between different industries. This neglect is rather surprising given that evidence of wage stickiness and the importance of mobility in generating flexibility (Blandy and Richardson, 1982).

Treasury (1984) had gone on record to claim that there was very little change in the numbers of workers employed in each industrial sector of the economy in the period 1975 to 1982. This claim was not however supported by others. Rose (1990) used 1981 and 1986 census data on male full time wage and salary earners and found a significant variability in the number of workers employed between industries and occupations. Rose argued that quantity rather than wage changes were the predominant form of adjustment.

Interestingly, this accords with survey evidence of the preferred adjustment strategies of firms. Savage (1989) found that when experiencing a decline in demand for their products, employers often preferred to reduce the numbers of workers (through attrition, requiring staff to take leave and layoffs etc), rather than cutting wages. Savage argued that reducing wage and wage like conditions were not used as it was likely to create friction within the workforce.

The collective bargaining system did not present unreasonable obstacles to employers reducing the actual numbers of staff employed. Workers were able to activate personal grievance procedures through their award coverage until 1987 and by eligibility for union membership under the LRA. These procedures required an employer to have a good reason for dismissing staff, but genuine redundancy was accepted as such a reason (Hughes, 1991, p. 2256). Redundancy compensation may well have been negotiated and payable but whether this constituted a significant barrier to redundancy is debatable. In the 12 months before its abolition in August 1991, the Commission registered some 223 private sector redundancy settlements under Section 184 of the LRA (Harbridge, 1992). It is not known what percentage of redundant workers received compensation but the comparatively small number of redundancy settlements registered suggests that the percentage was not high. Collective bargaining outcomes had only limited impact on the employers ability to reduce staff.

Table 5. Changes in employment by industry: 1985–1990

	Employment 1990	Percentage increase in employment 1985-1990(a)
Agriculture, hunting, forestry and fishing	153.9	-15.1
Mining and Quarrying	4.4	-20.0
Manufacturing	245.4	-23.1
Electricity, Gas and Water	14.2	-10.1
Building and Construction	92.0	-14.4
Wholesale and Retail etc.	305.5	-2.5
Transport and Storage and Communications	91.9	-12.8
Finance, Insurance, Real Estate etc.	144.2	+17.0
Community, Social and Personal Services	406.6	+4.6
Total employment	1464.1	6.7

Notes: (a) December 1985 to September 1990

Source: Department of Statistics (1992) *Infos*

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Over the period 1985-1990, there were large changes in the numbers employed within each industry. The data is presented in Table 5. Employment within each industry grouping either declined, or in two cases, actually increased and overall the total number of people employed in the economy declined by 6.7 percent. The data suggests considerable levels of mobility by workers between industries, indicating an important level of external numerical flexibility.

10. The Evidence of External Numerical Flexibility: Part Time and Casual Work

The LRA was silent but generally permissive regarding the engagement of part time and casual workers. However there had been considerable controversy surrounding the increasingly frequent use of fixed term contracts. In 1989 the Labour Court ruled that fixed term contracts were allowable unless expressly prohibited by an award or collective agreement, providing the employer has a genuine reason for requiring the fixed term appointment at the time of engagement.[1]

In reviewing the extent of flexibility for employers to engage part time or casual employees, the relevant provisions in all awards and composite awards registered in the 1989/90 bargaining round were analysed. First, provisions relating to casual work. Typical of award provisions relating to casual workers was a provision that stated: "A worker engaged for less than one week at any one engagement shall be termed a casual, and such a worker shall be paid prorata the appropriate scale plus 20 percent". Of the 298 awards and composite awards registered in the 1989/90 wage round, 148 (50 percent) contained a clause providing for the employment of casual workers. Of these, 95 settlements gave a premium to workers engaged as casual employees, the value of which varied between 10 percent and 20 percent. Various other restrictions were placed on the engagement of casual employees, the most common being: mandatory setting of a minimum daily payment (62 settlements); provisions that disallowed casual employees from reducing hours or earnings (29 settlements); and provisions stipulating a set hourly rate for casual workers (23 settlements). The maximum length of engagement was stipulated in 128 settlements, with 75 settlements setting the maximum engagement of a casual worker at less than one week.

Second, provisions relating to part time workers. Typical of the provisions that related to part time workers was a provision that stated: "Where the employer does not regularly require the services of a worker for the full period of 40 hours per week, he shall pay such workers not less than prorata

the appropriate scale plus 10 percent. Where a worker is unable to accept full time employment, the employer shall pay prorata the appropriate salary scale". Of the 298 documents, 188 (63 percent) contained a clause specifically allowing the engagement of part time workers. Of these, 89 settlements provided for a premium (nearly always 10 percent) to be paid to any part time worker who had sought a full time engagement but where the employer was unable to make such an offer. In practice the premium was rarely paid, as employers requiring part time employees were shrewd enough to engage workers who are only available for part time work. There were 134 settlements that contained restrictions on the engagement of part time employees. These included: disallowing of the reduction of earnings and hours for any existing employee (93 settlements); the provision of a minimum period of payment at each engagement (21 settlements); a requirement for union agreement to the engagement of part time employees (20 settlements); and in 11 settlements a stipulation of a part time to full time employment ratio.

During the 1988/9 and 1989/90 wage rounds, 43 awards or composite awards experienced major changes to provisions relating to casual and part time workers. These settlements covered an estimated 195 thousand workers approximately 40 percent of all New Zealand workers covered by the award system. Significantly, most of the changes indicated more flexible employment options for employers, allowing for lower employment costs. The industries and occupations affected the most are those which typify secondary labour markets: clerical workers, retail workers, domestic workers, hotel and restaurant workers. Changes to these provisions in the New Zealand Clerical Workers Award (which covered approximately 25 thousand workers) occurred in both the 1988/89 and 1989/90 bargaining rounds. Changes which enhanced employer prerogative in this area also flowed into other clerical awards, affecting a further 3 thousand workers. In the 1989/90 round, the New Zealand Tearooms and Restaurant Award, which covered 21 thousand workers, had the definition of, and reference to, casual workers replaced by a 'casualized' parttime clause. In the retail sector, the New Zealand Retail (NonFood) Employees Award (coverage of 19 thousand) reduced the minimum daily payment from six hours to three, and deleted provisions restricting late night employment.

Generally, there was a trend in the bargaining rounds from 19871990 to remove some of the restrictions on engaging part time workers. This was reflected in the aggregate employment statistics. From 1986 to 1990 there was a sustained growth in the part time work. While total employment declined, the numbers of male part time workers increased by 30.2 percent, and the numbers of female part time workers increased by 10 percent (Department of Statistics, 1992).

There was less progress in the reduction of restrictive practices regarding the engagement of casual workers especially the short period of time for which a casual worker could be engaged. The Labour Court had, however, been helpful in that matter, and the reality for the workplace was that employers could engage for short and fixed term periods. Empirical evidence on the extent of causal employment is limited, but points to the practice being reasonably widespread. Anderson *et al.* (1992) provide survey evidence that 10% of the workforce in the average firm were casual workers. Ryan (forthcoming) provides survey evidence that 68% of Northern employers had employed temporary workers. Thus although the award system presented some restrictions on part time and casual work, these were declining. Furthermore, the actual empirical evidence suggested that there was a growing degree of external numerical flexibility.

11. The Evidence of Internal Numerical Flexibility: Working Time Arrangements

Prior to 1987, the patterns were that most awards and agreements provided for 40 ordinary working hours to be worked between 8am to 6pm Monday to Friday, with provision for overtime to be worked and recompensed. In some industries and occupations, where the employer regularly required work to be undertaken outside the clock hours, shift clauses allowed the employment of workers without the payment of overtime. These patterns were, however, changing.

The LRA prescribed that every award or agreement shall fix "at not more than 40" the maximum number of hours (exclusive of overtime) that can be worked by any worker. The Act also stated that where the maximum number of hours per week was less than 40, the parties or the Arbitration Commission should endeavour to fix the daily working hours so that no part of the working period fell on a Saturday or a Sunday. The Act provided for hours of work to be greater than 40 where either the parties agreed or where the Commission, in resolving a dispute, determines that work covered by the document could not be efficiently carried out if the working hours were limited to less than 40. Thus the Act intended, *but did not explicitly provide for,* the 40 hour week to be worked over 5 days excluding Saturday and Sunday. To this extent, the Act was permissive of considerable variation in working time arrangements.

The New Zealand Employers Federation had reported that little change was being effected, stating that just 21 awards changed hours of work, overtime or shift provisions in the 1987/8 bargaining round and that 59

awards contained changes to these provisions in the 1988/9 bargaining round (Clark, 1990). However, they dramatically underestimated the level of change occurring. Detailed analysis shows that in the 1987/8 bargaining round there were 42 (not 21) registered awards containing working time arrangement changes and 83 (not 59) in the 1988/9 bargaining round.

Our data indicates that the growing employer demands for more flexible working time arrangements were being met. This claim is supported by the fact that whereas in the 1986/87 bargaining round the last under the Industrial Relations Act 1973 just eight percent of all settlements contained a change to at least one of the working time arrangement clauses (Harbridge, 1988), the next three bargaining rounds saw over 30 percent of settlements, *in each round,* contain such a change (Harbridge and McCaw, 1989). Some comments about the nature and extent of those changes is appropriate.

Harbridge and Dreaver (1989) examined in considerable detail the changes made in the 1987/8 round, the most important findings of that study can be summarised as follows. First, changes to one aspect of a settlement's working time arrangements were often accompanied by changes to other aspects, indicating that in some settlements there was an overall review of the working time arrangements and that there had been some coordination of the changes sought and agreed. Second, the overall pattern of the changes introduced was towards *more* rather than less flexible working time arrangements with 80 percent of the changes introduced allowing greater employer flexibility. Third, no particular industry, occupational group, nor union appears to have been any more likely to produce a changed working time arrangement in their 1987/88 settlement than any other. However, agreements (generally single employer single union settlements covering just one workplace) *were* statistically significantly more likely to have a changed working time arrangement than were other types of settlements, such as awards (Chisquare = 21.2 df = 3 $p>0.00001$).

Working time flexibility was negotiated into the important national awards. For example, the Metal Trades Award, which covered some 23 thousand workers, contained an *enabling* provision that stated "The start and finish times may be altered by agreement between the employer and the worker(s) concerned. The agreement shall be set out in writing and shall be forwarded for confirmation to the union's district secretary before the agreement operates". Similar, flexible arrangements were being negotiated into other awards, and some unions adopted a strategy of leaving in place a basic award code to cover most workers, whilst allowing employers, unions, and workers to negotiate working time arrangements suitable to the contingencies of individual businesses. These findings indicate that changes to working time arrangements were being made within the structures of the collective bargaining institutions.

12. The Evidence of Functional Flexibility: Job Demarcation, Skill Issues and Managerial Competence

The labour market was often asserted to be inflexible across the 'functional' dimension. The formal system of collective bargaining was frequently accused of constraining the ability of employers to organise their workforces' in the most productive manner. In a relatively small number of high profile industries (for example the meat industry and shipping) settlements included clauses which formalised job demarcation between different occupational categories or restricted the introduction of new technology. While these issues were of obvious concern to employers within these particular industries it seems that the average employer did not face these problems (McAndrew and Hursthouse, 1991; Savage, 1989).

Industrial relations institutions were also argued to present barriers to productive relationships within the firm. The centralized nature of collective bargaining was argued to not only impose settlements upon workers and employers, but also to generate conflict rather than consensus. This view did not seem to accord with the survey evidence of the views of employers. McAndrew and Hursthouse (1990) provide evidence that by taking the conflict of collective bargaining out of the workplace, the centralized industrial relations institutions actually promoted harmonious workplace relations.

In contrast to the heated political debate about the restrictions of the award system, little mention was made of the link between the managerial abilities of firms and functional flexibility. Enderwick (1990) argued that many New Zealand firms lacked an adequate 'human resource management' competence, and this was therefore a constraint on the development of profitable and flexible firms.

Training and skills was a further component of functional flexibility which received inadequate attention. A number of surveys of employers reported that the inability to recruit skilled labour was a major constraint on productivity gains (Baird *et al.*, 1990; Cambell, 1989; Savage, 1989). The actual volume of formal workplace training declined markedly, with the numbers being employed in formal apprenticeships each year declining by 15 percent from 1984 to 1990 (Education, Training and Support Agency figures as at 1991). Participation in formal education and training, while increasing because of high unemployment rates, was also remarkably low in comparison to other OECD countries (Crocombe *et al.*, 1991). The evidence suggests that a low skilled workforce was perhaps a serious constraint on the productive organization of enterprises.

There was therefore little evidence to support the contention that it was industrial relations institutions which were constraining the functional

flexibility of the New Zealand labour market we surmise that the causes of this phenomena lay elsewhere.

13. Conclusion

Public policy on New Zealand's labour market insitutions has been driven by the assumption that there was insufficient flexibility in the labour market, and the employment contracts legislation has developed from that assumption. Yet, from 1984 to 1990, as we have shown, the New Zealand labour market exhibited a reasonable degree of flexibility. The formal system of collective bargaining generated outcomes that were more flexible than were popularly portrayed. At the same time, the degree of observed flexibility was clearly growing, especially after the implementation of the LRA. Furthermore, the formal system of collective bargaining generated settlements which were permissive of greater flexibility at the level of the individual enterprise. The labour market as a whole exhibited more flexibility than was apparent from changes within award and nonaward settlements. Our conclusions are supported by earlier researchers investigating the empirical evidence of flexibility within the labour market. For example, the Economic Monitoring Group had argued that 'a comparison of New Zealand with OECD countries suggests that the degree of inflexibility in New Zealand is not out of line with the OECD experience' (Economic Monitoring Group, 1986, p. 1).

Notwithstanding our judgement that the labour market exhibited a reasonable degree of flexibility we express two caveats on that judgement. First, there is no 'yardstick' to determine the optimal degree of labour market flexibility. Labour markets by their nature adjust slowly, and there is little agreement upon what sort of 'half life' adjustment should have (Blandy and Richardson, 1982). Furthermore there is little agreement about which dimension of flexibility should predominate. Comparative studies indicate that each country emphasizes different dimensions of flexibility (Brunhes *et al.*, 1989). Second, the degree of flexibility inherent in the labour market is still a matter of judgement because of difficulties of data interpretation. To compare the level of flexibility which labour market institutions allow between different time periods, it is necessary for the intensity of sometimes unobservable external shocks (such as technology changes) to the labour market to be constant. Otherwise different levels of flexibility may simply reflect different levels of pressure on the labour market, rather than an easing of institutional constraints.

We acknowledge that it is possible to interpret the evidence differently those interpretations will however be subtle and will have little impact on

our primary finding that there was a reasonable degree of flexibility in the labour market. An empirical analysis of New Zealand's labour market leads to that conclusion yet empirical evidence was discarded by those responsible for New Zealand's employment contracts legislation. The National Party, the New Zealand Employers Federation, the NZBR and the policy advisers within Treasury held an ideological view that the labour market needed to become more flexible. Accordingly significant labour market reform was viewed as the only alternative. This is not the place to discuss those reforms as they are well discussed elsewhere (Boxall, 1991; New Zealand Journal of Industrial Relations, 1991) but suffice to say that the resulting legislation, the Employment Contracts Act 1991 (ECA), abolished labour relations institutions (the Registrar of Unions and the Arbitration Commission), removed all mechanisms to extend collective bargains to employers and workers not specifically party to them, and introduced a system of competitive individualised contracting which has been referred to as an employer's charter (Anderson, 1991).

If the ECA was implemented to aid flexibility in the labour market then we hold some very serious reservations regarding the legislation's ability to produce a balanced and flexible labour market. Embodied in the ECA is an implicit view that achieving reduced real wages was a form of sustainable flexibility in the labour market a flexibility that would create employment. However there is no certainty that the lowering of wages does create employment, for two reasons. First, if unemployment was created by inadequate demand rather than wages being too high, reducing real wages may actually increase unemployment. Second, allowing defensive wage cutting may simply allow firms to compete by cutting wages, rather than investing in new technology and capital (Boyer, 1987).

A further difficulty with the ECA is that it emphasises some types of flexibility at the expense of others. The new legislation allows, and indeed promotes, greater casualisation of employment. A number of writers have argued that this may inhibit functional flexibility. With a decline in long term stable relationships, both employers and workers may be increasingly reluctant to invest in on-the-job training leading to a reduction in functional flexibility (Brunhes, 1989; Haines, 1990).

The evidence we have presented in this paper demonstrates that the industrial relations institutions were delivering an incremental degree of flexibility in collective bargaining outcomes. The ECA has removed those institutions and encourages the decollectivisation of industrial relations. In doing so, the ECA has allowed a greater degree of increment to be introduced to flexibility in workplace arrangements. It has however removed many of the safeguards that ensured that equity was a consideration in

determining working arrangements. The monitoring of the effects of the new legislation on flexibility and on equity and the distribution of income within the labour market, should be a high priority for labour market researchers.

Note

1. Wellington Labour Court 98/89 New Zealand Food Processing Chemical and Related Products and Allied Workers Factory Employees' Union v ICI (New Zealand) Ltd.

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