New Zealand journal of industrial relations, 1988, 13, 111-119

ARTICLES

The labour market in a deregulated economy

Alan Williams*

This paper attempts to extend the debate over labour market flexibility by incorporating some of the larger exogenous issues that are currently shaping New Zealand's future as a trading nation. It argues that structural shifts in the face of global price competition have important consequences for labour demand and in turn for both the institutional agencies of industrial relations and for operational practices.

The increasing importance of the formative role of mu;lti-national corporate practices are also discussed, particularly their tendency to treat labour supply requirements as a special case of factor markets in which the human factor is melded into an integrated socio-economic system.

The paper concludes that current changes in labour law have still not addressed the question of the degree of flexibility that a deregulated labour market might require , and that the potential for considerable conflict exists between employer and trade union perceptions as to the roles of current institutions.

Introduction

Speculation about the future shape of the labour market in New Zealand as it emerges from the structural processes of deregulation has tended to concentrate largely upon the basic issues of the consequences for institutional roles and operational procedures. This paper will attempt to broaden the scope of the debate somewhat by examining some of the larger issues that inform the political and economic imperatives which are driving the larger engine of economic reform. The argument runs that while the endogenous issues of efficiency and flexibility are immediately salient, there are larger exogenous matters that are moving the global economy, and that these have influences with which New Zealand has little choice but to contend.

The world economy and the end of the golden age

Economic historians listening to the proposals outlined in the recent Royal Commission Report on Social Policy would be surprised less at its contents and more at

* Department of Human Resources Management, Massey University

its inferences, for the assumptions upon which the continuity of the welfare state was promulgated are really those of the period which a recent major study has called the "golden age" (Glyn et al, 1987). That era is chronologically defined as the period between the early 1950s and the early 1970s when global GNP expanded at an annual rate of between 3 percent and 5 percent per annum and this regular pattern was reflected in the economic performances of all the western style economies.

It was a period when the dominant policy imperatives that shaped post-war Europe saw full employment and the effective redistribution of income lead into the development of the welfare state. The theoretical paradigms that informed such policies were to be found in the notion of demand management, which as any first year economics student of the 1950s will remember, was largely attributed to that most complex of human beings, John Maynard Keynes. In the political sense it was a process in which New Zealand took part in its own idiosyncratic style (Blyth, 1987a).

Time and global economic events since the early 1970s have not been kind to the traditional Keynesian orthodoxy, either in its essentially "Cambridge" formulations or in its distinct American variants. Space precludes discussions of cause and effect in relation to the theoretical shifts that have occurred since the early 1970s, but students of economic change tend to agree on the active presence and growing influences of three important macro trends in the world economy. The first involves the move away from the classical assumptions of international trade theory toward the notion that price competition is both global and increasing in its intensity; the second sees the institutional fact of increasing vertical integration reflected in the growth of first global and now mega-corporations, while the last perceives change in the international division of labour as an inevitable consequence of the first two structural developments. The key organisational element in the equation of change has been identified as the multinational corporation, an institution not unknown in world commerce from the nineteenth century onward but significant in the modern era for its rate of vertical integration.

Such organisations now have the ability to move resources to any point in the world with the intention of maximising efficiency and minimising investment risk. They also have primary consequences not only for national economies but for the employment prospects of their citizens, where the level of unemployment makes possible the reduction of unit labour costs in host countries that have low wage economies.

Labour market flexibility and the primacy of unemployment as a dominant issue

One important aspect of change as signalled by the end of the golden age has involved the growth of unemployment to a level in aggregate that has made it an issue of primary concern. At the end of 1987, the OECD reported that unemployment in the countries that it represents had reached an aggregate level of 31,000,000 (OECD, 1987). By definition there are countries in the sample that have had greater success than others in controlling for the various exogenous shocks that are believed to have contributed to unemployment. In addition it is now apparent that where governments have been willing to let the traditional goal of full employment give way to other policy objectives resulting from the imposition of tight monetary controls and attendant technical devices, the translation from a high real wage inflationary regime to a low inflation, more market-oriented environment has not been costless in employment terms. This point is given added emphasis by the fact that the aggregate level of unemployment reported by OECD last September has been reached at a time when the general level of inflation in the community is at its lowest level for some 20 years.

Inevitably when comparisons are made in the matter of government responses to the phenomenon of large scale unemployment there are countries that reflect a better level of performance than others in their ability to control or rather to keep growing unemployment below the general trend (Rowthorn and Glyn, 1987). It is not proposed to raise the question of relative effectiveness or ineffectiveness here, but rather to explore some selected explanations as to macro-causal influences that have emerged from current research in the wake of the demise of the Phillips relationship as a major theoretical explanation of the inflation-unemployment problem.

This requires that we examine one of the major results of the "monetarist revolution" that has taken place in macro-economics over the last 20 years. This is the concept of a "natural rate of unemployment" used by Friedman with great effect in his major assault upon an important pillar of post-Keynesian orthodoxy (Friedman, 1977). The concept has developed within the broad corpus of labour market analysis, often in the theoretical hands of scholars who do not embrace Friedman's total ideological position, including those to whom the philosophical notions of the Chicago school are antithetical.

Over time, the natural rate has become the non-accelerating inflation rate of unemployment or more colloquially, the NAIRU, by which is meant a situation where, in its most simple form, both real wages and the demand for labour are at equilibrium and the inflation rate is constant over time. While the actual and precise location of the NAIRU remains largely problematic, it is argued with some finality that interventions of the type usually associated with government policy are doomed to failure, since if the attempt is made to reduce the unemployment rate by such actions, there will be considerable conflict over real wages and the government will face rising unemployment at the same time (Ashenfelter and Layard, 1986). It follows that any successful policies aimed at such outcomes are incumbent for their effectiveness upon a reduction in the NAIRU.

Controversies about the efficacy of the NAIRU abound, but the fact remains that it is theoretically important, as shown by the work of Rowthorn and Glyn (1987). They have considered the influences of both structural changes and population growth as well as the participation rate upon the labour market in which NAIRU assumptions are active and their model develops the following conditions. A given growth in population might result in a shortage of capital stock. This would in turn require that real wages fall in order that employers be induced to take on staff. Should real wages not fall, then unemployment will rise. An alternative effect of faster population growth is seen as leading to a situation where there exists a pool of unemployed or semi-employed people who, while classified as labour market participants, have little contact with its active core and less effect on either wage bargaining or inflation. In either case the NAIRU will rise.

If the order of events is reversed, as in the case of a severe decline in industrial employment or even in its growth rate, the long-term unemployment effects are such as to isolate the people involved in the same ways as in the previous example (Rowthorn and Glyn 1987).

These structural effects have led to investigative studies based on the premise that a condition of "hysteresis" may well exist in which high unemployment in one period "breeds" a continuing upward movement in another, so that the equilibrium rate is also drawn upward. Thus strong structural elements may well be at work.

Rowthorn and Glyn find the nub of the problem in the following causal claim: if the growth rate of the labour force is equal to the growth rate of the population plus the growth rate of the participation rate, then the growth of unemployment will depend upon the difference between the labour force growth rate and the employment growth rate. In support they go on to argue the case that since 1973, while the employment growth rate has slowed in the OECD from 1 percent to 0.8 percent, the labour force growth rate has actually accelerated in the order of 1.1 percent to 1.3 percent (Rowthorn and Glyn 1987:35). In effect employment opportunities have been declining at a time when those wishing to participate in the labour market have been increasing (Rowthorn and Glyn 1987).

If governments are serious about the maintenance of low unemployment levels, they suggest that wholesale redundancies should be avoided. Employment should be allowed to gradually decline over time if structural unemployment is to be controlled. Inter-sector transfers too should be encouraged by the generation of service and related employment. It must be borne in mind that in keeping with other scholars, they have observed the consequences of structural decline in the manufacturing sector of the British economy and are particularly mindful of its consequences.

In fact the British who have had particularly bad experiences in dealing with unemployment can also draw a little comfort from a number of other important myths that have surrounded the developments of the Thatcher period. That employment has grown and wages with it, notably in the service and high tech sectors, is undoubtedly true, but the distribution of growth has not been either uniform or consistent in employment terms. Thus a recent study of high-technology employment in the South-East revealed that while local employment could benefit specifically in a given industry, net gains could be offset by changes in the general level of employment in that industry. Thus a net gain of more than 8,000 jobs in the locality study was offset by the net loss of over 9,000 jobs in the country's largest firm in the same decennial period (Keeble and Wever, 1986).

In the same context, Cox (1986) has suggested that the growth of Britain as a major centre for off-shore investment has tended to overshadow the real need to put in place the kinds of internal capital investment that might generate the levels of employment commensurate with real unemployment reduction. He is strongly supported by Jones (1986), who notes that while human productivity in the period from 1979 to 1986 rose by just under 10 percent, capital productivity fell in the same period by almost the same magnitude.

The significance of these findings, which are supported by a series of inter-disciplinary studies, lies notably in the fact that unemployment appears to be strongly influenced by a number of structural as well as participative factors in the British case. From a New Zealand perspective it raises the important issue of the extent of the current debate on change. The net effectiveness of labour market reform, indeed, the whole question of economic reform *per se*, may have to take on board much larger issues and questions than it has to date. In general terms it might be timely to ask in the face of the challenges emanating from the international economy whether the New Zealand economy in its current and evolving structural forms is really able to compete in the larger world of global price competition? The search for answers is a matter of primary importance for the future of employment in this country if the relationship between the possible inefficiencies of industrial sectors and the continuity of high unemployment that the British experience has demonstrated is found to exist. This is quite apart from any further influences exerted by a relatively high NAIRU.

This concern is echoed by Blyth (1987) in his observation that current labour market issues remain dominated by the traditional questions of distributional equity, with the matter of efficiency only partially present. This he suggests could well isolate debate from the real issues confronting the private sector at the current time (Blyth, 1987b). With this caution in mind it is perhaps useful to consider the question of labour market flexibility from a perspective hostile to the traditional goals of full employment as they are normally perceived in New Zealand.

Labour market flexibility and market-oriented efficiencies

While the term labour market flexibility has entered the language of current debate, the Planning Council has pointed out that its origins as a phrase are not found in the language of technical economics. Put simply and as a policy aim, its basic assumptions point to the view that efforts should be made as soon as possible to facilitate the free flow of labour between points of supply and demand by the removal of obstacles to the more efficient transmission of market signals (New Zealand Planning Council, 1986). In the Planning Council's view the question of the degree and extent of flexibility present in the New Zealand labour market does not appear to warrant alarm. By the same token, Easton

(1987) has admirably illustrated the inherent measurement problems and the degrees of difficulty involved in making precise empirical observations as to the extent of either flexibility or inflexibility.

In direct contrast, such caveats have not been found in the responses of those economists who are found in the theoretical schools popularly assumed to support the principles of "more market freedom". Discussion enters dangerous ground here since the debate in New Zealand has tended to be simplified into a series of traditional assumptions of ideological right and left that tacitly ignore both the complexity of neo-classical and new classical economic theories and the wide range of real disagreements that exist within these general groupings. I shall illustrate this by reference to the views of one major contributor to the debate.

According to F.A. Hayek, the primary distortions resulting from intervention in the labour market are found in the role of the trade unions who are able to impose their monopolistic power in given situations through the medium of collective bargaining. As a consequence they are little more than rent seekers able to obtain a price for labour over and above that which would be struck if the forces of supply and demand were prime movers. The effects are to increase the level of unemployment as the employers, unable to sustain other factor costs in a regime of rising real wages, reduce production and in doing so trim back employment levels. Were labour markets in the absence of trade unions, or with their special rights and privileges subject to the restriction of common law, permitted to operate as a special case of factor markets, then the wage price set would be indicative of the true state of supply and demand since market signals would no longer be impeded (Hayek, 1984). Given the ceteris paribus assumptions that real wages would then no longer be sticky downward, and would be market clearing, unemployment would logically fall since workers would be priced back into the job market.

From these assumptions flow the proposal that the powers of trade unions be curtailed, and it is important to note at this juncture that Hayek is drawing upon the British experience where trade unions have, until the 1980s, enjoyed special immunities in law. In the case of either their absence or presence in suitably restricted form, it would follow that single unit bargaining would proceed with regional and local labour markets reflective of wages and conditions set by market forces rather than through distributional fiat or award systems. Given the further and inevitable variations in rates within occupations, since employer capacity to pay is a prime condition of agreement, labour market efficiencies would then be supported by differential structures within occupational pay scales which would signal to the workers involved the rise and fall of employment opportunities with growth firms in the appropriate sector able to pay more than those experiencing possible terminal decline.

This treatment of labour markets as special cases of factor markets may be, and indeed continues to be, criticised on the grounds that they are more complex and multi-dimensional than Hayekian theory and supportive variants suppose. A most notable difference lies in what Easton and others have described as their characteristics as "customer" rather than the more normative functions of "auction" markets which are found in the case of most factor markets. It also follows that if the British case is retained as the example, then the medium through which monopoly rents are abstracted, which is the collective bargain, now becomes less effective in labour markets where buyers as opposed to sellers have in the presence of high national unemployment some considerable advantages.

By comparison, it can be argued that New Zealand offers Hayekian critics more positive evidence of rentier behaviour. The effects of the award system with the strategic tendency for settlements in the annual round to settle within a narrow band and to continue to do so up to the present are well known and have been targeted through legislation. But the behavioural response to the realisation that rising real wages are themselves a source of unemployment in the absence of positive and continuous economic growth, has yet to emerge in the debate except in the activities of trade unions like the Engineers who have adopted a proactive rather than a reactive policy in the current deregulatory environment.

Deregulation and the end of industrial relations practices as consensual arrangements

From an industrial relations perspective the notion of a deregulated labour market has profound ramifications. Perhaps the most important casualty of change involves the decline of the idea of consensus as an operational goal in which the respective powers of the parties to inflict damage upon each other become modified over time by the development of rules which guarantee "that dog does not eat dog". The argument as advanced by Walton and McKersie (1965) is that those charged with the representational role in collective bargaining also develop their own ground rules which serve to protect the status quo whenever it is threatened by the larger employer entity on the one hand or the trade union membership on the other.

There is now international evidence (Strauss, 1984; Kochan, McKersie and Cappelli, 1984; Beynon, 1987; Streeck, 1987) that both the notion of consensus, the management of inter-group relations and the ability to sustain the status quo are in sharp decline. The structural changes described above have for example in the American case, seen the rapid decline of the traditional labour movement, the end of "cascade bargaining" and the emergence of concession bargaining as a reactive response to the fact that trade unions are increasingly on the back foot as employers openly talk of union avoidance as a preferred strategy.

In the British case, recent studies by Brown (1983), Enderwick (1985) and Beaumont (1986) report the rapid increase of single-unit bargaining at enterprise level, and an increasingly formative role being played by multi-national corporations in the matter of various innovative techniques in personnel and human resources management. In the former example, causal linkages have been traced back to the active encouragement given the plant-level collective bargaining in the post-Donovan era, while in the latter, corporate insistence upon single union representation as opposed to the multi-union tradition and demands for a trade off between working practices and job security have done much to weaken already tenuous links between national unions and shop floor representation. Consequently, there have been clear signs that branch loyalty to the company will emerge as a planned outcome of human resources management policies. British unions have also had to struggle under the imposition of government policies aimed at the restriction of their former immunities, while the industrial labour movement in general carries the ideological cross of a split between those who would come to terms with current realities as they perceive them and seek accommodation with employers and those who prefer to remain constant to the traditional idea of managers as class enemies.

It would be manifestly absurd to suggest that either the British or American experiences will be replicated in the New Zealand labour market as a function of deregulation, if only because of the significant differences in both the cultural and historical experiences of those countries. But on the other hand deregulation does pose a series of important strategic questions for trade unions in New Zealand. Given the current legislation, perhaps the most important is the way in which unions will now perceive their roles in an industrial relations environment where efficiency, accountability and innovation are stressed, and where the right to represent a given group of workers is no longer protected in perpetuity but based on operational performance. Associated with such considerations is the overarching and essential question of the way in which unions will interpret their new found right to define their objectives as widely or as narrowly as they wish since, by definition, the managerial roles of their officers will stem from organisational objectives.

Deregulation and the emergent role of human resources management

The ability of unions to play the role of rent-seekers has clearly been curtailed, not simply as a consequence of adverse economic circumstances but as the result of deliberate corporate responses to the vexed question of unit labour costs. For those responsible for the representation of managerial interests, recent developments have been very significant. According to Purcell and Sisson (1983), Purcell and Gray (1986) and WIRS (1986), the significance of the emergence of human resources management stems from its origins. These lie not simply in the social sciences tradition of organisational development, with its stress on organisations as distinct cultures, but in the emerging importances of cost-effectiveness in an increasingly competitive world economy.

By contrast, the modern human resources manager is perceived to have a central role in defining the size, levels of skill, active deployment and resultant productivity of a given labour force. In terms of outcomes, these are located primarily in the larger context of the strategic goals of the organisation. From an ideological perspective, the firm or unit becomes the focus of reciprocal loyalties in which the task of the union is perceived as being to support these larger goals as defined by the company. The consequence for traditional perceptions of personnel management are also significant in the sense that the often quoted "welfarist role" is in the process of giving way to what is described as a "technicist" function within the managerial mainstream.

Deregulation and the labour market: some speculative conclusions

This essay has attempted to draw attention to some of the larger macro-issues that are attendant upon the consideration of labour markets in a deregulated economy. While much of the argument has been based on international experience, the main intention has been to try to demonstrate that the kinds of change that deregulation is intended to bring it its wake are subject to influences and trends that are larger than those found within the national economy alone.

At the system level, the viability of effective change will be influenced less by questions of the superiority of collaborative over nominally coercive styles of industrial relations management, but rather by shifts in the way in which the parties perceive their strategic positions in regard to their ability to influence a less centralised labour market. In this, the matter of choice becomes crucial with trade unions' responses in particular being the key. They can either adapt to an operational environment in which they will need to be proactive in response to employer initiatives, or take up a totally defensive position congruent with their perception of threat to the status quo, the future of which they will find increasingly difficult to defend.

Employers too in a deregulated labour market with a high degree of company and enterprise bargaining will be faced with a choice. They may adopt a "macho" style in public demonstrations of the virility of their rights to manage, or they may see their strategic advantage as an opportunity to construct genuinely collaborative arrangements with individual trade unions.

If there is a real potential for fundamental conflict it lies in the issues of central principle that current legal reform has tended to leave for the moment in the too-hard tray. It involves the logical extension of decentralised processes moving the collective agreement to the point where the terms of the settlement take on the formal weight of contractual obligations, thereby giving the sanctity to such agreements that employers seek. Against this the trade unions would mount a countervailing claim for retention of industrial awards which by definition also requires that wage rounds continue to operate, since their continued existence offers real strategic value to the unions as a collective movement, though the context of opportunity has changed. The argument for the retention of awards as a baseline for second tier bargaining has been ostensibly weakened by the changes to the Labour Relations Act 1987. But on the other hand it retains powerful and emotive meaning as a vehicle that in the absence of other safeguards is assumed to ensure to some degree the collective safety of the lower-paid.

Arguments about the real efficacy of the award system as a means of income guarantee for the lower paid are outside the focus of discussion here. But the fact remains that the award system is essentially antithetical to the logic of deregulation of the labour market. This means that if the drive toward labour market flexibility is to be maintained, then government will have to consider other initiatives in the matter of the lower-paid, a view that would find some endorsement on both the right and left of the political spectrum.

In sum, this paper has tried to examine some of the larger as well as some of the more institutionally specific issues that are emerging as a consequence of the move toward a more deregulated labour market. Its purpose is to demonstrate that such changes involve large macro-issues inherent in the effects of exogenous pressures on the structure of the economy as a total entity, and that reform is not simply a matter of perceived changes to operational processes and institutional structures. Finally, it reflects the view that the current phase of legal modification is less a major change of direction, but rather part of the search for the elements of an active labour market policy that has been going on intermittently since 1894.

References

Ashenfelter, O, Layard, R (Eds) (1986) *Handbook of labour economics 2* Part 4 Amsterdam, North Holland.

Beaumont, P B (1987) *The decline of trade union organisation* London, Croom Helm.

Beynon, H (1987) Dealing with icebergs: organisation, motivation and efficiency in the 1990s *Work, employment and society* **1** (3):247-259.

Blyth, C A (1987a) *The economic consequences of Mr Douglas* Occasional paper 32, Wellington, New Zealand Institute of Economic Research.

Blyth, C A (1987b) The economists perspective of economic liberalisation. Chapter One of Bollard, A and Buckle, R *Economic liberalisation in New Zealand* Wellington, Allen and Unwin Port Nicholson Press.

Brown, W (1983) British unions: new pressures and shifting loyalties *Personnel management* **15** (9):48-51.

Cox, A (1986) *The state, finance and industry* Brighton, Wheatsheaf.

Easton, B (1987) The labour market and economic liberalisation. Chapter Nine of Bollard, A and Buckle, R *Economic liberalisation in New Zealand* Wellington, Allen and Unwin Port Nicholson Press.

Enderwick, P (1985) *Multinational business and labour* London, Croom Helm.

Friedman, M (1977) Inflation and unemployment *Journal of political economy* **85** June:451-472.

Glyn, A, Hughes, A, Lipietz, A and Sigh, A S (1987) *The rise and fall of the golden age* Department of Applied Economics, University of Cambridge, Occasional Paper Series, New Edition.

Hayek, F A (1984) *Unemployment and the unions* London, IEA.

Jones, A (1986) *Britain's economy: the roots of stagnation* Cambridge, Cambridge University Press.

Keeble, D and Wever, E (1986) *New firms and regional development in Europe* London, Croom Helm.

Kochan, T A, McKersie, R and Cappelli, P (1984) Industrial relations in times of change *Industrial relations* 23 (3):6-21.

Milward, N and Stevens, M (1986) *British workplace industrial relations survey: 1980-1984* Aldershot, Gower.

New Zealand Planning Council (1986) *Labour market flexibility* Economic Monitoring Group Report.

OECD (1987) *Employment outlook* September, Paris.

Purcell, J and Sisson, K (1983) Strategies and practices in the management of industrial relations. Chapter Four of Bain, G S (ed) *British industrial relations* Oxford, Blackwell.

Purcell, J and Gray, A (1986) Corporate personnel departments and the management of industrial relations: two case studies in ambiguity *Journal of management studies* 23:205-222.

Rowthorn, B and Glyn, A (1987) *Developments in employment and unemployment since 1973* Oxford Economic Papers No. 40, Oxford, Institute of Economics and Statistics.

Strauss, G (1984) Industrial relations in times of change *Industrial relations* 23 (3):2-5.

Streeck, W (1987) The uncertainties of management in the management of uncertainty: employers, labour relations and industrial adjustment in the 1980s *Work, employment and society* 1 (3):281-308.

Walton, R and McKersie, R (1965) *A behavioural theory of labour negotiations* New York, McGraw Hill.

JIR THE JOURNAL OF INDUSTRIAL RELATIONS

The Journal of the Industrial Relations Society of Australia
Editor: Professor John Niland, The University of New South Wales

March 1988 — Volume 30 Number 1