

# SYMPOSIUM: THE NEW ZEALAND LABOUR MARKET

## Introduction: the pursuit of full employment; macro economic perspectives

*The papers in this symposium are derived from papers presented to the most recent of 2 conferences on labour, employment and work organised by Peter Brosnan and Phillip Morrison of Victoria University. Their very considerable effort and initiative brought together a wide range of persons active in research into aspects of employment and unemployment in New Zealand. At the second conference, in September 1985, papers were presented on topics ranging from analysis of demographic trends, through detailed analyses of employment generation at the enterprise level to policy analysis and consideration of the social and personal consequences of unemployment. The conference provided an opportunity for researchers to learn something of what is going on in other disciplines beside their own. In this symposium we are pleased to be able to make 5 of the conference papers available to a wider audience.*

Despite the battering of recent years employment retains its place as one of the declared objectives of economic policy. Viewed against this test, macro economic policies have clearly failed over the last decade, in New Zealand as in most OECD countries. This failure of policy must stem either from analytic failure or lack of will. Although the experience of recent years has forced politicians and the public to lower their short-term aspirations there is no reason to doubt that commitment to the full employment objective remains high. The more important explanation is analytic failure. The economics profession has not been able to generate widely accepted explanations either of what went wrong or of what needs to be done to correct it. As Malinvaud (1984, p 113) states:

The conclusion then is clear. Economics as a science has failed at this moment in history to convey to the general public a useful message on what ought to have been done in order to contain unemployment.

This paper reviews the employment problem from a New Zealand perspective. It looks first at the plausibility of explanations of unemployment based upon demographic trends or changes in behaviour and touches briefly on the issue of short-term economic management. It then addresses the issues which arise around the processes of structural change. In the sphere of production these raise major questions about the respective roles of markets and planning mechanisms which in turn impact upon the medium term demand for labour. In the labour market similar tensions arise around institutional and collective responses. Finally, there is the question of assistance to the unemployed.

### Demography and behaviour

The 1970s and early 1980s have been periods of major social and demographic change. The flow into the workforce of young people born in the high birth decades of the 1950s and 1960s, the movement into the paid workforce of an increased proportion of women, and an increase in part-time working are each sometimes appealed to as factors explaining the recent growth in unemployment. Even allowing that explanations from one side of the scissors of supply and demand cannot provide a full explanation of imbalance in the labour market, the size of recent shifts in demographic variables is sufficient to require some comment.

To place recent developments in perspective it is necessary to recall the prolonged post-war period of high growth. Between the 1951 and 1976 censuses New Zealand's population aged 15 or greater increased at an average compound rate of 1.9 percent per annum. Over the

same 25 year period the annual average growth rate in the full-time labour force was 2.2 percent. The change post 1976 was dramatic but the major variation reflects a pronounced swing in migration. During the 5 years to 1976 there was a net inflow of 72 700 persons aged 15 and over. In the 5 years after 1976 this changes to a net outflow of 71 700. This reversal accounts for almost all the change in intercensal increases in population aged 16 and over, from 248 000 in the period from 1971 to 1976 to only 95 000 in the period from 1976 to 1981. The underlying pattern of natural increase seems to have been fairly uniform and if anything tended to slow in the latter part of the decade. Developments since 1981 confirm this general picture. A net inflow of 14 000 persons aged 15 and over in the 4 years to 1985 as a whole has been associated with an average annual increase in population of 1.6 percent.

Taken as a whole the figures show a continuing strong net addition to New Zealand's adult population as a result of natural increase. This annual contribution has however been tending to fall slightly and this seems sufficient to discount any suggestion that our employment problems stem from any kind of a demographic surge. Instead radical changes in migration flows have significantly reduced the annual rate of increase in population of working age.

Changing patterns of participation may similarly be discounted as a major source of change in the total supply of labour. Although the period between the 1971 and 1981 censuses saw marked changes in participation rates the combined effect was small. A marked rise in the labour force participation rate for females aged 15-64 (from 38.9 to 45.8 percent) was almost fully offset by a reduction in the equivalent male participation rate (from 88.5 to 86.2 percent) and a dramatic drop in that for persons aged 65 years and over (from 11.1 to 5.8 percent). Over the decade as a whole the number of persons actively engaged or seeking work rose by some 214 000. The increase in participation rates accounting for some 17 000 of that increase.

Two of the papers included in this symposium discuss participation rates in more detail. Philippa Revell and Peter Brosnan provide a century long, age-specific, perspective on changes in male and female participation rates. For some age groups long and stable trends are evident. Others evidence sharper change, and caution against over-simple demographic extrapolation. Clearly the slight overall net impact of changes in participation rates during the 1971-81 period should not be interpreted as necessarily foreshadowing a similar impact in the period ahead. In particular, the Revell and Brosnan, and Rochford, papers give grounds for thinking that the decline in labour force participation occasioned by retirement is unlikely to be as pronounced in the 1980s as it was in the 1970s.

Increased part-time working has arguably had a greater impact on aggregate employment trends than changes in participation rates. The number of persons working less than 20 hours per week doubled from 56 500 in 1971 to 115 100 in 1981. The intercensal rate of growth in those working less than 30 hours was a little less rapid (109 800 in 1971 to 194 800 in 1981) and on the evidence of the quarterly employment survey has fallen back somewhat to less than 4 percent per annum in the period from 1981 to 1985. This continued growth in part-time working through periods of economic expansion and contraction means that growth in total employment will have been more rapid than suggested by the official labour force estimates. This effect could, for example, be sufficient to lift the decade-long rate of increase in labour force from 1.7 to 1.9 percent per annum as compared with our earlier noted post-war growth rate of 2.2 percent per annum.

Taken as a whole these various demographic influences were consistent with a slackening in the rate of increase in the labour force. Demographic influences do not seem to offer a primary explanation of the emergence of unemployment in New Zealand. Two points do however deserve emphasis. First, along with a number of other countries (including notably Australia, Canada and the United States), New Zealand had, for whatever reason, succeeded during the 1950s and 1960s in providing jobs for a steadily and quite rapidly expanding population. It is clear that any stalling in the process of job creation would leave the labour market exposed to the overhang of an expanding number of people seeking work. Second it is worth logging the implication of current labour force projections which suggest significant falls in the rate of labour force growth in the period from 1990 on.

Finally on the question of supply side influences a brief reference to search theory is appropriate. Search theory relates to the labour market behaviour of members of the workforce and notes that changes in the unemployment rate may arise from changes in the proportion of workers voluntarily quitting their jobs in search of better ones and changes in the average length of time spent looking for a new one. Are such changes likely to have played a significant part in explaining recent trends in unemployment.

The New Zealand evidence has been extensively explored in a series of recent papers by

John Hicks and Fong Mee Chin at Massey University (1984a, 1984b). Generally their research finds little to support the view that our unemployment stems from changes in search behaviour. Of particular interest is their finding that New Zealand data does not provide evidence (indeed it suggests the reverse) of the positive relationship between rate of unemployment benefit, length of search time and therefore rate of unemployment found in a number of US studies. Hicks and Fong suggest (1984a, p 29), that the apparently perverse New Zealand relationship probably stems from the contrast between insurance and welfare-based benefits and from the relatively lower level of New Zealand benefits. Even where the relationship is positive the likely aggregate effect is slight when viewed in relation to the changes which have occurred in total unemployment.

Search theory does deliver some interesting insights into the range of labour market behaviour but provides a quite implausible explanation for changes of the scale recently experienced in New Zealand.

### Short-term demand management

Although the major focus on this paper is on medium-term issues a few comments are necessary on short-term contra-cyclical demand management.

It remains true that the government usually has the power to engineer a short term expansion or contraction of economic activity including employment. The problems in macro management arise around selecting appropriate target variables (i.e. an appropriate set of objectives), in determining sustainable growth paths for them, and in selecting appropriate policy instruments. Changes in policy settings designed to impact favourably upon one objective, such as employment, are usually easily managed but are likely, depending on circumstances, to impact unfavourably upon others such as price stability or the balance of payments. Macro policy success cannot be assessed in terms of one objective alone.

Second, the experience of the past decade provides a reminder that in the short-run a large part of New Zealand's economic course is determined by trends in the world economy. Policy makers can attempt to stabilise the New Zealand economy against essentially short-term fluctuations but cannot expect to iron out the effect of shifts as massive as the now seemingly permanent downward shift in New Zealand's terms of trade in the mid-1970s.

Third, the generally successful stabilisation policies of the 1950s and 1960s depended not only on an essentially stable and exponentially expanding world economy but also upon a wide framework of policies (including import protection and wage and income fixing procedures) which were essentially time bound or limited. The merits or demerits of protective structures necessarily change through time (as for example is implicit in the infant industry argument which presumes that industries will grow to a point where they no longer require protection). New Zealand's post-war income determination procedures depended both upon the war-time pressures which had helped forge them and the institutional structure of the economy at that time. Those patterns have changed radically in the ensuing years and the nation is now with difficulty establishing a new policy framework. The important inference here is that short-term macro management necessarily occurs within some, hopefully complementary, framework of medium term policies. At the moment those medium term policies are under review.

### Medium-term management

Controversial questions arise with respect to the medium term management of both product and labour markets. In the product market, issues arise around the respective roles of market and planning mechanisms in promoting growth in output and employment. The issues in the labour market revolve around the processes of labour market adjustment (and their linkages with adjustments in the commodity markets); about the respective roles of prices and quantity adjustments; and about the institutional and legal framework within which these occur.

The medium term issues affecting the product and labour markets are intimately connected.

### The product markets

Recent initiatives in the reform of industry assistance, including import licensing and tariff policies and sector specific budgetary assistance, have as their common objective movement to a lower and more uniform pattern of assistance to all sectors. This move enjoys widespread professional and bi-partisan support and is fuelled by the perception that the high and uneven pattern of assistance inherited from past policies so distorts the price signals faced by investors in real productive assets as to be inimical to efficient investment and production. Uneven assistance encourages investment into less productive areas. In addition the granting of assistance to any one industry inevitably imposes costs on other producers, either because they are forced to purchase higher priced products from protected producers and/or because they are forced to help fund that assistance through the tax system.

Accepting this general line of reasoning it is necessary to note that many of the interventions made sense in their historical perspective, and that it would be a mistake to conclude that past failures in sectoral policy mean that we should eschew sectoral policy altogether. Despite many particular failures, the broad lines of policy by which New Zealand first encouraged the development of a domestic manufacturing sector aimed primarily at import substitution and then encouraged that sector to sell a significant proportion of its output to the international market can be judged a success, as was the accompanying product and market diversification of the agricultural sector. This is not the place to argue these judgements in detail. They would be challenged by some.

The more important arguments relate to future policy, an area which I have explored in some detail elsewhere. Accepting the broad outline of current policy, I outlined (Rose, 1985, p 61) in that paper an ideal public policy hierarchy within which government:

- (a) does not intervene in markets which can be expected to perform effectively;
- (b) gives priority to economy-wide, macro, rather than sector specific policies;
- (c) stands prepared to act sectorally only if, but whenever, positive net national benefits can be secured. Such actions including both state activity (in education, research and public enterprise) and interventions in the private (or more broadly the market) sector;
- (d) in cases where a need for market intervention has been established acts in ways which minimise price distortions.

I then went on to argue the case for planning in an inter- or supra- organisational sense. This suggests that there is an ongoing need for public action aimed at:

- (a) improving the collective information base for autonomous decision makers;
- (b) articulating the linkages between development objectives and policy options; and
- (c) assisting in the formation of policies in areas which require elements of common purpose.

These are necessary functions in any modern high income economy regardless of its form of social ownership. The important questions are how far and by what means they should be developed. The first 2 functions fall within the reach of central planning agencies such as those operating in some of the more successful market economies as for example the Japanese Economic Planning Agency and the Swedish Ministry of Economic Affairs. The New Zealand Planning Council addresses similar issues on a more limited scale within its National Sectoral Programme.

The third element in an improved package for dealing with development issues concerns the processes by which sectoral policies are formed. The key actors are the investment decision makers in the sectors concerned. The major information flows on which they work are provided by market signals. A first priority is therefore to develop a policy framework which enables those signals to be read in an undistorted way. The controversy begins beyond that point and concerns the extent to which government should itself be a direct actor in sectoral policies. Government is of course inevitably present as a provider of basic infrastructure such as education and roading, and as the framer of the legal and regulatory environment. A wide range of public institutions carry specific responsibilities in these areas.

These things accepted, the issue is to what extent is it sensible for government to encourage the various parties in particular sectors to come together to distill common perceptions of possible patterns of development, to identify obstacles to change and to discuss related policy

issues. It can be argued that at this point we come up against a gap in the policy making framework which inhibits our ability to secure key economic objectives including faster growth and full employment.

### Labour markets

This section focuses on the processes of labour market adjustment. Structural change in product markets is inevitably associated with changes in the demand for labour. Employment will grow in some areas and fall in others. David Smith's paper provides an interesting commentary on the linkages between industrial change and the occupational composition of the labour force. To what extent are changes in the occupational mix the result of across industry trends in the range of skills required and the nature of tasks performed and to what extent do they stem from changes in the underlying industrial structure. Smith's differentiation of these influences as they operated in the period 1971-81 is an important pioneering piece of work.

Changing industrial and occupational structures are likely to require changes in wage relativities. The central question addressed in the following pages is what are the respective roles of price and quantity adjustments in the labour market.

Structural change is of course continuous but as a means of focussing attention it is useful to consider the problems of moving between 2 different steady state industrial structures. Let us assume stable demography, stable preferences, uniform technical change, time, and whatever else is necessary to secure these steady states. For each of the 2 years we can visualise tables of factor input quantities and prices cross-classified by occupations and industries. As we are assuming steady state the factor price tables can be assumed to reduce to single columns (or vectors). The overall position thus looks something like Figure 1.

**Figure 1:** Factor input quantities and prices

	Input Quantities						All Industries	Vector of factor prices
	(Industries)							
	1	2	3	—	—	n		
Labour (Occupations)	1							
	2							
	—							
	—							
	—							
	—							
	—							
	—							
	m							
All Occupations								
Capital								

Note that application of the price vector through the factor input matrix enables calculation of a row vector of industry wage rates. These correspond to those measured in the official prevailing wage rate indices. A comparison of our 2 steady states provides a summary picture of labour market aspects of the structural changes which has occurred in the economy. For example we would expect to see shifts in the relative size of industries (in terms of persons engaged), changes in occupational patterns by industry, changes in the number of persons in particular occupations, changes in occupational wage relativities and in sectorial wage relativities.

Although as a general rule we can expect nominal wage rate changes to respond to rather than to initiate structural adjustment, the latter should not be ruled out as a possibility. The oil shock is the most spectacular example of the permanent possibility that one or other factor group may be able to secure sufficient political power to tip the scale of price relativities in its direction and force other parties to adapt to it. However our interest is with the more general case of movement in factor prices in response to some other initiating force. The major possibilities include changes in preference functions affecting the pattern of final demand and changes in technology which affect the required level of factor inputs per unit of output. It will be useful to limit consideration to 2 types of initial disturbance, first external changes affecting the terms of trade, and secondly technological change within the country.

### Externally-induced price changes

It is useful to distinguish changes which immediately impact across most of the economy and those which are more narrowly focussed. Take for example an oil shock as compared with the fast rise of a competitive kiwi-fruit industry in another country.

As a limiting example of the more general impact one might hypothesise an imposed price rise in some oil-like commodity on which all local industries relied to the same extent in proportion to total output. In such a case the terms of trade shock would have no allocative implications (the comparative advantage of each industry being unchanged) and the necessary adjustment would be confined to some reduction in consumption which in turn would depend on a reduction in real incomes. This might be secured by a change in the exchange rate, by deflation, by an income accord or some combination of these. What would not seem to be necessary in this extreme case (at least not on first round effects) would be any movement of people between industries or occupations. Real wage rates would fall but they would fall uniformly without any need for a change in relativities. The test of flexibility would be measured in terms of macro economic decision-making.

Contrast this with the single industry situation. We assume that the industry is affected by the emergence of a strong overseas competitor. This will evidence itself through downward pressure on final product prices and, in the absence of downward flexibility in costs, (either through improved productivity or lowered input prices) this must lead to reduced profitability. The stage is thus set for decline in the local industry towards some new equilibrium position with lower levels of capital and employment.

In that new equilibrium there is no reason for assuming any divergence in rates of factor reward from those prevailing in other industries. However, there will be a presumption that occupational real product wage rates will have tended to fall across the economy as a whole. The downward pressure of product prices in the affected industry implies a downward movement in the terms of trade which is likely to lead to some fall in the exchange rate and therefore a rise in the relative price of imports. At the same time labour seeking to move from the industry is likely to exert downward pressure on the relevant range of occupational rates.

This pressure on occupational rates will obviously be greater in cases where occupations are highly concentrated in industry terms (e.g. sharemilkers, dental technicians) but lesser in instances where skills are readily applicable in many industries (e.g. accountancy, maintenance workers) or where the skill in question provides a base from which the individual can fairly easily acquire more relevant and equally remunerative skills.

### Technological change

As a final example consider the case of a domestic industry which through innovation secures a competitive edge in the world economy. This edge is likely to prove transient but let us assume that as in the growth phases of pastoral expansion and the development of kiwi-fruit the industry moves to a reasonably sustained plateau. During this expansion phase above average rates of return attract entrepreneurial skills and capital funds and there is demand for additional labour.

In the short run, employers may have to pay a premium to attract suitable staff and skill bottlenecks may appear. Once established at its new equilibrium however there is no reason to suppose that the industry will need to pay more than the going rate for particular occupations. Again, as in the case of externally induced decline, there are reasons to think that expansion

may induce some movement in occupational relativities in favour of occupations for which the industry has a relatively strong demand.

### Quantity and price adjustment

It is clearly possible to envisage limiting cases—of the last 2 types of change in which the industry concerned is sufficiently small and its occupational mix sufficiently standard for it to exercise only an insignificant effect on occupational relativities. The factor price vector for the industry and the economy would thus be essentially stable and we would expect to see the great bulk of the adjustment take place in quantity terms.

We have thus identified some of the characteristics of 2 limiting cases. One in which the initiating impulse is evenly spread and economy-wide and to which the appropriate policy response is an economy-wide price adjustment; and on the other hand narrowly focussed industry changes in which the main adjustment need is in quantity terms at industry level.

Doubtless the main body of cases lie somewhere in between but the discussion so far highlights the fact that in terms of our starting model, medium term price adjustments are essentially economy wide whilst quantity changes are sectorally focussed. In this light the essential test of flexibility in the labour market is whether it assists people in the process of identification and movements towards new areas of opportunity.

### The adjustment process

Prices clearly have a more important rôle than simply recording the outcome of a medium term process of change. They are integral to the short-run process. Their role is clear enough and uncontroversial in the process of expansion. Assume that we have, for whatever reason, an industry whose labour demand is expanding relatively. The potential for above-average profits in the industry means that it can, if necessary, pay above the going rate for the labour which it engages. It is thus in a position to bid up the wage rate for particular skills in short supply. This capacity will fade away as it moves towards its new equilibrium level of employment. In this happy situation the process of labour market adjustment is fairly simple. There is a need for employees to move to expanding points in the economy and employers at those points need to be prepared to use the headroom created by above average rates of return to pitch factor rewards at levels which will induce movement.

The situation is obviously very different in cases of decline. The viable size of the industry is reducing and with that the level of employment that it can sustain. If occupational rates in the industry hold at national levels there is no immediate inducement for labour to move but profitability will decline. The consequence is likely to be layoffs either through reduced manning or because of factory closure. A possible option is acceptance of lower occupational rates within the industry or particular plants. Such reductions create a standing inducement for people to move but if alternative employment opportunities are limited (because of general recession or through particular circumstances as for example in the case of married textile workers in a small town) a cut in the going occupational rate may be the best available option.

At this point we hit up against 2 major uncertainties. Employees in this situation are being asked to take a wage reduction now in exchange for continued employment. Employees cannot be certain, either that the proposed reduction is necessary or that it will prove effective. The employer may be bluffing and if not he may be mistaken about current and prospective conditions. Secondly the proposed reduction may be seen as a threat to the standards of other workers and, depending on circumstances, may be inhibited by industrial agreements.

If in the real world we were faced simply by the decline of a single industry among many these informational problems might be reasonably easily overcome. In practice everything supervenes on everything else. The employee contemplating movements in his own wage rate finds that almost every reference point is also moving. There is no stable reference point.

### Industries and occupations

In our opening model of medium-term adjustment we hypothesised a single vector of occupational rates. Viewed as a long-term equilibrium the grounds for that assumption are

clear enough. We have however identified a number of circumstances which could be expected to lead to shifts in demand for particular occupations and therefore to shifts in long-term occupational relativities. In addition we have identified situations which could justify short-run differential movements between industries according to their ability to pay. It will be useful to consider the linkages between occupational and industrial rates a little more closely. Three cases can be distinguished.

Assume first that we are dealing with an industry with a standard occupational mix and that existing national balance between unemployment and vacancies is much the same in all occupations. If we now introduce an impulse (assuming either that increased profitability leads to expansion and the bidding up of wage rates to attract staff or the converse) we are not establishing a presumption of long-term divergence in intersectoral wage rates. As the need to attract more staff (or to encourage more to seek better options elsewhere) fades we would expect occupational rates within the industry to move back into line with those prevailing elsewhere. We could expect changes of this type to generate short-term but essentially transient variations in inter-sectoral wage rates.

Assume next that technical changes in the process of production lead to a change in the proportional mix of occupations within an industry. This will, by changing the weighting pattern of occupational rates, lead to change in the average wage rate within the affected industry or sector. Depending on developments in other industries this is likely to lead to changes in inter-sectoral rates. These changes are likely to persist in a new equilibrium and result essentially from quantitative adjustments in the labour force.

The final case which needs to be considered is that of relative shifts in the demand for particular occupational skills arising from faster or slower growth by an industry having a non-standard occupational mix. This can be expected to lead to a shift in occupational relativities which because of the industries' non-standard occupational mix will flow through into changes in inter-sectoral relativities.

Each of the above cases would of course be conditioned by supply responses. If we were to adopt some form of human capital model where differences in earning rates stem primarily from differences in acquiring and maintaining the required skills, long-term changes in relativities would seem to require changes in the cost of acquiring those skills (and beyond that some hypothesis about scarcity of natural attributes). There would be course be plenty of room for short-term variations in occupational relativities reflecting the not inconsiderable leadtimes required in providing training places for and in acquiring particular skills.

The essential point which emerges from this analysis is the need for empirical research into the processes of labour market adjustment. In particular what are the respective roles of price and quantity adjustments at various stages of the overall adjustment process. The debate over the role of real product wages in the adjustment process has shown that we face twin dangers — first, of asserting that real product wages don't matter. Clearly they do. And second, and more commonly, of seeming to imply that the emergence of any unemployment is proof that real product wages are too high and, beyond that, that an appropriate adjustment in nominal wages would remove the problem.

In another paper (Rose, 1985, pp 47-52), I have already explored the relative variability of output prices, import prices and prevailing wage rates, and of occupational and industrial wage rates. The figures show that in recent years the relative variability of input prices was 4 times and of output prices 3 times that of prevailing wage rates. In addition they suggested that very large changes in occupational relativities would be needed to secure only moderate shifts in industrial relativities.

It follows that the leverage which any labour negotiator can be expected to exert on real product wages in his industry is quite small. This does not mean that movements in real product wage rates (and in prevailing wage rates) are unimportant but it does point to a need for more effort in defining the limits of their role in labour market adjustment. To what extent are we looking at temporary changes sufficient to induce movement? What is the required sequence of price and quantity adjustments? To what extent do we expect to see inter-sectoral variations develop within occupations? What determines the extent of such variations? What are the processes of labour market adjustment as they effect inter-occupational relativities?



### The information problem

Our earlier conceptualisation of 2 equilibrium states is sufficient to underline the complexity of the adjustment process. Even if changes were limited and we were to assume perfect information it is clear that in moving between the 2 states a great many actors would have to confront stress inducing decisions, such as the decision to move or the decision to accept a downward shift in real income as the best available option.

In practice change is ongoing and information is not only imperfect but will frequently be suspect. National policy makers are confronted with declines in the terms of trade which may reverse. Individual industries see emergent pressures from technical, institutional, market and policy change which are difficult to assess. They operate in a world conditioned by cyclical movement. These actors at government and industry levels at least have access to reasonably developed information systems articulated around their areas of policy concern. This is certainly not the case for individual workers and as a general rule neither is it the case for their unions.

Unions are used to working in an adversary situation. They are used to being told that many of their demands are ruled out by cost considerations. The conflicts inherent in wage bargaining are compounded by uncertainty to create an information problem which is arguably the core problem in labour market adjustment. In addressing this, 2 main approaches are evident. One stresses the informational nature of the labour market (and of markets in general) and focuses on means of improving the signals transmitted through those markets.

Arguments in favour of market flexibility are of course strong but the argument can easily degenerate into an assumption that for every problem there is a market restriction waiting to be knocked down. For an example of false expectations take the following from the Treasury's "opening of the books", (Treasury, 1984, p 236):

#### New Zealand's Unemployment Problem

The oil shocks of the 1970s brought about large relative price shifts which made many existing activities uneconomic, and opened up many new opportunities (e.g. in energy development and non-energy-intensive production). Given limited flexibility in the wage structure in the short run, it was not surprising that the economy went into recession and job queues lengthened.

I have perhaps a little unfairly shortened the passage which runs on to discuss subsequent adjustments but the question I ask is: is it sensible to imply that there was some feasible level of wage flexibility which could have precluded recession in the circumstances of the mid-1970s. That would seem to imply not only perfect employee adaptability but also information so perfect that employees could offset the manifestly imperfect information available to employers and government.

The other main line of approach to labour market functioning is more institutional in nature. The dangers it faces are that of getting bogged down in descriptive analysis of legal and administrative forms and of assuming that for every problem there is an easy institutional response.

There is an urgent need in New Zealand, as elsewhere, for a more eclectic approach to the problems of labour market functioning. One needs to start with a recognition of 2 key premises: (a) that there is a need to adjust; and (b) the most institutional restraints have real content in the sense that they embody conscious historic trade-offs between conflicting positions and objectives. In moving the institutional structure forward one has to persuade labour market participants that they will benefit from striking a new trade-off. Slowly evolving market pressures will transmit the major part of messages about the necessary extent of change. The immediate policy question is to what extent do we need to complement these processes by more open political processes. To what extent can macro-economic incomes policies usefully complement fiscal and monetary policy? At sectoral level questions arise around the extent to which, and the means by which, employees and employers might usefully attempt to build a common perception of prospects in their industry. The current advocacy by employers of an industrial or enterprise rather than occupational framework for awards is clearly motivated by the argument that award negotiations should take more account of ability to pay rather than relativities. This emphasis runs parallel to the traditional union call for an opening of the employers books. How far the 2 will run together in practice is an open question but both are consistent with a more deliberate attempt at open analysis of prospects and development issues at industry level.

### Helping the unemployed

Significant unemployment creates a continuing problem for policy makers. Just as there are no simple solutions to the problem of economic management so there are no easy answers in the area of assistance to the unemployed. As in all areas of government spending there is a budgetary constraint but the more substantive problems arise in determining the content of assistance programmes.

The first step is clear enough. This is that the community, acting through government, accepts responsibility for the financial support of the unemployed. Given that income support may affect incentives to work, the boundaries of policy are always likely to be difficult but the central thrust seems well accepted. More difficult issues arise around the provision of programmes for the unemployed. Martin O'Connor's paper provides an interesting and critical commentary on government's search for a rational policy response in this area. O'Connor steps outside the positivist tradition characteristic of most journal articles "in favour of a 'meta-model' which acknowledges as legitimate the articulation of sometimes incommensurate and conflicting views and values." This carries with it the risk of reducing to argument by assertion, but the paper highlights very clearly some of the major dilemmas facing policy makers during the decade in which New Zealand saw the return of unemployment.

There is an obvious need for continuing debate about the proper objectives of employment programmes. Arguably the essential elements of such a programme are:

- (a) a community commitment to provide programme places for a definite proportion of those registered as unemployed;
- (b) provision of as wide a range of programmes as possible, including direct employment subsidies, training programmes, and direct employment in community and public works programmes;
- (c) leaving the choice of who goes into those programmes open to the people concerned so far as that is possible. The community accepts responsibility for the unemployed but it should enable and encourage the unemployed to accept responsibility for choice within the unhappily restricted range of options available to them;
- (d) cost-effective provision. Taking all relevant costs and benefits into account, the community should be prepared to pay the same additional amount to place a person in private sector employment, as to place them on a training programme, in a cooperative, or to use them on public works; and
- (e) continued appraisal in practice of the level of subsidy in terms of the original objective of securing sufficient programme places for a target proportion of the unemployed. Such testing may establish a need to modify either the objective or the budget.

### Institutional rigidities and flexibility

The final point that I wish to touch on is the current drive for more flexibility in the institutional modes of the labour market. On this topic, perhaps more than in any other area of economic debate, analysis is heavily conditioned by prior assumptions. The essentially atomistic underpinnings of neo-classical theory are fundamentally at variance with post-Keynesian, neo-Marxist, and institutionalist views of the labour market. For one school the emergence of unemployment is proof presumptive that some aspect of the market is being inhibited from proper working by some institutional constraint. For others unemployment is proof presumptive of institutional failure.

Clearly there is a long agenda for research into labour marketing functioning. Beyond the central need for a clearer understanding of the actual processes of adjustment, one important need is for an examination of the interconnections between the prior theoretical underpinning of the major schools of analysis and the inferences drawn in dealing with practical problems such as union membership and minimum wage legislation in the New Zealand context. The papers presented in this symposium along with the others presented to the Victoria University Conference on Labour, Employment and Work are offered as a contribution to that debate.

Dennis Rose  
*Symposium Editor*

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