



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

**Submission of the**

**New Zealand Council of Trade Unions**

**Te Kauae Kaimahi**

**to the**

**Productivity Commission**

**on the**

**Interim report - Boosting Productivity in the**

**Services Sector**

P O Box 6645

Wellington

23 August 2013

## **1. Introduction**

- 1.1 This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 340,000 members, the CTU is one of the largest democratic organisations in New Zealand. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 1.2 Affiliates of the CTU have members in most services industries and so have a strong interest in the outcomes of this inquiry. We made a submission in the first stage of this Inquiry. This submission does not repeat in any detail the issues we canvassed earlier but responds to a number of matters raised in the Interim Report and we focus mainly on which topics should be the subject of more analysis. It is therefore a very brief submission and we look forward to responding to the next Interim Report.

## **2. Topics for More Detailed Analysis**

- 2.1 The Interim Report (“Report”) suggests three possible topics:
- Improving occupational licensing in the services sector
  - Stimulating services competition
  - Addressing barriers to the successful application of ICTs
- 2.2 We agree that the issue of barriers to ICT diffusion is an important topic.
- 2.3 We are less enamoured of the other two topics.
- 2.4 The CTU sees risks in a heightened focus on competition and occupational licensing. This does not mean we discount their significance. But we would put other topics higher. And we are concerned about the possible characterisation and scope of these topics.
- 2.5 The following factors are relevant:
- The barriers to convergence appear to have been in place for decades.
  - There are identified issues on scale and capital intensity.
  - We have already seen a major series of regulatory reforms and these do not appear to have significantly lifted multi-factor productivity on a sustained basis.
  - Employment is relatively high in the services sector but there are improvements that can be made in capital per worker, skills development, skill utilisation as well as various MFP factors such as quality of management and leadership, work organisation, and application of high performance work systems.

- There is an identified issue of low returns to workers of higher productivity.
  - There is an absence of supportive mechanisms (income support and retraining) for worker transition from low productivity firms to high productivity firms.
- 2.6 We could not support unilateral recognition of overseas occupational licences. Many occupational regulations embed local requirements (e.g. competency in earthquake engineering for structural architects, cultural sensitivity for carers). Each case has to be considered in context and requires broader consideration than purely commercial imperatives which appear to be the limit of the report.
- 2.7 In the services sector, regulations can be required on quality of services because asymmetric information makes it difficult for customers to judge the quality provided.
- 2.8 We think there is a risk of negative spillover effects in some areas identified. For instance the Report discusses reducing trade barriers and that could mean weakening investment rules. The Report says there are 'large masses of complex regulation' but too much focus on regulation could have a high opportunity cost and depending on which regulations are within scope create even more insecurity among service sector workers.
- 2.9 The Report has a strong emphasis on regulation being central to the problems identified. New Zealand has had several rounds of deregulation and reviews of regulation which have not in the end brought our country closer to the OECD average level of productivity. There have also been negative consequences of some aspects of deregulation (leaky buildings, adverse health and safety of workers, loss of capacity in skills development). The recent 'Productivity Paradox' symposium found very little explanation for this paradox in our regulatory settings. Therefore we suggest it is time for a different approach that focuses more on identified problems on lack of scale, skills mismatches, low performance of management, and capital per worker.
- 2.10 The issue is having the best regulation possible rather than just discuss how much regulation. For instance, Treasury<sup>i</sup> noted in 2010:

Since 1984, New Zealand's financial sector has undergone a process of comprehensive deregulation. The principal objective of deregulation has been to improve the efficiency of the financial sector by making it more competitive and to promote market discipline in financial markets. Policy initiatives have therefore been directed at reducing impediments to competition. Interest-rate and other controls have been removed and regulatory and legislative distinctions between different institutional groups have been reduced.

In a recent speech however<sup>ii</sup>, outgoing Financial Markets Authority head Sean Hughes lambasted those who questioned the need for stronger regulation, saying they should stop complaining or leave the market. He said New Zealanders had been let down by patchy regulation, patently obvious gaps and flaws and a culture of finger-pointing when it came to accountability. Hughes said he had been surprised how strong the anti-regulation voice was when he started his term and that there had been "absurd paranoia" about over-regulation.

Clearly the comment from Treasury is more generic than the issues Sean Hughes was commenting on, but it shows again that the claims of masses of regulation needs to take account of real world examples of lack of good regulation.

### **3. An Alternative Topic**

- 3.1 For the reasons outlined above we suggest an alternative topic which is ‘incentivising higher skills and improving labour utilisation’. In the original discussion paper there was consideration of the relationship between wages and productivity. We would like to see a deeper inquiry into this topic. As we outlined in our previous submission we are concerned that a low wage, low productivity model has become embedded and we consider that higher skills and improved labour utilisation are part of the answer. It would be very useful if that was explored in much greater detail.

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<sup>i</sup> <http://www.treasury.govt.nz/economy/overview/2010/nzefto-10-5.pdf>

<sup>ii</sup> WSNZ Forum, Wellington. 15 August 2013.