

RECREATING FULL EMPLOYMENT

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E ngā tāne, e ngā wāhine, e tau nei, tēnā koutou katoa.

Ka tino nui āku mihi o aroha ki a koutou i tēnei rā.

Kei te mihi ahau ki ngā taonga o Ngāti Whātua, tāngata whenua o Tāmaki-makau-rau.

Kei te mihi ahau hoki ki ngā kaimahi o ēnei motu.

Ka tino nui o tātou mahi; no reira, me āwhina tātou ki a tātou.

Tēnā koutou. Tēnā koutou. Kia ora tātou katoa.

I am sad to say I did not know Bruce Jesson personally. My only direct link, tenuous as it is, was an invitation in 1999 by *New Zealand Books* to review *Only Their Purpose is Mad*, which I did with great enthusiasm.¹ At the end of my review, I quoted the following extract from Bruce's remarkable book:

As a result of the transformation that has occurred since 1984, we no longer aspire to anything of significance at all. We now live in a society that is thoroughly commercial, where no one aspires to anything noble or worthwhile, or if they do they are ridiculed by the cynics of the free market. In this respect, the pre-1984 tradition of progress lives on as a critique of the present.

I went on in my review to comment on that extract:

In other words, and adjusting Jesson's title only slightly, *our* purpose is mad. Or at least we have lost our forebears' sense of purpose, and have also forgotten some of the important achievements in New Zealand's post-war society. Jesson suggests this state of amnesia is no accident, but argues in another of his memorable sentences that it has been an essential part of the transformation: 'History has to be cancelled out because the New Right is waging a political battle on behalf of the global marketplace against the nation and the state, and history is of the essence of nationhood.'

¹ This review appeared in *New Zealand Books*, Vol. 9(4), September 1999, pp. 19-20.

“History is the essence of nationhood.” I want to pick up on that theme, motivated by my experience last year on the Alternative Welfare Working Group chaired by Mike O’Brien. The official Welfare Working Group produced three major reports. In my view, a feature of all three of those reports is the way in which they cancelled out history, and so attacked our country’s nationhood.²

This is doubly deplorable because the core message of the Welfare Working Group is one that I endorse. That message is: *The government should invest substantially more resources into assisting more people into well-paid, quality employment. This investment can be funded out of the welfare savings achieved when the assistance is successful.*

The ‘Old Left’ have always known this. But the message is quickly distorted when stripped of its historical context by ‘New Right’ rhetoric. In particular, for the WWG’s core message to be properly implemented, three essential pieces of our history must be remembered.

First, from the foundation of New Zealand’s welfare state, it was always appreciated that its cornerstone must be a policy commitment to full employment. One of New Zealand’s most prominent civil servants at that time, Bill Sutch, made the following observation three years after the passing of the Social Security Act 1938:³

[The Social Security Fund] can only meet sustenance payments while there are comparatively few in need of it. This means the continuation of full employment by other means. If it is not provided by private enterprise, it must be provided by the State, either out of other taxation or by financing from the government’s Reserve Bank or from public borrowing.

The second historical fact is that in the late 1980s and early 1990s, appreciation of the centrality of full employment was lost. That blindness was not caused by any collapse in the work ethic of New Zealanders; rather, it was a deliberate policy choice made by politicians and their advisors pursuing the new right agenda.

With the passing of the years, we can forget just how *brutal* that policy choice was to workers and communities. This is one of those inconvenient truths from our history that we have pushed into our collective amnesia. Both Labour and National have their own reasons for wanting to forget, of course, but we must be honest about what we did as a country. The economic reforms of 1984 to 1994 were *brutal* to workers and communities.⁴

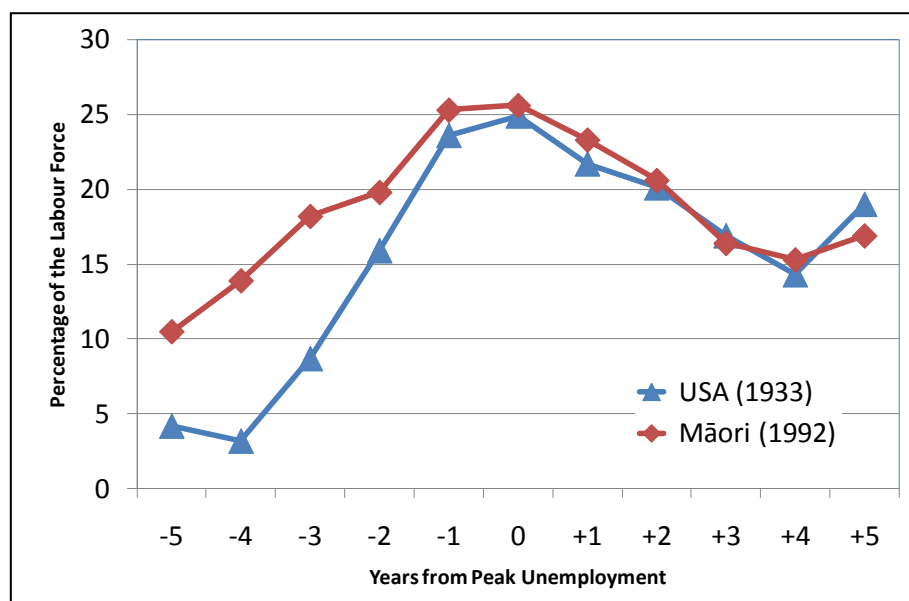
² I wrote a paper on the third report earlier this year, *Welfare and Social Sector Policy and Reform: Options and Alternatives*. It can be downloaded directly from the Welfare Justice website at <http://welfarejustice.org.nz/dox/DALZIEL%20Welfare%20Paper%20FINAL.doc>.

³ Sutch, W. B. (1941) *Poverty and Progress in New Zealand*. Christchurch: Modern Books, p. 140.

⁴ For people who have forgotten, or are too young to remember, I can do no better than recommend Bruce Jesson’s writings during the period. I have already mentioned his book, *Only Their Purpose is Mad*, but I would also recommend his collected writings edited by Andrew Sharp, *To Build a Nation: Collected Writings 1975-1999*, published by Penguin in 2005.

To reinforce this point, I want to show a picture to convey the enormity of the damage in the late 1980s and early 1990s. Figure 1 shows annual unemployment rates in the United States during the worst years of the Great Depression, peaking at 25 per cent of the labour force in 1933. It is well-known what that experience did in the United States, conveyed in a wide range of artistic works, in a multitude of academic studies, and in the recent policy determination to avoid a repeat after the global financial crisis.

Figure 1: Annual Unemployment Rates, USA (1928-1938) and New Zealand Māori (1987-1997)



Source: Reproduced from Figure 6 of Dalziel (2011) cited in footnote 2.

The second line in the graph shows Māori unemployment rates in the late 1980s and early 1990s, peaking at just above 25 per cent in 1992. In this country just one generation ago, the indigenous people of Aotearoa experienced their own Great Depression. The experience of Pasifika communities in this country was similar. I repeat, the impact of the policies was *brutal*, leaving scars across some of New Zealand's poorest urban and rural communities.

The third historical fact is that the major thrust of the Welfare Working Group's reports is not new, but repeats an approach that produced the 1991 benefit cuts, whose twentieth anniversary was on 1 April this year. That approach blames individuals who are not in paid work; indeed the core policy document of the 1991 benefit cuts was *Social Assistance: Welfare that Works*.⁵ Exactly like the current approach, that document argued for reform because the welfare system was not sustainable, had created a culture of dependency, and was wasting the State's resources. Exactly like the current approach, the 1991 policy document described its approach to welfare reform in individualist terms:

⁵ Shipley, J. (1991) *Social Assistance: Welfare that Works* (Wellington: New Zealand Government). The extracts quoted below are from page 10 and page 4.

The reforms are designed to encourage self-reliance by providing people with sufficient motivation to move from state dependence to independence.

The 2011 report of the Welfare Working Group echoes the language of twenty years ago very closely, but without any consciousness that it is simply repeating history in this way. We should therefore be clear about this. Despite the destructive force of the benefit cuts in 1991, twenty years later the system faces the same problems as those reforms were explicitly intended to fix. We are nevertheless advised to adopt that same failed approach, but this time with still more force and to a wider group of people. Bruce Jesson would be the first to remind us that follies like this are exactly what happens when our history is cancelled out.

What then is the alternative? If we accept that full employment must be the cornerstone of our welfare state; if we accept that government should invest more resources into assisting more people into well-paid, quality employment; if we accept that we should turn away from our recent history of downplaying the centrality of full employment for strengthening the well-being of individuals and communities; how then can we go about recreating full employment? This is the title of my lecture.

At one level, my answer is the same as Bruce Jesson's – through nation building.⁶ Without commitment to nation building, little of what I say will make any sense. I am not thinking particularly of politicians. All New Zealand citizens contribute to nation building (positively or negatively) in whatever positions we hold – as employers, as trade unionists, as industry leaders, as workers, as parents, as teachers, as students, as journalists, as volunteers in our communities, as taxpayers, as civil servants, and, yes, as local or national politicians.

My focus in this lecture, however, is not on that level of individuals. I want to focus on a second level, to examine the overall institutional system needed to create and sustain full employment with quality jobs. I want to focus on the big picture (and it will be a picture before I end) because I think the big picture is what is missing in our current policy design.

By this, I mean that I think we are very good in policy circles at *analytical* thinking, breaking down policy systems into component parts and making changes intended to improve each component. The Welfare Working Group is a classic example. Its terms of reference allowed the group to analyse only welfare income support (*excluding* the level of income support), which is just one component of the much larger institutional system affecting the quantity and distribution of quality jobs. Because it was required to focus on the small picture, the Welfare Working Group was effectively painted into a corner before its first meeting.

⁶ I am aware that the other economist asked to present a Bruce Jesson Memorial Lecture, Brian Easton, chose "Nation Building and the Textured Society" as his topic in 2001. My paper aims to build on Brian's contributions to our understanding of this concept, including of course his strong emphasis on history that is reflected in his book, *The Nationbuilders*, published by Auckland University Press in 2001.

We are not so good, I think, at *synthetic* thinking; the skill of drawing together diverse material from multiple sources to explore how the big picture can be improved. The Alternative Welfare Working Group under Mike O’Brien’s leadership engaged in synthetic thinking. We held as many public meetings as our finances permitted, from Invercargill to Whangarei. We then synthesised the submissions made at those meetings and through our website into a stand-alone report, *Welfare Justice in New Zealand: What We Heard*.⁷

That step of synthetic thinking was essential for our work. It allowed us to draw together the wide knowledge held in communities to build up our understanding of how the overall institutional system is helping or not helping people to achieve social security in their lives. Even allowing for their restrictive terms of reference, it is shameful that the official Welfare Working Group did nothing similar in its own consultation exercise.

My aim in the remainder of this lecture is to explain how we can use a synthetic approach to develop our understanding of the overall institutional system needed to recreate full employment.⁸ Thus, what I will do in the next few minutes is turn up some ‘jigsaw pieces’ that describe key elements in the overall system and then fit those pieces together into a synthetic picture that will help organise coherent policy making for full employment.

There are two parties in every employment arrangement – the employer and the employee. Thus our synthesis will need to integrate the perspectives of both these parties.⁹ I start with the employees’ perspective on what they need to find social security in paid work.

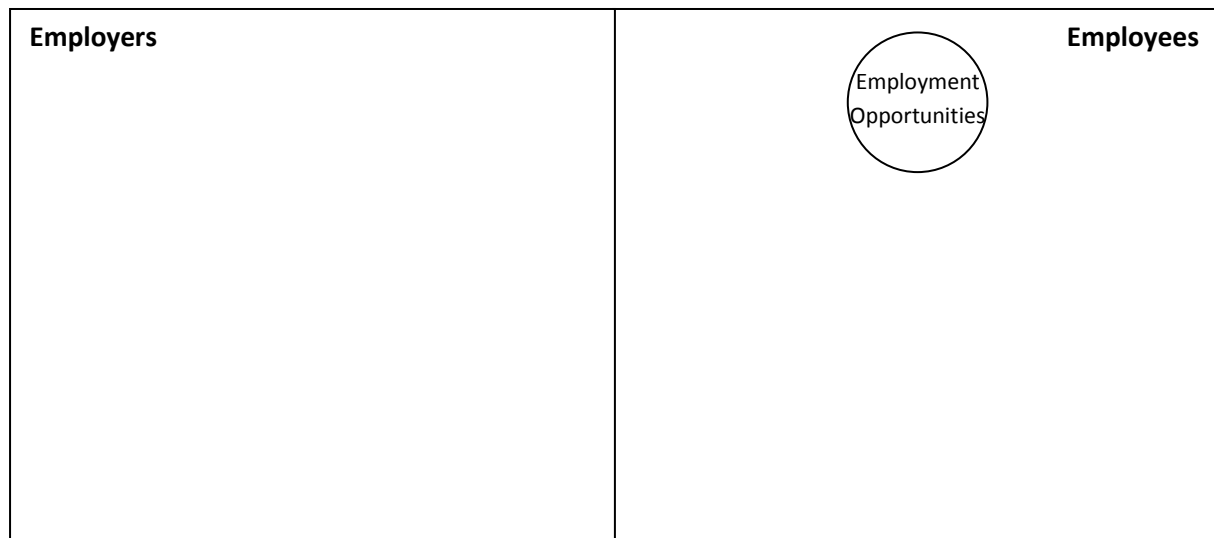
⁷ This synthesis report and our final report, *Welfare Justice for All*, are available at the Welfare Justice website, <http://welfarejustice.org.nz/>.

⁸ For readers who are interested in the theoretical underpinnings of what I am about to discuss, it is derived from the soft systems methodology developed over 30 years at Lancaster University in the United Kingdom; see, for example, Peter Checkland and John Poulter (2006), *Learning for Action: A Short Definitive Account of Soft Systems Methodology and its Use for Practitioners, Teachers and Students* (Chichester: John Wiley).

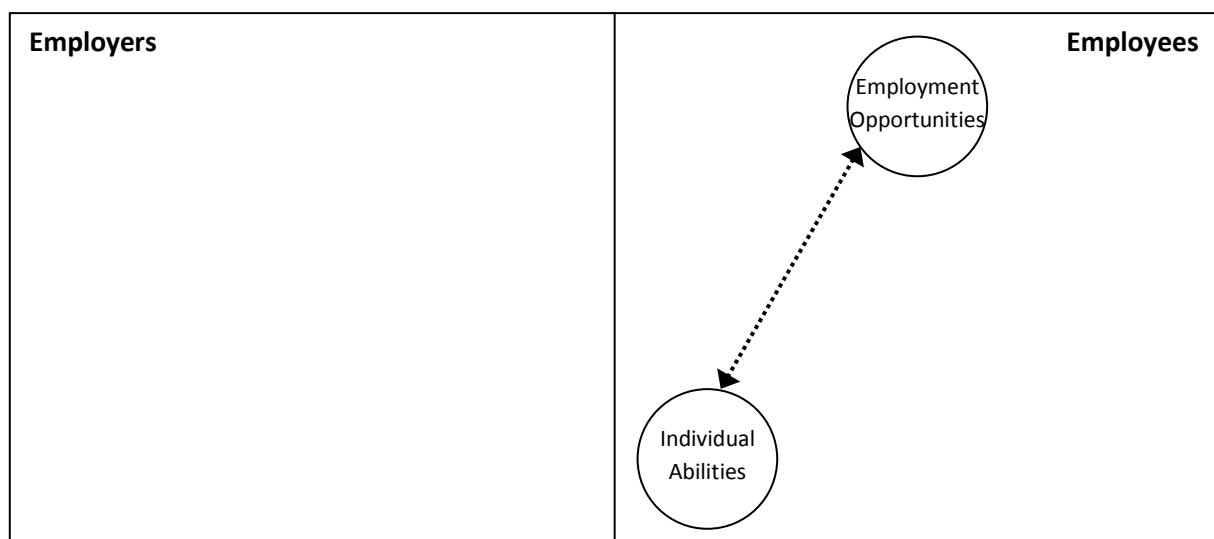
⁹ This two-party synthetic model was developed as part of the Education Employment Linkages research programme funded by the Ministry of Science and Innovation (see www.eel.org.nz) and I gratefully acknowledge the Ministry’s financial support.

The employee perspective was first published in my paper on “Developing the next generation: Employer-led channels for education employment linkages” included as Chapter 8 in Jane Bryson’s edited book *Beyond Skill: Institutions, Organisations and Human Capability* (London: Palgrave Macmillan, 2010, pp. 154-175). The employer perspective was first added in my presentation on “Skills in the economy and skill development for industry” to the Industry Training Federation New Zealand Labour Market and Skills Forum, Victoria University of Wellington, 1 September 2010, available at www.itf.org.nz/nz-labour-market-and-skills-forum-2010.html. The full model was also included in my paper on “Leveraging training and skills development in SMEs: A regional skills ecosystem case study”, presented to the annual conference of the Regional Studies Association, University of Newcastle-Upon-Tyne, 17-20 April, 2011; see www.regional-studies-assoc.ac.uk/events/2011/april-newcastle/papers/Dalziel.pdf.

The first requirement is decent employment opportunities. This has been a sustained criticism of the Welfare Working Group's recommendations; that they glossed over the sharp fall in employment opportunities after the recent global financial crisis. Further, it is not any job that we are looking for; social security requires *quality* jobs offering liveable incomes in safe working conditions.

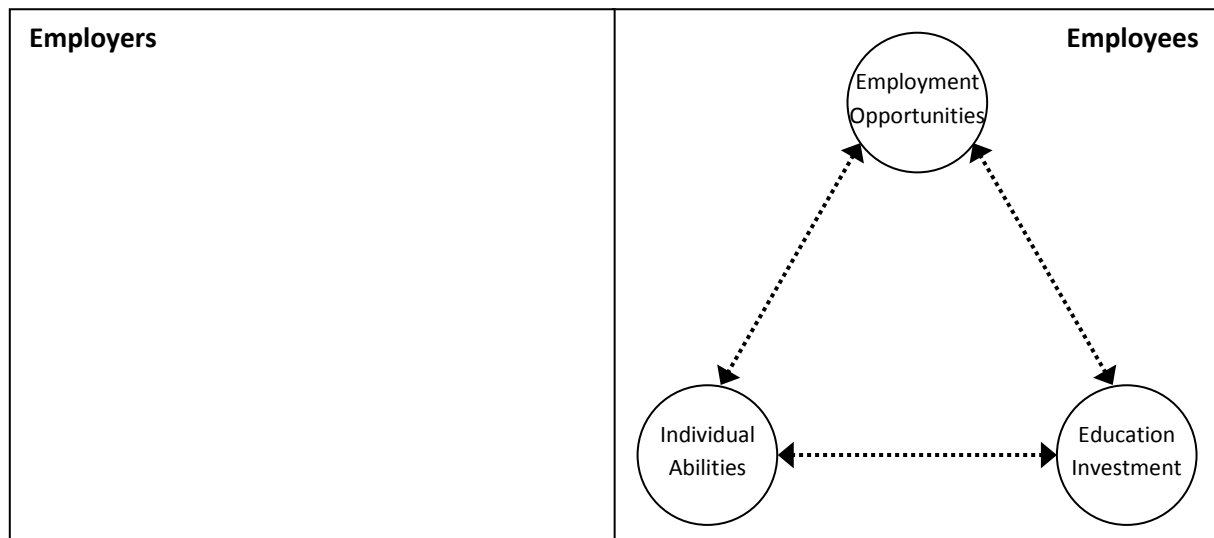


Second, there needs to be a match between employment opportunities and individual abilities. There is widespread concern in New Zealand at the moment about how poorly we help young people in general, and some groups of young people in particular, develop career management skills that would help them match their individual abilities with genuine employment opportunities.¹⁰

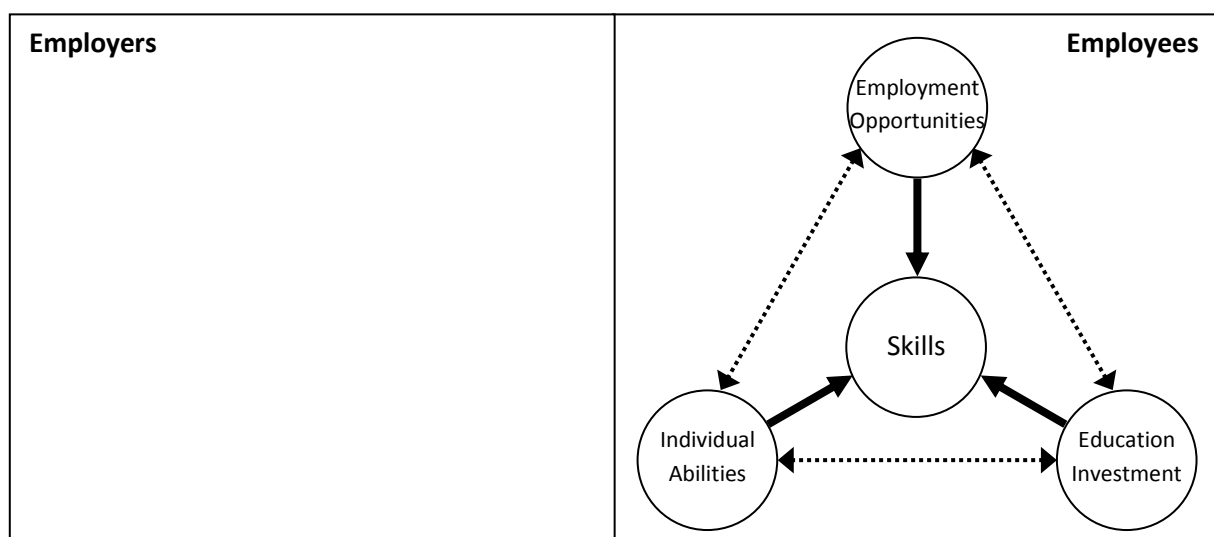


¹⁰ See, for example, *More Ladders, Fewer Snakes: Two Proposals to Reduce Youth Disadvantage*, published by the New Zealand Institute in July 2011, available at www.nzinstitute.org.

The third requirement is for investment in education that *matches* both individual abilities and employment opportunities. The importance of matching is not always well appreciated in New Zealand policy; we have tended to count enrolments in a school or tertiary institution rather than checking whether those for whom this is their reason for enrolment are genuinely learning employment-enhancing skills.

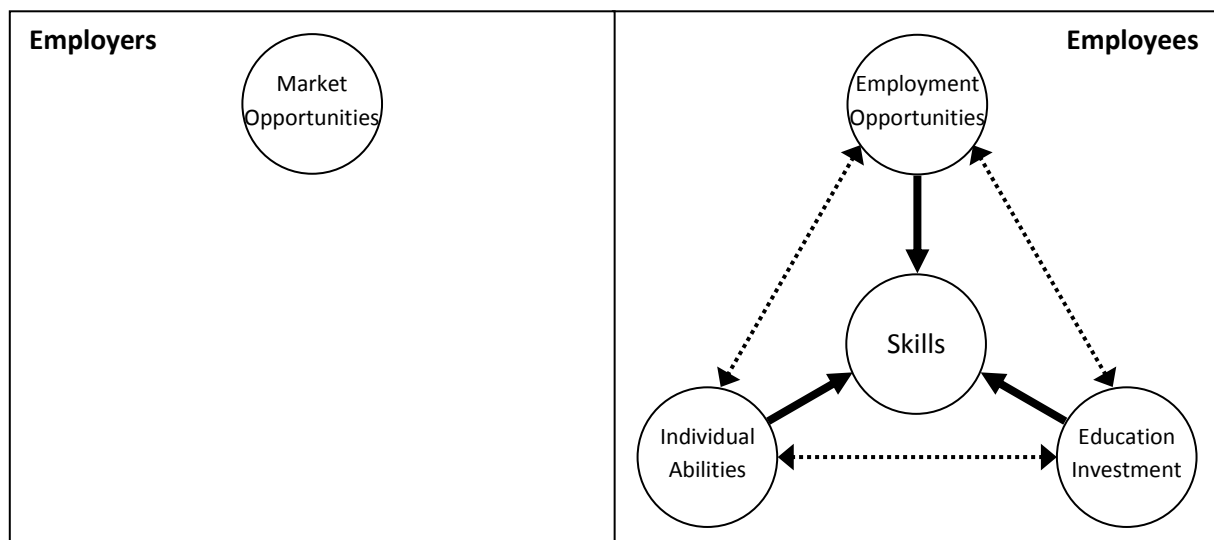


This part of the synthesis demonstrates that “skills” in an employment context comes from successfully matching the three elements of individual abilities, investment in education and employment opportunities. Skills defined in this sense are at the heart of the employees’ side of the picture, and will play a big role in my conclusion.

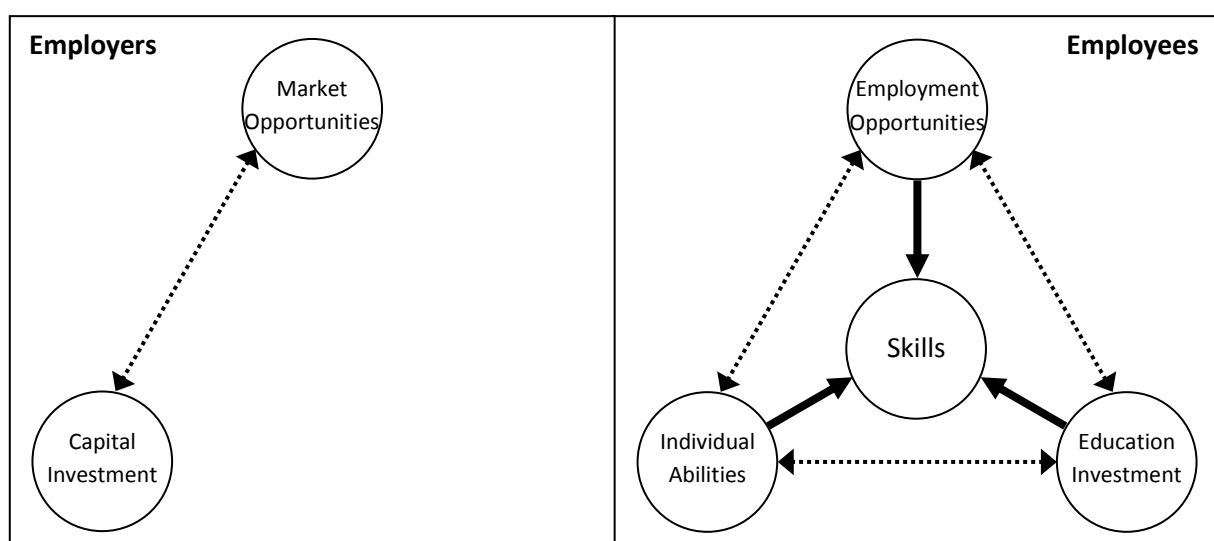


I turn now to the employers’ perspective. What do enterprises (defined in the widest sense of the word; I am not excluding public sector organisations and community service groups) need to offer quality paid work opportunities for workers?

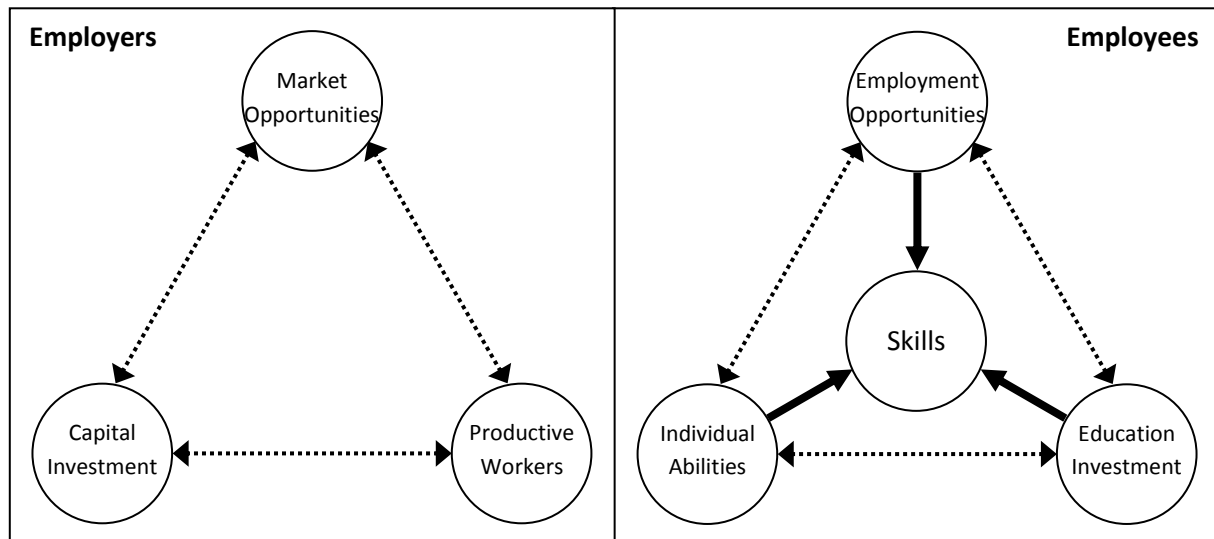
First, the enterprise needs to identify market opportunities where it can provide a good or service at a price or for a taxpayer subsidy that will cover its costs. This is not as easy as it sounds (and it sounds quite difficult), which is why governments around the world pay close attention to how they can stimulate private and social entrepreneurs.



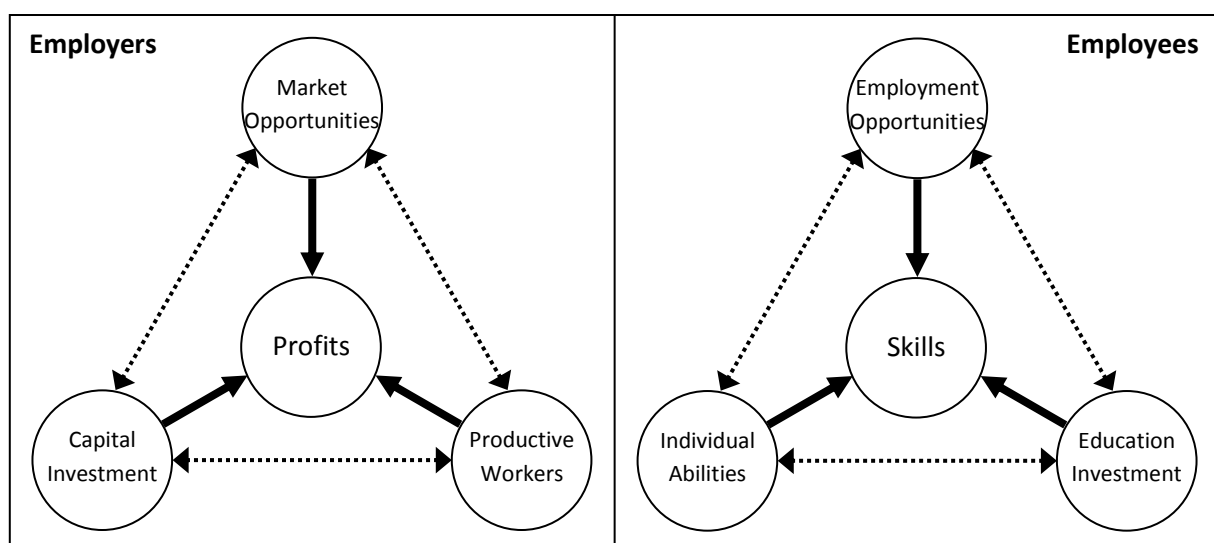
Once a market opportunity is identified, the next step is to invest in capital to take advantage of that opportunity. At least since the publication of *The General Theory of Employment, Interest and Money* by John Maynard Keynes in 1936, we have understood the importance of *physical* capital investment decisions for maintaining full employment and for raising material living standards. These days we also recognise that enterprises draw on their community's environmental, social and cultural capital to develop and take advantage of market opportunities.



The third element is to match the capital investment with productive workers focused on the market opportunities. I say ‘match’ because modern technologies embodied in physical capital typically require technology-specific skills in the workforce if the capital is to be properly maintained and make its optimal contribution to enterprise goals.



If the market opportunities, capital investment and productive workers are well-matched, the result is profits. I am using this last word in its classical sense of a reward for successful entrepreneurial behaviour, received after interest and dividends have been paid to the owners of invested capital and after wages have been paid to the employed workers. Where free entry into the market by other enterprises is possible, competition will tend to drive any excess profits defined in this sense down towards zero, which is the floor below which the enterprise is not sustainable.



Now comes the synthesis. In order for the employees to be employed as productive workers, they must have skills. In order for employers to offer sustainable employment opportunities, they must generate non-negative profits. Hence the two diagrams are really one, obtained by rotating the right-hand diagram and 'clicking' it into the left-hand diagram to produce the synthesis picture in Figure 2.

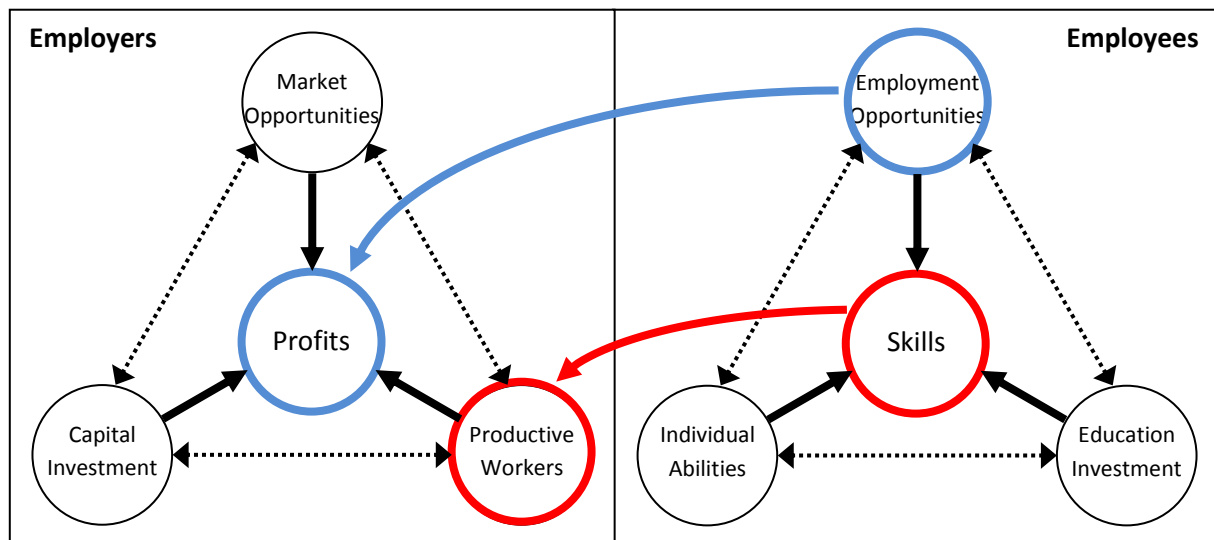
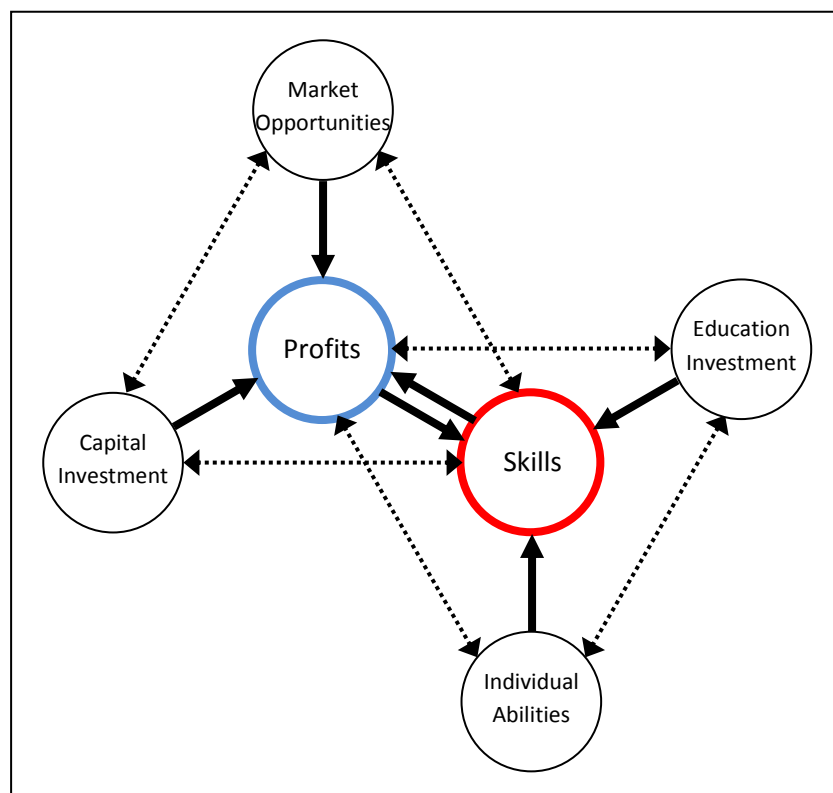


Figure 2: The Synthesis Picture



It is important to emphasise that Figure 2 is a picture to help organise our thinking; it is not reality itself. Nevertheless, I think it is a useful picture in making the following three points:

- First, the overall system is complex, so that anyone promoting a single simple solution to recreate full employment (for example, increase national savings, lower taxes, raise taxes or reform social welfare) is at best naïve and at worst dangerously wrong.
- Second, the overall system is nevertheless understandable, so that it is not difficult to keep the big picture in mind as we explore possible policy interventions to improve the way the connections between different parts of the system operate.
- Third, at the heart of the overall system is a binary connection between profits and skills; a binary connection that I suggest we need to understand much better than we do at present if the overall system is to work well.

Let me illustrate how the synthesis can be used, drawing upon an example from the other side of the Tasman. Our generation lives in an era of climate change. This is creating market opportunities for enterprises that can offer technological solutions to businesses and households wanting to reduce their carbon emissions and energy use. To take advantage of these opportunities, the enterprises must be able to employ trades people who have the appropriate “green skills” to design, build, sell and maintain those technologies. Recognising this, the Federal Government of Australia has invested millions of dollars to upgrade the ability of TAFE Institutes to offer trades training in industry-defined green skills. This has included funding the acquisition of the latest energy-saving technologies into purpose-built training facilities, so that the education investment by trainees matches the capital investment taking place in businesses.¹¹

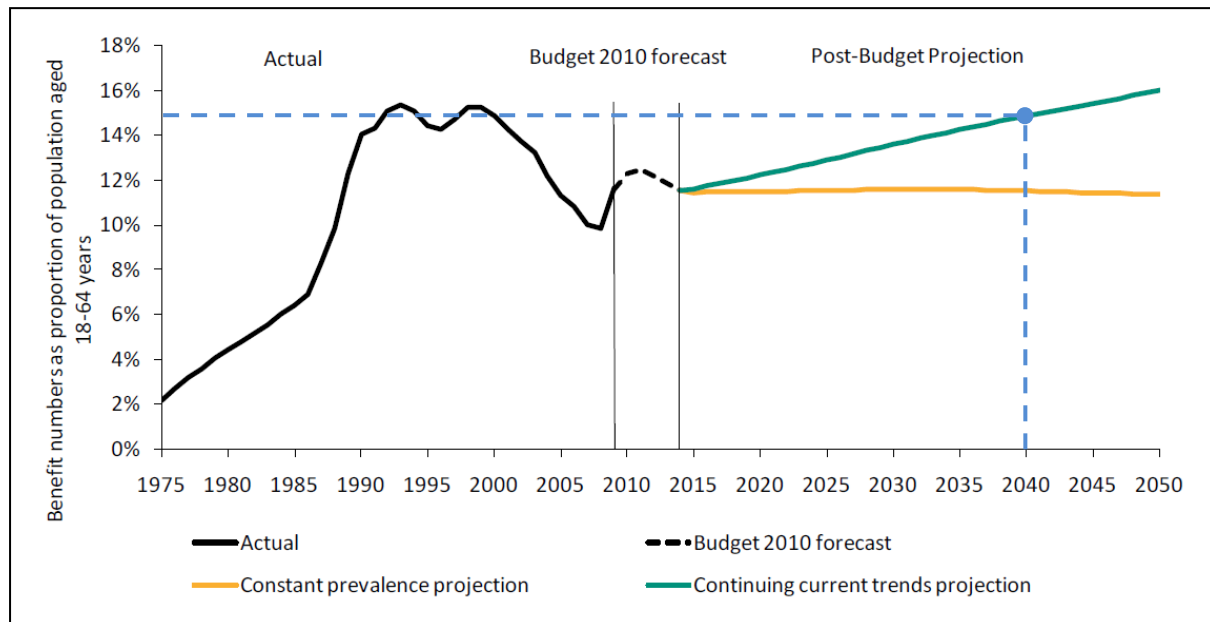
Please note that this is not a matter of the Australian government ‘picking winners’ for federal support. Rather, it was a matter of recognising a trend in market opportunities for Australian enterprises and thinking about how government policy could reduce transactions costs that were hampering the development of those opportunities. In particular, the policy sought to facilitate the matching of capital investment with education investment in a way that enhanced mutually reinforcing opportunities for increasing profits and skills. It is a good illustration of the way the top five circles in Figure 2 need to be considered together.

I want to comment on the sixth circle in Figure 2 – individual abilities – because it is where the Alternative Welfare Working Group ended up in our deliberations on the questions set before the official Welfare Working Group by the government. A key argument made by the official Welfare Working Group is that urgent welfare reforms are required because current

¹¹ The author was part of an international panel brought together by the OECD to visit Sydney, 29 November to 3 December 2010, in order to advise on best practice for developing ‘green skills’ (see www.mskills.com.au/News.aspx?NewsId=10456&SectorID=87). The report from that mission is expected to be available on the OECD website by the end of 2012.

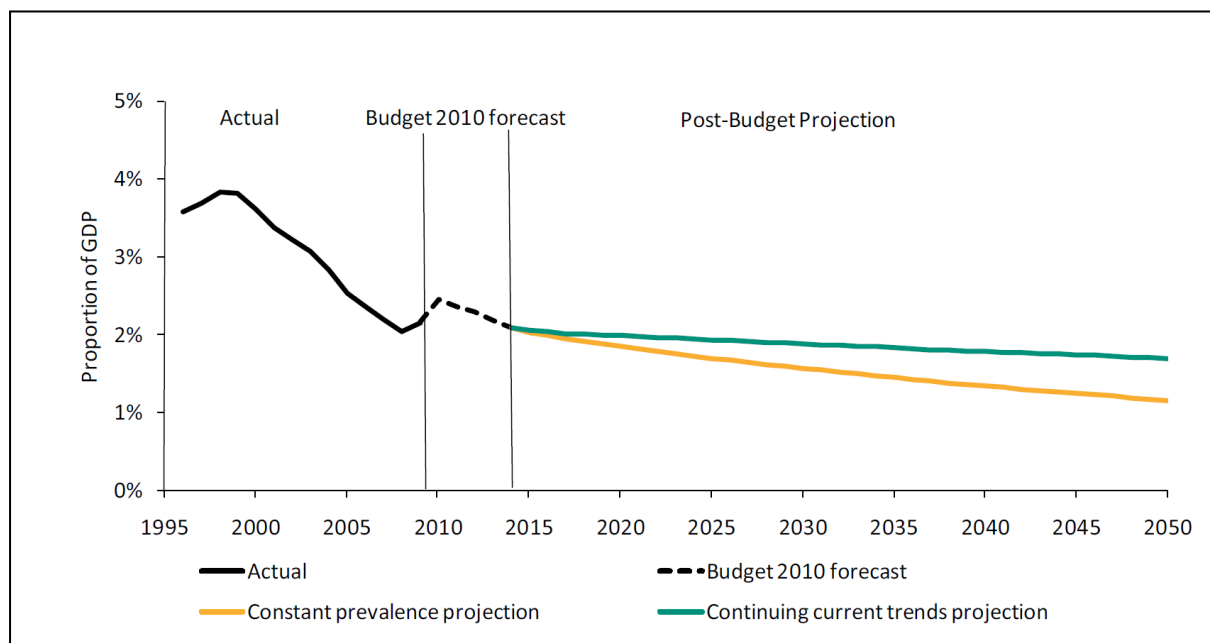
trends in the welfare support are unsustainable. The Alternative Welfare Working Group found that this argument was not supported by the statistical evidence presented by the Welfare Working Group. The relevant graphs are reproduced in Figures 3 and 4.

Figure 3: Projected Increase in Beneficiary Numbers



Source: Welfare Working Group (2010) *The Issues*, Figure 6.3, page 62.

Figure 4: Projected Beneficiary Expenditure as Per Cent of GDP



Source: Welfare Working Group (2010) *The Issues*, Figure 6.6, page 63.

Looking at Figure 3, there was a clear downward trend in beneficiary numbers in the decade prior to the impact of the global financial crisis in 2008. The Welfare Working Group made the assumption that after the recession ends, the number of people receiving the main benefits will remain higher than before the recession and that the previous downward trend will be reversed. Even under this worst-case scenario, however, the number of beneficiaries was not projected to return to the level of the 1990s until 2040, suggesting that we have about 30 years to implement genuine long-term solutions to this issue.

This observation is reinforced in Figure 4, which shows the projected spending on the main benefits as a percentage of GDP. Even under the worst-case scenario, there is no evidence of any unsustainable trend in that downward time series.

Consequently, given that we have at least a generation to resolve this issue, the Alternative Welfare Working Group came to the conclusion that we should focus on developing the individual abilities of our children. I pause for moment to reflect on how extraordinary it is that such a statement needs to be said in New Zealand. I remind you of Bruce Jesson's statement I quoted at the beginning of this lecture.

As a result of the transformation that has occurred since 1984, we no longer aspire to anything of significance at all. We now live in a society that is thoroughly commercial, where no one aspires to anything noble or worthwhile, or if they do they are ridiculed by the cynics of the free market. In this respect, the pre-1984 tradition of progress lives on as a critique of the present.

If "history is of the essence of nationhood", to quote Bruce again, then developing the individual abilities of our children is surely its heart and soul, particularly in a country that used to pride itself on being "a great place to bring up kids". But there is clear evidence that there are serious problems in the way we are developing the talents of the next generation. I do not have time to put in front of you the wealth of material on the Child Poverty Action Group's website (www.cpag.org.nz), but I do want to put in front of you two statistics that illustrate what I am saying.

During the work of the Welfare Justice alternative working group, the then President of the New Zealand Principals' Federation, Ernie Buutveld, released an opinion piece that included the following comments on young people struggling in primary schools:¹²

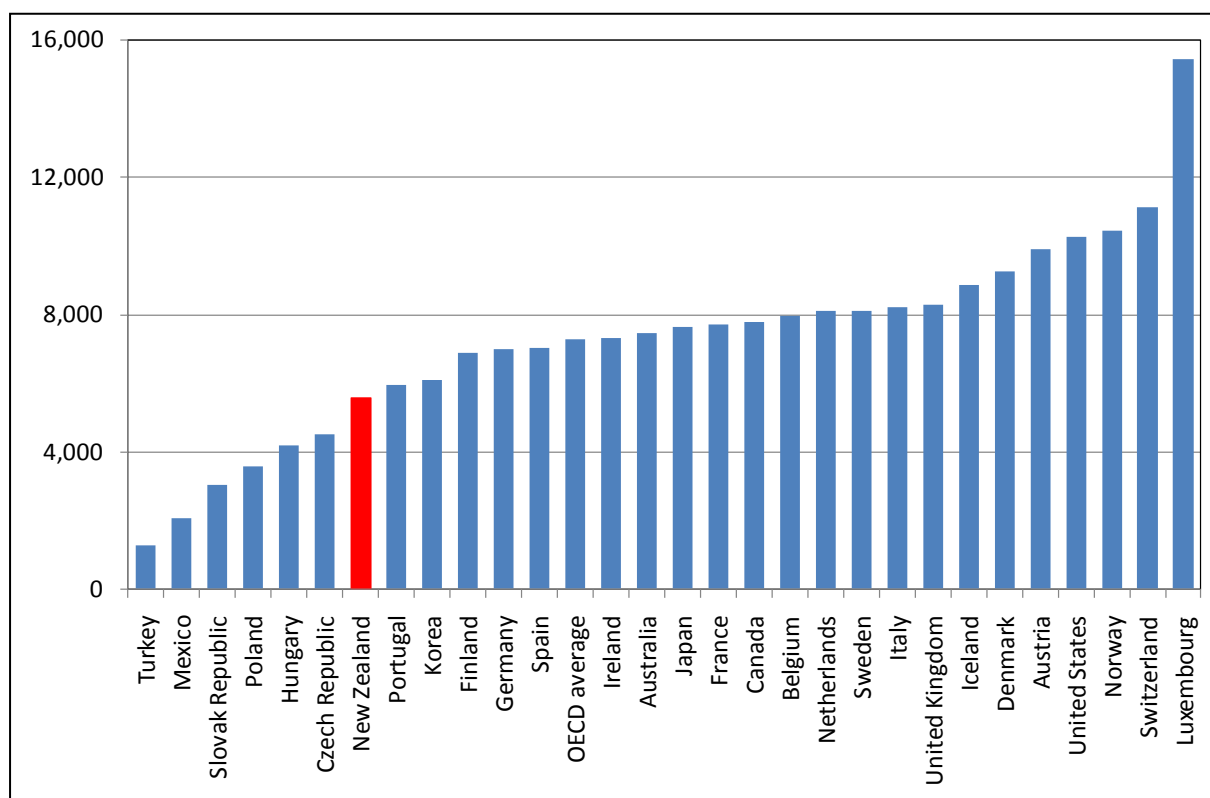
There is a small number of children in our schools who are struggling – for all sorts of reasons. The number varies. The Minister of Education believes the number is one in five. This is still just less than the OECD average of 21%, but significantly higher than the numbers cited by educators and leading academics, who agree the reality in our primary schools is more like 15-16%.

¹² Buutveld, E. (2010). "National Standards Opinion Piece." New Zealand Principals' Federation, available at www.nzpf.ac.nz/sites/default/files/NZPF_NS_Opinion_Piece_27Aug.pdf.

There are about 400,000 primary school students in New Zealand, so that even the lowest figure of 15 per cent suggests 60,000 young people struggling at primary school. This is not a small number of people, especially if a significant proportion of these students become disengaged from education early in their life.

The second statistic is shown in Figure 5. It is based on a survey by the OECD in 2008 which applied consistent methods and definitions to collect data on the expenditure per student in OECD member countries. The graph shows the direct expenditure on primary, secondary and post-secondary non-tertiary education institutions in relation to the number of full-time equivalent students enrolled in these institutions.

Figure 5: Expenditure on Primary, Secondary and Post-secondary Non-tertiary Education, OECD Countries, 2006

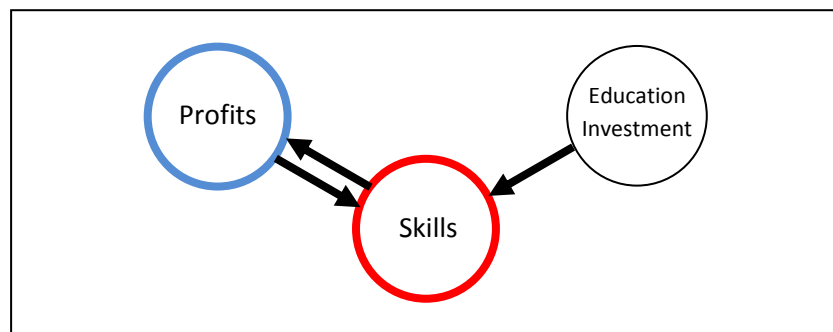


Source: *OECD Factbook 2010*, p. 189, available at www.oecd.org.

That study put New Zealand in the lowest spending quarter of the OECD rankings, seventh from bottom out of 29 countries. Our spending was about three-quarters of both the OECD average and the spending in Australia (76.7 and 74.9 per cent respectively). The level of spending on our children's education is a choice we make. If we choose to spend less than other parts of the developed world on developing our children's individual abilities, we must not be surprised when we reap the consequences.

I want to finish this lecture by returning to the binary connection between profits and skills at the core of the synthetic picture in Figure 2. Some of you may know that within the Treasury the Education and Skills team is responsible for advising the Minister of Finance on New Zealand's education system. In terms of our picture, the team's focus is on the connection between education investment and skills (see Figure 6 below).

Figure 6: Education, Skills and Profits



The Treasury recognises that New Zealand's tertiary educated population appears to have low wage premiums compared to other OECD economies. Adults living in New Zealand who have invested in tertiary education appear to be getting less pay (relative to adults without qualifications) than they could expect if they lived in other OECD countries. The Education and Skills team at the Treasury is exploring what might be driving that relationship.

The synthesis picture suggests a wide range of different possibilities; including:

- Lower quality or under-resourced education institutions;
- Weak matching of individual abilities and education investment;
- Weak matching of education investment and employment opportunities;
- Weak matching of education investment with capital investment; and
- Low market opportunities for generating profits to employ skilled employees.

I don't want to discount any of these possibilities, but I want to focus on a sixth possibility; namely, that large pockets of New Zealand's business culture (in the primary sector, in the manufacturing sector, in the services sector, and in the public as well as the private sector) are not experienced at creating profits for their business if their operation uses skilled employees receiving a just return on their investment in gaining those skills through education and experience.

In presenting this hypothesis, I am not trying to be disparaging about individual managers in the private or public sector. I appeal to Bruce Jesson one more time; this hypothesis comes from my reflection on our recent history, which I think has reinforced an already existing tendency for skilled labour to be underutilised and therefore undervalued in New Zealand.

In other jurisdictions, the union movement plays a critical role in defining, protecting and obtaining just rewards for skilled work. Those of you who have seen the film *Made in Dagenham* will remember what a breakthrough occurred in British industrial relations when unions and management were forced to recognise that women's work could be and was 'skilled work'. In New Zealand, policy reforms have deliberately decimated the influence of unions, diminishing this institutional force for ensuring that enterprises properly value and utilise skills in the workplace.

A second institution for promoting skills development and utilisation is career paths within large organisations. As employees accumulate skills through experience and on-the-job training, they are promoted along internal career paths. The means employees are rewarded for their rising skill levels and employers must find ways to utilise those rising skills productively and profitably. In New Zealand, large volumes of skilled work are now contracted out to self-employed operators, only some of whom are in sufficiently scarce supply to receive just returns and working conditions for their skills.

It is not necessary to suggest any great conspiracy among employers to accept the possibility of this hypothesis. Adam Smith, writing in his *Wealth of Nations* 235 years ago, put it this way:¹³

Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbours and equals.

In other words, the tendency to underutilise and undervalue skills passes through history into current business culture. It will not be easily shifted, judging by the uniformly negative media reaction to Labour's mild suggestion for Industry Standard Agreements based on Australian practice.¹⁴

And so I come back to where I started. Little of what I have said will make sense without a commitment to nation building. But I hope I have showed that with such a commitment, it is possible to build a nation offering full employment with decent jobs. It needs policies that reinforce each other across the whole big picture; it needs substantial investment in developing the individual abilities of the next generation; and it requires a significant culture shift in rewarding and utilising skills in the workplace.

¹³ Adam Smith (1776) *An Enquiry into the Nature and Causes of the Wealth of Nations*, Book 1, Chapter 8. University Paperbacks Edition, edited by Edwin Cannan (London: Methuen, 1961, Volume 1, p. 75).

¹⁴ See, for example, www.nzherald.co.nz/opinion/news/article.cfm?c_id=466&objectid=10760282. The policy is available at www.ownourfuture.co.nz/media/files/Work_and_Wages_policy.pdf.